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Research Articles
Assessing the Progressive Services Liberalization in the ASEAN-China Free Trade Area (ACFTA)

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Department of Policy Studies, Faculty of Law and Economics, Chiba University, Chiba, Japan

Abstract

The aim of this paper is to evaluate the success of progressive services liberalization under the ASEAN-China Free Trade Agreement (ACFTA). First, we calculate the level of commitments by applying the Hoekman Index. Second, we compare the ACFTA Second Package with the ACFTA First Package and examine the additional liberalization, and the frequency of backtrack. Third, we compare the ACFTA Second Package with the World Trade Organization’s General Agreement on Trade in Services (GATS) commitments by the respective member states. Last, we discuss the policy implications of this analysis to the other ASEAN+1 Free Trade Agreement (FTA) and the Regional Comprehensive Economic Partnership (RCEP) negotiations, as well as the need to address GATS-minus commitments found in FTAs. This paper reveals that the Second Package of ACFTA extends only little additional values to the First Package. Most of the “new” commitments are committed in the World Trade Organization prior to the ACFTA First Package. To continuously deliver progressive services liberalization, policy makers should consider a new approach such as the “formula approach” adopted in the ASEAN Framework Agreement on Services (AFAS) either in the Upgraded Version of ACFTA or in the RCEP.

Keywords: FTA, services liberalization, ASEAN, China, RCEP, GATS

1. Introduction

In 2002, ASEAN and China signed the Framework Agreement on Comprehensive Economic Cooperation between ASEAN and China (ACFTA Framework Agreement). ACFTA’s primary target was the liberalization of trade in goods including “early harvest”. Indeed, after the Framework
Agreement in 2002, the Early Harvest Agreement was signed in 2003 followed by a full package of the Trade in Goods Agreement (TIG Agreement) inked in 2004. Trade in services is the second priority of the ACFTA as stated in Art. 1 (b) and Art. 4 of the Framework Agreement.

The importance of trade in services have steadily increased for both ASEAN and China. According to the United Nation’s statistics focusing on mode 1 services trade (cross-border supply), ASEAN’s services trade to the world has increased by 144 per cent from US$225 billion in 2004 to US$549 billion in 2012. In the same period, China’s trade in services to the world has grown by 243 per cent (from US$138 billion in 2004 to US$473 billion in 2012). It is also important to note that, whereas not reflected in statistics, mode 3 trade (i.e., commercial presence) plays a critical role in today’s regional production networks in East Asia (Inomata, 2013). Earlier literatures provided that improved access to Chinese services market would bring large economic gains to ASEAN countries (Tongzon 2005: 205). As a result, ASEAN and China concluded the Trade in Services Agreement (ACFTA TIS Agreement) in January 2007, which entered into force in July 2007.

As Table 1 shows, China’s service export (to the world, due to lack of detailed bilateral data) is less than twice as much as Singapore’s, and, slightly more than three times as much as Thailand’s. Also, China’s Service Export

Table 1 China and ASEAN Countries’ Service Exports (to the World) and Service Imports (from the World)

<table>
<thead>
<tr>
<th>Year</th>
<th>Service Export (US$ million)</th>
<th>Service Import (US$ million)</th>
<th>Service Export Competitiveness Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>2013</td>
<td>206,018</td>
<td>330,528</td>
</tr>
<tr>
<td>Brunei</td>
<td>–</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>Cambodia</td>
<td>–</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>Indonesia</td>
<td>2013</td>
<td>22,346</td>
<td>34,413</td>
</tr>
<tr>
<td>Lao PDR</td>
<td>2012</td>
<td>577</td>
<td>341</td>
</tr>
<tr>
<td>Malaysia</td>
<td>2012</td>
<td>37,902</td>
<td>42,233</td>
</tr>
<tr>
<td>Myanmar</td>
<td>2011</td>
<td>612</td>
<td>1,090</td>
</tr>
<tr>
<td>Philippines</td>
<td>2013</td>
<td>21,686</td>
<td>14,628</td>
</tr>
<tr>
<td>Singapore</td>
<td>2013</td>
<td>130,115</td>
<td>129,339</td>
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<td>Thailand</td>
<td>2013</td>
<td>59,080</td>
<td>55,276</td>
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<tr>
<td>Vietnam</td>
<td>2012</td>
<td>9,600</td>
<td>12,520</td>
</tr>
</tbody>
</table>

*Note:* Service Export Competitiveness Index can be defined as (Service Export – Service Import) / (Service Export + Service Import).

Competitiveness Index remains negative (-0.23), as in the Table. Considering the fact that China’s commodity trade volume in 2013 (based on the publicly available UN data) is some 2.2 trillion dollars, i.e., ten times more than China’s service export in the same year, the country should make every policy effort to boost the level of service export.

Services liberalization requires changes in domestic regulations for which time is needed. ASEAN and China have explicitly recognized this progressive nature of services liberalization. As an instrument to achieve progressive liberalization, the ACFTA TIS Agreement introduced a package structure (Art. 23). The package structure has its origin in the ASEAN Framework Agreement on Services (AFAS). In ASEAN, AFAS provides a framework of negotiation, and package documents set the commitments of the member states. ASEAN had successfully generated five packages after the AFAS was signed in 1995 and before the ACFTA TIS Agreement was concluded in 2007. AFAS has been recognized as having been successful in achieving progressive services liberalization from its early years. Based on these experiences, ASEAN and China adopted the ACFTA TIS Agreement as a framework agreement, and the first package (hereafter, ACFTA First Package) in January 2007 as annexes to the TIS Agreement. Subsequently, they signed the second package (ACFTA Second Package) in November 2011.

Ishido and Fukunaga (2012) analyzed the level of services liberalization in the ACFTA First Package and argued that the General Agreement on Trade in Services (GATS)-plus components in the ACFTA First Package are limited. This is not surprising when we consider the progressive nature of services negotiation under the ACFTA. Services liberalization under the ACFTA can be meaningful, even if the First Package provides a low level of GATS-plus, so long as the subsequent packages provide substantial additional GATS-plus liberalization. Indeed, the ACFTA TIS Agreement Art. 23.2 (Progressive Liberalization) provides as follows:

The Parties shall, with the aim of substantially improving on the first package of specific commitments, conclude the second package of specific commitments within a year from the date of entry into force of [the ACFTA Trade in Services] Agreement. (emphasis added by authors)

Therefore, the real benefits of ACFTA services liberalization should be tested by analyzing the Second Package in comparison with the First Package.

Although there are many literatures examining ACFTA (both ex-ante and ex-post studies), only a few of them look into the details of the ACFTA TIS Agreement. For example, Xiao (2010) and Yeoh et al. (2010) briefly analyze the commitments of the First Package, but their analyses do not cover the Second Package. On the other hand, Abidin and Aziz (2012) provides that the Second Package, once signed, is expected to provide deeper liberalization
commitments for architecture, engineering, financial services and education. However, Abidin and Aziz (2012) does not analyze in detail the levels of progress or reasons for such (slow) progress.

To fill the gaps and enrich the academic knowledge about the ACFTA, this article examines the achievements of services liberalization in the ACFTA by applying the Hoekman Index and further discusses the progressive liberalization from the 2007 First Package to the 2011 Second Package. This paper is structured as follows. Section 2.1 explains the methodology. Section 2.2 discusses GATS-minus aspects in the ACFTA commitments, partly as the methodology and also as a key aspect of our assessment. Section 2.3 explains the level of commitments in the ACFTA Second Package. We then analyze the additional liberalization of the Second Package in comparison with the First Package (section 2.4) and with GATS (section 2.5). Section 3 concludes by discussing the implications of our analysis of ACFTA services liberalization to the other ASEAN+1 FTAs, especially the ASEAN-Korea FTA (AKFTA) and the ongoing negotiation of the Regional Comprehensive Economic Partnership (RCEP).

2. Assessment of ACFTA Services Liberalization

2.1. Methodology: Hoekman Index

Hoekman (1995) proposes an indexation method for measuring the GATS-style degree of commitments in the services sector. This method assigns values to each of 8 cells (4 modes and 2 aspects – market access (MA) and national treatment (NT)) as follows: first assign the value 1 when the sector at issue is “fully liberalized”; 0.5 when “limited” (but bound); 0 when “unbound” (government has not committed to liberalize) by sub-sector, by mode and by aspect (market access of national treatment), and take the simple average for aggregation; then calculate the average value by services sector and by country. The higher the figure, the more liberal the country’s service trade commitments are to the FTA members. By using the database that we construct, the “Hoekman Index” is derived for each of the 155 sub-sectors, drawing on the specific-commitment tables of the FTA members.\(^8\) Then the simple average at the levels of the 55 sectors and finally 11 sectors presented in Table 2 are calculated in a step-by-step manner.\(^9\)

2.2. “GATS-minus” in the ACFTA

It is known that services agreements (or services chapters) in FTAs often include GATS-minus components (Adlung and Miroudot, 2012). GATS-minus is a situation where services commitments (on the basis of additional offers
after the GATS 1995 conclusion) in an FTA are lower than the commitments in the GATS (based on the GATS 2003 initial offer)\textsuperscript{10} of the same country.

This GATS-minus position can be seen in the ACFTA services liberalization.\textsuperscript{11} To give an example, China committed not to put any limitation (“no limitation”) in modes 1 and 2 of “02B Courier Services” under the GATS. However, the ACFTA First Package did not provide such commitment. China might have written down (in its commitment table) mainly additional or new commitments as compared to its commitments in the GATS. However, such consistency cannot be found in ASEAN member states’ commitment schedules (ASEAN member states sometimes but not always repeat their GATS commitments in the ACFTA). Even China copied its GATS commitments in the ACFTA First Package in some sectors, e.g., “Consultancy services related to the installation of computer hardware” under “01B. Computer and Related Services.”

When GATS-minus elements are observed, there are two possible computation measures for the Hoekman Index of the ACFTA. One is to give raw scores based solely on the ACFTA commitments. The other possibility is to take into account GATS commitments as if they were also included in the ACFTA commitment schedules. Table 3 exhibits the contrasts between the two scoring methods.

While China’s raw score in the ACFTA First Package is 0.12, its adjusted score counting the GATS commitments is 0.29. The difference (0.17) reflects the GATS-minus aspects of China’s commitments. As noted above, some ASEAN countries did not also include some of their GATS commitments in the ACFTA First Package. Those countries are Brunei, Indonesia, Malaysia, Myanmar, the Philippines, Singapore, and Thailand. As a result, the ASEAN average raw score is 0.13 while its GATS-adjusted score is 0.21 (0.08 is the

<table>
<thead>
<tr>
<th>Table 2</th>
<th>Services Sectors (Compiled and Used by the WTO)</th>
</tr>
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<tbody>
<tr>
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<td>Communication</td>
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<td>03</td>
<td>Construction</td>
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<tr>
<td>04</td>
<td>Distribution</td>
</tr>
<tr>
<td>05</td>
<td>Education</td>
</tr>
<tr>
<td>06</td>
<td>Environment</td>
</tr>
<tr>
<td>07</td>
<td>Finance</td>
</tr>
<tr>
<td>08</td>
<td>Health</td>
</tr>
<tr>
<td>09</td>
<td>Tourism</td>
</tr>
<tr>
<td>10</td>
<td>Recreation</td>
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<tr>
<td>11</td>
<td>Transport</td>
</tr>
</tbody>
</table>

Source: WTO’s Sectoral Classification List (W/120).
### Table 3  Hoekman Index in the ACFTA First Package

<table>
<thead>
<tr>
<th>Country</th>
<th>01 Business</th>
<th>02 Communication</th>
<th>03 Construction</th>
<th>04 Distribution</th>
<th>05 Education</th>
<th>06 Environment</th>
<th>07 Finance</th>
<th>08 Health</th>
<th>09 Tourism</th>
<th>10 Recreation</th>
<th>11 Transport</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brunei</td>
<td>0.03</td>
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<td>0.00</td>
<td>0.00</td>
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<td>0.00</td>
<td>0.02</td>
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<tr>
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<td>0.00</td>
<td>0.00</td>
<td>0.13</td>
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<td>0.00</td>
<td>0.00</td>
<td>0.14</td>
<td>0.05</td>
</tr>
<tr>
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<td>0.28</td>
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<td>0.75</td>
<td>0.45</td>
<td>0.75</td>
<td>0.42</td>
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<td>0.17</td>
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<td>0.28</td>
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<td>0.45</td>
<td>0.75</td>
<td>0.43</td>
<td>0.45</td>
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<td>0.17</td>
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<tr>
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<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
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<td>0.00</td>
<td>0.06</td>
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<tr>
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<td>0.00</td>
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<td>0.03</td>
<td>0.09</td>
<td>0.09</td>
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<tr>
<td>Lao PDR</td>
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<td>0.00</td>
<td>0.00</td>
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<td>0.52</td>
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<td>0.00</td>
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<td>0.18</td>
<td>0.04</td>
<td>0.16</td>
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<td>0.00</td>
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Table 3 (continued)

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<th>04 Distribution</th>
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Source: Authors.
Overall, the raw score for the ASEAN-China average is 0.13 while the adjusted score is 0.19 (0.06 is the GATS-minus).

The legal effect of a GATS-minus position is not entirely clear. If GATS still applies despite the GATS-minus commitments in an FTA, the existence of GATS-minus simply confuses the potential users of the FTA. If GATS-minus limits the applications of GATS commitments in practice, it affects the credibility of GATS. On this point, Art. 28.3 of the ACFTA TIS Agreement stipulates:

Except as otherwise provided in this Agreement, this Agreement or any action taken under it shall not affect or nullify the rights and obligations of a Party under existing agreements to which it is a party.

While there is no evidence to clarify the meaning of this clause, China (together with its partner) once explained the meaning of a similar clause in a different FTA and said that GATS-minus commitments would not affect the obligations of an FTA party. Thus, we take the view that the ACFTA TIS Agreement does not “affect or nullify” the obligations that ASEAN and China assumed under GATS, and hence the GATS-adjusted scores better reflect their level of commitments than the raw scores.

2.3. Level of Services Liberalization in the ACFTA Second Package

Table 4 reports the scoring results in the ACFTA Second Package (both raw scores and GATS-adjusted scores), by sector and country. We use GATS-adjusted scores to assess the level of services liberalization in the ACFTA Second Package (i.e., all the sectoral commitments under GATS are reflected in the scores). Both China and ASEAN scored much lower than 0.5. China’s score in the ACFTA is 0.32, while ASEAN’s (on average) was 0.21. ASEAN and China are clearly still hesitant to open their services markets to each other. Among the ACFTA parties, Cambodia is the most open economy, with a cross-sector average of 0.40, followed by Singapore (0.38), Viet Nam (0.36), China (0.32) and Thailand (0.31). All the other ASEAN countries have committed to a much lower level of liberalization in the ACFTA Second package: Malaysia (0.20), the Philippines (0.19), Indonesia (0.09), Myanmar (0.07), Brunei (0.05), and Lao PDR (0.04). Cambodia and Viet Nam have not yet developed local services industries to protect and therefore are open to foreign investors to provide services in their territories. Myanmar and Lao PDR do not have viable domestic services sectors. These two countries are moving toward more liberal economic philosophies with Myanmar’s major policy changes since 2011, and Laos’ WTO accession in 2013. Those policy changes had not been realized at the time of the ACFTA Second Package’s conclusion. Singapore has strong services sectors (especially its financial
### Table 4 Hoekman Index in the ACFTA Second Package

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<th>Country</th>
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</table>

*Source: Authors.*
sector) and hence has interests in opening up its markets in order to gain access to foreign markets. In between are Indonesia, Malaysia\textsuperscript{15} and the Philippines.\textsuperscript{16} China and Thailand have growing competitiveness and interest in service-trade commitments. Viet Nam’s rather high commitment seems to reflect its open-policy efforts before and after its accession to the WTO in 2007. Lastly, it should be noted that all the ASEAN member states have committed much more under AFAS and the ASEAN-Australia-New Zealand FTA (AANZFTA) (Ishido and Fukunaga, 2012).

The most open sub-sectors (taking an average of ASEAN and China) are tourism (09) with 0.35 followed by construction (03) with 0.35. The most protected sub-sector is health (08) where six members have no commitments at all (i.e., their Hoekman Index is 0).

2.4. Additional Liberalization in the ACFTA Second Package in Comparison with the First Package

The Chinese government’s positive evaluation of the ACFTA Second Package was expressed as follows:

Compared with the first package, China made adjustment in such sectors as commercial services, telecommunication, construction, distribution, finance, tourism and transportation, based on China’s commitment to the WTO. Meanwhile, ASEAN member states have covered more sectors in the second package, more open than their WTO commitment, and offer[s] by many of them are more preferential than that in WTO new round negotiation.\textsuperscript{17} [sic]

Table 5 shows the additional liberalization in the ACFTA Second Package in comparison with the First Package (before GATS-minus adjustments). China’s improvement is significant with 0.18 points of additional liberalization to its earlier commitments. The ASEAN average has also improved, at 0.06 points higher compared with the First Package. Thailand tops the ASEAN list with 0.18 points of improvement followed by Malaysia (0.11) and Singapore (0.11). On the other hand Cambodia (0.00), Viet Nam (0.00), Indonesia (0.01), Lao PDR (0.02), and Brunei (0.03) provide only limited additional commitments.

The landscape will dramatically change when we adjust for the GATS-minus components. Table 6 presents the real additional liberalization of the ACFTA Second Package over the First Package. The degrees of improvement now become 0.04 for China and 0.03 for ASEAN. The additional commitments are at maximum 0.06 (the Philippines and Singapore).

In brief, most of the “improvements” made in the ACFTA Second Package are not new commitments. Rather, they are old commitments which had existed since 2003 when the GATS initial offer was released.\textsuperscript{18} It is not surprising to the government officials involved as ASEAN and China recognized the GATS-minus issue involved in the First Package and thus
### Table 5  Additionality in ACFTA 2nd Package over the 1st Package (Raw Score)

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*Source: Authors.*
Table 6  Additionality in ACFTA 2nd Package over the 1st Package (GATS-minus Adjusted)

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</table>

Source: Authors.
Yoshifumi Fukunaga and Hikari Ishido

consciously worked to consolidate the GATS commitments into the Second Package. Thus, one can imagine that the Second Package provides much more than the consolidation of GATS commitments. In reality, however, the degree of improvement remains low at the level of 0.03 in the Hoekman Index. The GATS-minus effect creates a transparency problem that is avoidable. If that is the case, reductions of GATS-minus will be one important aspect of “progressive liberalization”. Our analysis shows that many GATS-minuses existing in the ACFTA First Package are now removed because GATS commitments are better reflected in the latest ACFTA commitment schedules. While not new commitments, they are still meaningful because member states reaffirmed their earlier GATS commitments. Now the transparency is improved, and businesses can be more confident in the reality of services liberalization commitments made on paper.

One possible explanation for the existence of GATS-minus commitments is the limited capacity of developing countries in negotiating services liberalization. If that was the case in the ACFTA First Package, at least the problems have now become smaller.

It should be noted, however, that the GATS-minus problem has not been completely resolved. GATS-minuses still exist in the ACFTA Second Package, albeit to a much lesser degree than in the First Package, in all the ASEAN countries (excluding Lao PDR which do not have any GATS commitments) and China.

Lastly, it is worth checking the frequency of backtracking (recanting commitments made in the previous package) in the Second Package. Compared with tariffs in which the differences between WTO and FTA commitments and actual tariff rates have been reduced over time, there is more room between commitments and actual regulations. A services commitment in the Second Package thus denotes certainty of non-backtracking (i.e., standstill) of actual regulations rather than any changes in actual regulations. If backtracks are frequently observed in the Second Package, the credibility of the First Package will be badly affected, and, in addition, businesses would be unable to trust the benefits of the Second Package. Fortunately, we have observed only one backtrack in the ACFTA Second Package as compared to the First Package (education services in Thailand). Therefore, the ACFTA Second Package has provided a large extent of certainty against policy backtrack.

2.5. “GATS-plus” in the ACFTA Second Package

Services liberalization in FTAs can add value only when there are GATS-plus components. Table 7 presents the GATS-plus scores of each country’s commitments in the ACFTA Second Package. GATS-plus is computed as the
Table 7  “GATS plus” in the ACFTA 2nd Package (GATS-minus Adjusted)

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Source: Authors.
difference between “ACFTA Second (GATS-minus-adjusted)” and “GATS” in both the Hoekman Indices.

ASEAN (average) and China provide 0.07 and 0.08 higher commitments, respectively, in the ACFTA Second Package than their GATS commitments. Among the ASEAN members, Singapore provides the largest GATS-plus, with 0.27. On the other hand, Cambodia (0.01), Brunei (0.02), Indonesia (0.03), Lao PDR (0.03) and Myanmar (0.04) make only small GATS-plus commitments.

Overall, 0.07 GATS-plus is a low score when we compare it with AFAS and some other ASEAN+1 FTAs. ASEAN countries have made 0.22 points of GATS-plus commitments under the AFAS 7th Package. Under the AANZFTA, ASEAN (average) has made 0.20 GATS-plus commitments. Australia and New Zealand also made much more substantial additional commitments with 0.18 and 0.26 GATS-plus scores, respectively. The AKFTA provides almost the same level of GATS-plus commitments as the ACFTA Second Package: GATS-plus scores are 0.09 for Korea and 0.08 for ASEAN.

3. Conclusion and Policy Implications

Competitive services sectors are key components to competitiveness in manufacturing. For ASEAN and China to climb up the value-chains, they should liberalize trade in services to develop competitive service sectors that are of high quality, cost-efficient and rich in variation. It is not only China and Singapore who are exporting services. Other ASEAN countries, especially Thailand, Malaysia, the Philippines and Indonesia have started to be emerging players of international services trade. As implementation of an FTA takes a long time for domestic regulatory reforms, ASEAN should consider her competitiveness and take the opportunity to export services in the future, rather than remain competitive currently.

ASEAN’s services liberalization through AFAS has achieved substantial improvements, package by package. This paper has examined the successes of, and challenges in, services liberalization under the ACFTA, which adopts the same structure as the AFAS: i.e., a framework agreement and commitment packages. The assessment of the ACFTA Second Package, which is the first and to date the sole Second package among the existing ASEAN+1 FTAs, will have policy implications for other FTAs (especially the AKFTA) and the ongoing negotiation of the RCEP.

3.1. Successes of, and Challenges in, Services Liberalization in the ACFTA

ACFTA services liberalization has been successful on two points. First, the ACFTA Second Package provides deeper and broader commitments by both
ASEAN and China. Second, backtracking is observed only in one case in the Second Package, which suggests that the ACFTA TIS Agreement provides certainty to potential services providers, including investors in service industries. On the other hand, the degree of improvement in the Second Package over the First Package is limited (i.e., 0.03 differences in terms of the Hoekman Index, if we adjust the scores with their respective GATS commitments). This suggests that most of the “improvements” made in the ACFTA Second Package are mere additions of countries’ earlier commitments in the GATS. As a result, the ACFTA Second Package added only little more liberalization commitments to the 1995 GATS Agreement (i.e., 0.07 more liberal than the GATS). In other words, GATS-plus components remain low, especially compared to the level of services liberalization in ASEAN, under AFAS, as well as in the AANZFTA.23 Therefore, although “progressive” services liberalization under the current ACFTA framework is actually proceeding, the pace is still slow.

3.2. A Possible Reason for Little Progress in ACFTA

The slow pace of progressive services liberalization in ACFTA suggests that introduction of a package structure does not ensure substantial improvements in subsequent packages, despite the success of the AFAS. We need to further examine the differences between the progressive liberalizations in AFAS and ACFTA.

AFAS adopts not only the package structure but also so-called formula based approach which provides numerical targets for liberalization within specific timeframes. The formula approach is ASEAN’s innovation (Sauvé, 2013: 31) after a series of experiments in earlier packages.24 As committed and instructed by the leaders in the AEC Blueprint, ASEAN government officials made serious efforts for delivering new packages albeit with some delays due to domestic challenges and to ensure that each package provide a meaningful addition to the previous one.25

On the other hand, ACFTA services negotiation is still being negotiated in a classic request-and-offer approach. While a clear timeframe was set in the ACFTA TIS Agreement for the Second Package negotiation,26 there was no consensus on the negotiation modalities which resulted in delays. Such a package added only small real value to the previous package.

To sum up, AFAS adopts a package structure with a formula of liberalization targets for each package. On the other hand, ACFTA follows the package structure without pre-set negotiation modalities, which created a major challenge for the progressive liberalization of services in the current ACFTA framework.
3.3. Implications to the “Upgraded Version of ACFTA”

A natural next step after the Second Package is to start a new negotiation of the 3rd Package in accordance with Art. 23.3 of the ACFTA TIS Agreement. Instead, China proposed to upgrade ACFTA in August 2013, and ASEAN agreed to this proposal in October 2013. While the details of such new negotiation are not publicly available, this analysis suggests that one possible motivation for China’s proposal, amongst many others, was the slow progress in services liberalization.

3.4. Implication to the RCEP

The RCEP is an FTA currently under negotiation among the ASEAN+6 countries. Services liberalization is going to be one of the eight negotiation areas in this framework. While the details of services negotiation are not agreed yet, there is a chance that RCEP will introduce the package structure, since the AFAS, ACFTA and AKFTA all take this route. Will it be the right choice?

This paper shows that mere adoption of the package structure does not suffice to realize progressive yet steady services liberalization. Thus, a more innovative approach such as the one adopted by AFAS (a package structure with pre-set formula for liberalization) should be considered seriously as a possible measure of services liberalization in both AKFTA and RCEP.

3.5. Needs for Addressing “GATS-minus”

Our analysis reveals that “GATS-minus” is commonly found in the ACFTA services packages, especially in the First Package. This is not an exceptional phenomenon in East Asia but is rather a common practice in services liberalization around the globe. As Adlung and Miroudot (2012) pointed out, however, GATS-minus causes significant problems and confusion for services providers operating in the region. Services providers cannot rely solely on the ACFTA commitments but need to study the GATS commitments of relevant countries. Even so, they cannot be entirely confident that such GATS commitments will be respected by a country which does not commit the same components in its FTA, and hence the potential value of services liberalization might not be fully realized. Future services liberalization negotiations should therefore start from the commitments schedules in the GATS and existing FTAs (e.g., existing packages), whether the ACFTA, RCEP or other FTAs.

Notes

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Progressive Services Liberalization in the ACFTA

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1. Unfortunately, there is no credible data on bilateral trade volume in services between China and ASEAN.


3. The preamble of the ACFTA TIS Agreement refers to Arts. 4 and 8 (3) of the ACFTA Framework Agreement and repeats “progressive liberalization” as an objective of the TIS Agreement. Also, Art. 23 of the TIS Agreement is titled as “Progressive Liberalisation”.

4. ASEAN Framework Agreement on Services, Bangkok, Thailand, 15th December 1995.

5. By 2012, ASEAN had signed up to its 8th package under AFAS as well as separate packages under financial services and air transport services.

6. For example, Hiong (2004) already presented the growing sectoral coverage of AFAS from packages 1, 2 and 3. Reviewing more recent assessments of AFAS up to its 7th Package, Dee (2014) finds that the commitments started to affect actual regulations while actual implementation lagged in some areas and some countries.

7. Shepherd and Pasadilla (2012) also found that there are only limited amounts of additional liberalization on both the ASEAN and the China sides.

8. The horizontal commitments of the FTA members are referred to in the specific commitment tables where mention is made of, e.g., “as specified in the horizontal commitments”. In this sense, the approach takes into account the horizontal commitments through specific commitments. However, horizontal commitments themselves are not directly considered in this indexation exercise. We therefore confine our analysis to the discussion of sector-wise, specific, commitments only. This way of calculating the Hoekman Index for ASEAN+1 FTAs is based on Ishido (2011).

9. The 55-sector average was calculated as the simple-average aggregation of 155 sectors, and the 11-sector average was calculated as the simple-average aggregation of the 55-sector average; for details, see the WTO’s “Services Sectoral Classification List (MTN.GNS/W/120)” which can readily be viewed through online searching.

10. For original members of the WTO. Among various versions of the GATS commitment tables, the ones submitted as the “2003 initial offers”, which correspond to the latest publicly available commitments, have been taken as the reference point in this analysis (the commitment tables are downloadable at the following WTO website: http://tsdb.wto.org/default.aspx). As for Cambodia (which acceded to the WTO in 2004) and Viet Nam (in 2007), the commitment tables at the time of their accession (listed at the WTO website above) are used in this analysis. For Lao PDR (in 2013), information on commitment tables is not publicly available as of this writing.

11. In general, GATS-minus components are found both in horizontal commitments and specific commitments (Adlung and Miroudot, 2012). For example, the
ACFTA TIS Agreement excluded subsidies and financial support from the national treatment discipline (Art. 14). However, our description of GATS-minus in this article focuses on specific commitments due to our methodology (horizontal commitments are broken down to specific sectors and modes whenever possible in our calculation of the Hoekman Index).


13. Adlung and Miroudot (2012) quoting WTO document (WT/REG237/4 of 26th May 2011) on the explanation by China and Pakistan at the WTO Committee on Regional Trade Agreements about the legal effect of GATS-minus components, found in Pakistan’s commitments in the China Pakistan Agreement on Trade in Services. Art. 22.3 of China Pakistan Agreement on Trade in Services uses exactly the same wordings as Art. 23.3 of ACFTA TIS Agreement. Although the WTO Secretariat sent to the parties the Factual Presentation on the ACFTA TIS Agreement in February 2010, no comments had been received (WTO Secretariat, WT/REG/M/66).

14. Another possible reason for the existence of GATS-minus in the ACFTA relates to the non-WTO member(s) in ACFTA. Lao PDR joined the WTO only in 2013. Although GATS-minus did not have any legal effect practically as most ACFTA members are also WTO members, the situation was different for Lao PDR until 2013. As a non-WTO member, Lao PDR could not enjoy the GATS-minus commitments. However, such a theoretical rationale may not reflect the reality of less competitive services industry in Lao PDR. Furthermore, this potential reasoning does not apply to Viet Nam who acceded to the WTO in January 2007 (i.e., at the same time of signing the ACFTA TIS Agreement).

15. Malaysia’s open trade policy has sometimes been intermingled with its domestic-oriented measures, hence a rather mediocre service commitment.

16. The Philippines is a unique country with strong services exports in Modes 1 (cross-border supply) and 4 (movement of people). However, its domestic services industry, which is more affected by Mode 3 (commercial presence) commitments, is not well developed yet.


18. See footnote 8.

19. The headnote to the Annex (Schedule of Specific Commitments) of the Second Package provides that “[t]he Second Package of Services commitments constitute a consolidated package of commitments together with the First Package and WTO commitments.”


21. GATS-minus as discussed earlier can also be viewed as “backtrack”.

22. Even if the FTA commitments do not change the actual regulations, such commitments provide certainty that the status quo regulations will not backtrack.


24. AFAS adopted a Request and Offer Approach for First and Second Packages; a Common Sub-Sector Approach for the 3rd Package; a Modified Common Sub-Sector Approach for the 4th, 5th and 6th Packages; and an AEC Blueprint.
Approach with clear targets and timelines since the 7th Package. See Hiong (2011).
25. See Ishido and Fukunaga (2012) for the changes between AFAS Fifth Package and Seventh Package. For the changes between AFAS Seventh Package and Eighth Package, see Ishido (2015).
26. ACFTA TIS Agreement, Art. 23.2.
27. Joint Media Statement of the Twelfth AEM-MOFCOM Consultations, 20th August 2013, Bandar Seri Begawan, Brunei Darussalam, para. 3-4.
28. Joint Statement of the 16th ASEAN-China Summit on the Commemoration of the 10th Anniversary of the ASEAN-China Strategic Partnership, 9th October 2013, Bandar Seri Begawan, Brunei Darussalam, para. 11.
29. There are other possible explanations for China’s proposal. For trade in goods, for example, a good explanation is that both China and ASEAN-6 countries have completed their tariff elimination schedule in 2012 and hence China considers that now is a good timing for negotiating the next step.
30. ASEAN, Australia, China, India, Japan, Korea and New Zealand.

References


The Challenge of Conflict Resolution in the South China Sea Dispute: Examining the Prospect of a Stable Peace in East Asia

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Abstract
Using Professor Charles A. Kupchan’s concept of stable peace, this article explores the possibility of defusing the tension in the South China Sea through conflict resolution. At the present, the precarious situation in the contested territory is stabilized by a balance of power system. This system springs from the littoral states’ (the Philippines and Vietnam) policies of drawing other maritime powers such as the United States (US) and Japan into the issue to constrain an assertive China. Apprehensive of China’s growing power in East Asia, the US and Japan have increased their strategic presence in the South China Sea. These developments have transformed the dispute into a case of conflict irresolution. This article concludes that the imperative variable to jumpstart the process of resolving the South China Sea imbroglio is China’s willingness to accommodate unilaterally the territorial entitlements of the small claimant states.

Keywords: ASEAN, China, Japan, US, South China Sea dispute, stable peace

The problem of peaceful change is in national politics, how to effect necessary and desirable changes without revolution and, in international politics, how to effect changes without war.¹

E.H. Carr, 1939

1. Introduction
Located in the heart of Southeast Asia, the South China Sea is a semi-enclosed sea surrounded by China and several small and militarily weaker Southeast Asian powers such as the Philippines, Vietnam, Malaysia, and Brunei. Since the mid-1970s, these littoral states have been involved in a chronic competition as each one seeks to extend its sovereignty and jurisdictional
claims over more than a hundred islets, reefs, and rocks and their surrounding waters. The South China Sea dispute, however, hibernated in the late 1990s and the early 21st century after China and the Association of Southeast Asian Nations (ASEAN) signed the 2002 Declaration on the Conduct of Parties in the South China Sea.

The maritime row, however, flared up again in 2009 when China assumed an assertive posture and consolidated its jurisdictional claims in the South China Sea by expanding its military reach and pursuing coercive diplomacy against the other claimant states. China increased its naval patrols (using submarines, survey ships, and surface combatants) in Japan’s Exclusive Economic Zone (EEZ) and territorial waters, and intimidated foreign oil companies that tried to operate in the South China Sea. Since 2009, it has shifted its strategy from delaying the resolution of the dispute to one that emphasizes its sovereignty over the contested waters, to deter other claimant states like the Philippines and Vietnam from cementing their claims and to negotiate with these small powers from the position of strength. Recently, the dispute has become more problematic because the claimant states are inclined to deploy their naval assets in controlling the disputed offshore territories, and to demonstrate their resolve to keep them.

Early on, this maritime dispute has caught the attention of the United States, which is trying to maintain its strategic primacy in East Asia, albeit China’s emergence as an economic and military power. In 2010, the US declared that it is in its vital interests that the freedom of navigation in the South China Sea is maintained and that the dispute is peacefully resolved through multilateralism and international law. In 2011, the Obama Administration announced the US strategic rebalancing to the Asia-Pacific region to ensure that its diplomatic initiative of a comprehensive “rule-based” system to resolve the East Asian Westphalian states’ clashing territorial claims in the South China Sea would be backed by American military power. Interestingly, Japan has also become interested in the dispute. As China’s geo-strategic rival in East Asia, Japan is determined to play a balancing role in the dispute by helping the Philippines and Vietnam build up their respective naval capabilities.

These developments have transformed the South China Sea dispute into one of the four potential flashpoints in East Asia, along with the Korean Peninsula, the East China Sea, and the Taiwan Straits. To some analysts, the South China Sea is becoming the future of conflict in which the Westphalian states will jockey for strategic and diplomatic positions with their warships in the high seas, pursue their conflicting claims for natural resources, and strive for primacy in the Western Pacific.

This paper explores how the South China dispute can be addressed by going beyond mere conflict management by exploring the prospects for a
conflict resolution. Using Charles Kupchan’s theory of Stable Peace, the article raises two central questions: 1) how is the South China Sea dispute currently managed? And 2) how can the dispute be peacefully resolved through a stable peace among the claimant states? It also tackles the following questions: 1) what developments led to increased tension South China Sea? 2) How are the claimant states responding to the maritime dispute? 3) How do the external powers react to this maritime conflict? 4) What is the prospect of resolving the South China Sea dispute peacefully?

2. From Conflict Irresolution to Stable Peace?

China’s strategic interests in its maritime environment, the stiff competition for access to fishing grounds and other natural resources, the claimant states’ conflicting territorial claims and geo-strategic rivalries, and the involvement of other major maritime powers in the issue produced a corpus of studies on the South China Sea dispute. Scholars and defence analysts have elevated this territorial dispute to a high-level geo-political concern, offered varied prognoses on the potential eruption of armed clashes, and drew different historical characterizations of the South China Sea as a dangerous ground or future of conflict. They also devised ways to manage the conflict, to deescalate the tension, and proposed long-term plans to settle the competing claims of several East Asian Westphalian states bordering the semi-enclosed body of water.

Recent published works on the South China Sea dispute use either the liberal approach or the realist approach. Both approaches assert that settling the issue will be long and arduous. These approaches, however, differ in the end game. The liberal approach, on the one hand, hopes to resolve the conflict through the United Nations Convention on the Law of the Sea (UNCLOS), and the joint development of resources of the South China Sea by the claimant states. On the other hand, the realist approach is sceptical of such scenarios and sceptically maintains that the dispute cannot be resolved in the near future. In the meantime, the dispute could only be managed by strengthening the naval capabilities of the Philippines and Vietnam and mustering the support of like-minded states for ASEAN measures to counter Chinese aggressiveness. A coalition of states can also be spearheaded by the US to create a balance of power system to constrain China, prevent provocative incidents at sea, and promote confidence-building measures among claimants to avoid errors or miscalculations that can lead to war.

As a liberal approach, utilizing the UNCLOS to resolve the South China Sea dispute is problematic because this international convention contains ambiguous legal provisions. Its legal machinery for adjudicating offshore boundary disputes remains underdeveloped, and the claimant states’ are
reluctant to cede their sovereign territorial rights to an untested international institution. Furthermore, most of these states refuse to abandon their maritime claims, making dispute resolution extremely difficult. The prospect for joint development, on the other hand, is hampered by claimant states’ distrust of each other. The small states are also wary of China’s formula for joint development based on the late Deng Xiaoping’s exhortation: “Sovereignty is ours, set aside disputes, pursue joint development.” Moreover, the claimant states’ determination (especially China) to apply force and coercion to assert their territorial claims undermines any prospect for fostering trust and more cooperation in resource sharing. This situation is further complicated by China’s heavy-handedness to enforce its territorial claims over the South China Sea on its own terms. As a result, while all parties in the dispute agree on cooperative development in principle, they fail to translate it broadly in practice.

The realist approach aims to prevent the dispute from destabilizing regional security, and to avert any unwanted war. It intends to stave off any armed clash that can escalate into a crisis situation and draw other major powers into the fray. Its proposals for increased transparency, confidence-building measures, and a practical and workable Code-of-Conduct in the South China Sea can create a cooperative management regime to prevent any escalation of the conflict.

The idea behind America’s balancing role vis-à-vis China relative to the South China Sea dispute does not spring from the US’s formal legal obligation to any of the claimant states or from the strategic exigency of resolving this territorial dispute. As a Pacific power, the US is broadly interested in the peaceful settlement of disputes, and in the freedom of navigation and overflight. On the one hand, China can circumvent America’s balancing role if it shows that its claims and coercive moves against the other claimant states do not affect the freedom and safety of navigation in the South China Sea. On the other hand, a deep US involvement in the South China Sea dispute literally makes China strategically boxed-in by American allies such as South Korea, Japan, Taiwan, the Philippines, and Australia. Improved security ties between the small but assertive claimant states (Vietnam and the Philippines) and the US (and its allies), will diminish China’s strategic positioning and can drive it to employ its military power against these small powers. For example, Hanoi’s signing of the November 1978 security treaty with Moscow precipitated Beijing’s use of force against Vietnam in 1979. In the final analysis, the realist approach suggests ways to manage and stabilize the maritime dispute, but it does not proffer any long-term resolution to the territorial claim and sovereignty issues. Thus, it simply prolongs “conflict irresolution.” The challenge is to formulate a comprehensive approach to generate short to medium-
term stabilizing effects leading to the eventual and hopefully, the peaceful resolution of the dispute.

In his book *How Enemies Become Friends*, Charles A. Kupchan explores the mechanics of conflict resolution as he examines how endemic competition and limited cooperation among a group of states can be transformed into a stable peace. He does this by formulating a conceptual bridge that links realism and liberalism/constructivism into what he called “realist-constructivist synthesis.” Accordingly, the main challenge in effecting a stable peace is to be able to transform the mediating role of states’ intent, motivation, political character, and identity in shaping how they can react to the material elements of power. He argues that reconciliation leading to a lasting peace requires not only rapprochement but actual reconciliation among disputing states. This is not because states are willing to submit themselves to (international) instruments that are available to induce discrete episodes of international collaboration, such as international law, institutions, economic interdependence, ideational convergence and regimes. Rather, they find strategic balancing unappealing, inadequate, and inherently unstable and destructive in the long run. States seek a regime of stable peace because they are motivated by fear, strategic necessity, and objective national interests (of survival).

Kupchan provides an interesting and bold account of how states can free themselves from geo-strategic rivalry via rapprochement or even reconciliation. He studied how stable peace was achieved in the following cases: US-UK relations; Norway-Sweden relations; Brazil-Argentina relations; the Concert of Europe; the European Union; and the ASEAN. In these cases, a zone of stable peace emerged when strategically proximate states start considering war among themselves as unthinkable, effect demilitarization policies, and denounced the use of force as an instrument of statecraft. According to him, the path to a stable peace is a sequential process consisting of four distinct phases:

A) **Unilateral accommodation of one party** – in a dispute, one party must make an initial concession to the other states as an opening gesture of goodwill and trust. It is then up to the targeted states to reciprocate with their own acts of accommodation. During this stage of extending concessions, the parties to the dispute seek to discern the intent behind such moves and begin to entertain hope that they are dealing with a potential partner rather than an implacable adversary.

B) **Reciprocal restraint** – Expectations of reciprocity promote successive rounds of accommodation among the parties. Then they evaluate one another’s broader motivation, not just their narrow intentions with respect to specific concessions. Eventually, hope leads to mutual confidence and
understanding that their competition and rivalry can lead to peace, and possibly, long-term cooperation.

C) **Societal integration** – Parties in the dispute begin interacting with increasing frequency and intensity, as they attribute benign qualities to one another’s political or diplomatic character.

D) **Generation of New Political or Diplomatic Narratives** – Using the discourse of a newly-formed community, the former disputing parties embrace a compatible, shared, or common identity and expectations of peaceful relations that will have a “taken-for-granted” characteristic, generating a sense of social solidarity.

This theory reflects on E.H. Carr’s aphorism that: “Every solution to the problem of political change, whether national or international, must be based on the compromise of morality and power.”

Using the South China Sea dispute as a case in point, this article explores the prospect of seeking stable peace by examining how strategic necessity and objective national interests can convince the claimant states to accommodate each other, and prevent the dispute from escalating into a major armed conflict.

3. **Origin of the Tension: China’s Realpolitik Approach**

Among the claimant states, China poses the biggest challenge to any efforts to either resolve/manage or escalate the South China Sea dispute and the tension associated with it. Needless to say, China is the largest and most powerful of littoral states and the sole administrator of the southernmost islands of Hainan and the Paracel Islands in the South China Sea. It has also declared full sovereignty over most of the contested sea based on an old and official Chinese map featuring a nine-dotted line that extends as far south as the northern Malaysian and Bruneian coast. Likewise, it claims the two main island groups, the Paracels and the Spratlys which are small and uninhabitable. Hence, by consolidating its claim over the South China Sea, China enhances its territorial integrity and national security. Nevertheless, from the point of the small and weak Southeast Asian states, this is clearly an ominous act of Chinese expansionism in an area of key strategic location and economic resources.

China argues that its sovereign rights over the South China Sea date back to thousands of years ago. It has devised a historical chronology that cites the voyages of Chinese navigators, explorers, and fishermen in and across the body of water. Premised on this historical chronology, China alleged that its expansive maritime claim is “based on solid and undisputable historical facts.” In actuality, this claim is founded simply on China’s geo-strategic exigencies and status as a great power in East Asia.
China has always been preoccupied with the control of its “Southern Seas.” The South China Sea serves as the main corridor of Chinese maritime trade into Southeast Asia and South Asia. China’s decline as a great power in the late 19th century coincided with its loss of control of this sea to Western powers especially France. China’s attempts to regain its great power status in East Asia have always begun with the modernization of its navy to ward off the encroaching Western and later Japanese power in the South China Sea.

The South China Sea is a focal point as China evolves a strategic rivalry with the United States. The stretch of maritime territory from the Yellow Sea through the East China Sea, and down to the Strait of Taiwan towards the South China Sea is the first-island-chain (mainland Japan-Okinawa-the Philippines) that forms the frontline of China’s naval defences. By dominating these seas, China extends its security perimeter and reinforces its influence over the maritime sea lines of communication (SLOC) linking the Indian and the Pacific Oceans. However, US naval presence in the Western Pacific prevents China’s reunification with Taiwan, and imperils its extended maritime trade routes and energy supply lines from the Middle East. Thus, American defence analysts have accurately observed that the People’s Liberation Army Navy (PLAN) has been developing strategies and weapon systems that can disrupt American US naval/air operations or slow down the deployment of American air and naval forces to the theatre of operations.

With a booming economy and a formidable navy, China no longer focuses on pre-empting possible US intervention in a Taiwan Straits crisis but on denying the US Navy access to East China Sea and South China Sea or inside the first-island chain. China has had an annual double-digit increase in defence spending since 2006. Consequently, in the past few years, the People’s Liberation Army Navy (PLAN) has acquired a growing fleet of Russian-made diesel-electric Kilo-class submarines and Sovremenny-class destroyers, along with several types of indigenously-built destroyers, frigates, and nuclear-powered attack submarines. The PLAN has also improved its operational capabilities across the waters surrounding Taiwan and has deployed two new classes of ballistic and attack submarines. Moving beyond its strategic preoccupation on the Taiwan Straits, China has the naval capabilities to generate regional tension by challenging the claims of its smaller neighbouring states, and in the long run, to change the strategic pattern of the maritime commons of East Asia and West Pacific from where the US Navy can be eased out. Interestingly, Chinese media commentators have emphasized the significance of China’s growing naval capabilities and the exigency of protecting its territorial claims in the South China Sea.

With its naval prowess, China has become more assertive in the South China Sea. In March 2009, Chinese naval and fishing vessels harassed the
U.S.S. *Impeccable* which was openly conducting surveying operations in the South China Sea. The following year, China warned the US to respect its extensive maritime claims. In March 2010, Chinese officials told two visiting US State Department senior officials that China would not tolerate any American interference in the South China Sea which is now part of the country’s “core interests” of sovereignty on a par with Taiwan and Tibet. Recently, the Chinese government increased its defence budget by 13 per cent to boost the PLAN’s capability to accomplish a range of military functions including “winning local wars under information age conditions.”

Judging from its recent behaviour, China’s assertive pursuit of its territorial claim over the South China Sea has increased in tandem with the expansion of its navy and maritime services. It conducts numerous naval exercises that utilize modern surface combatants and even submarines. These various naval exercises plainly demonstrate China’s intention to unilaterally and militarily resolve the maritime issue, to flaunt its naval capabilities, and to impress upon the other claimant states its “*de facto*” ownership of the disputed territories.

In the long run, China’s naval capabilities will be directed not only to expand its maritime domain but to deny foreign navies – especially that of the US – access to the East China and South China Seas. Soon, it will be capable of limiting the 7th Fleet’s access to the Western Pacific outside of the so-called first island chain. Recently, the PLAN has built an enormous submarine base in Hainan island that places its Southern Fleet closer to the disputed waters. In late November 2013, China’s first aircraft carrier, *Liaoning*, escorted by several surface combatants, conducted sea trials in the South China Sea to show off Chinese naval power to the littoral states that have no or limited naval aviation capabilities. These exercises also confirmed that the PLAN can provide air support for a future three-dimensional assault in its coral-island-campaign against the other claimant states.

To avoid extremely provocative naval deployment, China assigns the regular patrolling of politically sensitive waters and land features to the vessels and aircraft of civilian agencies such as the State Oceanic Administration, its subordinate China Maritime Surveillance Unit, and Bureau of Fisheries Administration and Fishing Port Superintendence now integrated under the Chinese Coast Guard. These civilian vessels are tasked with the following: 1) to challenge and detain fishing boats from other littoral states; 2) to explore and identify sites for Chinese oil drilling in the disputed waters; and 3) to prevent other claimant states from deploying their seismic ships in energy-rich areas of the South China Sea. All these efforts are aimed toward one specific objective in the South China Sea – “to change the (territorial) *status quo* by force based on Chinese assertion, which is incompatible with the existing order of international law.”
In mid-2012, China engaged the Philippines in a tense, two-month standoff in Scarborough Shoal using civilian and fishing vessels supported by the PLAN. During the stalemate, China stood its ground and controlled the contested territory and its related resources and rights. It deployed its growing military and paramilitary forces in the South China Sea; took certain moves to advance its right to exploit marine and oil resources rights; strengthened its administrative control over disputed land features; and ignored the harsh criticism of the US, Japan and other states.39

In September 2012, China created a new administration unit for the 1,100 Chinese citizens living in the island groups of the Spratlys, the Paracels, and the Macclessfield Bank. In addition, the Central Military Commission, China’s most powerful military body, approved the stationing of PLA personnel to guard these islands. These measures were designed to reinforce China’s territorial claim over the South China Sea. No less than the president of the National Institute of South China Sea Studies based in Hainan Island admitted that the goal of the strategic move “is to allow Beijing to exercise sovereignty over all land features inside the South China Sea including more than 40 islands now illegally occupied by Vietnam, the Philippines, and Malaysia.”40

Interestingly, China sees itself as an actor committed to a peaceful settlement of the territorial row through diplomatic means. In its myopic perspective, China insists that it always display a restrained, calm and constructive attitude, and is determined to resolve the South China Sea dispute.41 The crux of the matter is that China seeks ways that are predicated on or preconditioned by bilateralism. Acceding to a joint declaration with ASEAN on maintaining the status quo in the South China Sea, China favours engaging the other claimant states in bilateral negotiations that pre-empt any third-party adjudication through UNCLOS procedures or any international organization. Going further, it is unbending in its resolve to settle the issue through its military prowess since the early 1990s when its phenomenal economic boom began.

4. The Small Claimant States’ Balancing Gambit

The Philippines and Vietnam fear that China might seize some of the disputed islands in the South China Sea given the potential energy reserves of these maritime territories, and their importance as maritime trade and communication route (SLOCs).42 These two countries find themselves in a classic security dilemma, where the actions by one state to consolidate its claim is viewed as extremely threatening by the other claimants, especially when such actions are undertaken by China, the most powerful state in the dispute.43 Instead of engaging China in an arms race, the two ASEAN states pursue a regional balance of power where the US remains a resident Pacific power and a major
21st century strategic player. Hence, these two ASEAN member-states still consider American military presence as crucial not only to secure the region’s vital sea-lines of communication and commerce but also to check China’s maritime expansion and naval assertiveness. The US, in turn, supports the small states by thwarting Chinese attempts to alter international norms on the freedom of navigation for military purposes, restructure the balance and harmony of the coastal-states, and muddle international rights in coastal areas that have been negotiated and established under the UNCLOS.44

This is especially true in the case of the Philippines. Since 2011, the Philippines has reinvigorated its military ties with the US as a matter of policy. This thrust started in 2011 when President Benigno Aquino III stood up to China’s expansive claim in the South China Sea. He redirected the Armed Forces of the Philippines’ focus from domestic security to territorial defence; intensified Philippine-US security arrangements; and obtained American military equipment. Conscious of its military inadequacies, the Philippines sought for an unequivocal US commitment to Philippine defence and security as provided for in the 1951 Mutual Defense Treaty (MDT). Even before the Scarborough Shoal stand-off, Manila asked for American naval/air support in the Spratlys. Philippine officials were of the opinion that an armed attack on Philippine metropolitan territory and forces anywhere in the Pacific, including the South China Sea, should trigger a US armed response. In late April 2014, the two allies signed the framework agreement on the 2014 Enhanced Defense Cooperation Agreement (EDCA).45 The agreement allows the strategic rotational presence of US forces in Philippine territory. In effect, American forward deployed forces in East Asia are granted the most extensive access to Philippine military facilities since the US vacated its vast air and naval installations at Clark Air Base and Subic Naval Base in the early 1990s. The agreement is designed to constrain China, particularly its expansionist agenda in the South China Sea.

The Philippines adopts an outright balancing policy on China through formal alliance with the US and to a certain degree, Japan, because compared to most ASEAN countries, the Philippines is not tied to China’s huge economy. While China’s economy matters for export-driven economies of Singapore, Malaysia, and Thailand; it does not significantly impact the Philippines whose economy is less export-dependent. The major markets for Philippine products are still the US and Japan although China has become the Philippines’ third most important trading partner. Moreover, the growth of the Philippine economy since 2005 has little to do with trade and foreign investments. The country’s GDP growth is fueled by domestic consumption, supported by US$14.1 billion in remittances from Overseas Filipino Workers (OFW), which grew by 63 per cent due to increased spending on food and beverages, transportation, and communication.46
In contrast to most Southeast Asian countries, the Philippines (whose export-to-GDP ratio is about 30 per cent) was less reliant on trade and investment even during the height of the global financial crisis.\(^47\) Hence, despite the decrease in foreign direct investment and merchandise exports to its two major export markets (US and Japan) in 2009, the Philippine GDP achieved modest growth generated by fiscal stimulus measures, business processing outsourcing (BPO) (back-office accounting and payroll support to North American clients), and growth in overseas remittances.\(^48\) In recent years, the country’s trade deficits have been compensated by the large inflows of remittances from OFWs, resulting, paradoxically, to balance of payment surpluses. In addition, the aforementioned BPO industry from North America have greatly benefited the local economy. Thus, the Philippines’ autonomy in its economy, foreign and defence policies made it easier for the Aquino Administration to change its view of China from presenting an economic opportunity to posing as a security threat.\(^49\) Currently, the Philippines sees itself as an Asia-Pacific David standing up to the Chinese Goliath.\(^50\)

Vietnam also gravitates toward the US which it believes is an effective balancer against an increasing pervasive Chinese clout and influence in Southeast Asia. In August 2010, the *U.S.S. George Washington* visited the Vietnamese port of Da Nang, followed by the port call of the Arleigh Burke-class destroyer *U.S.S. John S. McCain*. Since then, Vietnamese and American armed forces participated in a series of defence-related activities, including cultural exchanges, and joint maritime search-and-rescue drills. In February 2012, Vietnam and the US signed a formal Memorandum of Understanding (MOU) on defense cooperation especially American assistance in the modernization of the Vietnamese armed forces and in maintaining the security and stability of Southeast Asia, particularly of the South China Sea.\(^51\) In October 2013, Vietnam and the US signed two MOUs on Vietnam’s initial commitment to the UN Peacekeeping Operations (UNPKO), and on the collaboration between the US and Vietnamese Coast Guards.\(^52\)

Growing security relations between Vietnam and the US does mean that the two countries will become formal treaty allies like the Philippines and the US. From Hanoi’s point of view, the US-Vietnam strategic partnership is a case of strategic convergence because they have to work together to deal with the China problem. However, this strategic partnership is contingent on Vietnam’s pursuit of an independent foreign policy and its close but sometimes problematic relations with a fraternal socialist country, China.\(^53\) Vietnam still distrusts the US and still values its special relations with China based on history, geography, ideology, and close economic relations. Hanoi sees China’s expansion into the South China Sea as a result of an internal power struggle in the Chinese Communist Party (CCP) between accommodationists versus the expansionists which will continue through
the next party congress in 2016. \(^{54}\) Unfortunately, the expansionists are currently dominant in the party and this accounts for China’s aggression in the South China Sea. This, in turn, works in favour of a US-Vietnam security partnership. \(^{55}\) However, it is implied that the current Vietnamese policy that favours a security partnership with the US will change if the accommodationists in the CCP will become dominant and China moderates its behaviour in the South China Sea.

With these military cooperation with the Philippines and Vietnam, the US has found itself inevitably embroiled in the maritime dispute. Despite its neutrality, the US expands its military presence and exerts its strategic clout in Southeast Asia by holding joint military exercises, providing military aid, and negotiating access arrangements with the Philippines and Vietnam.

5. The Strategic Rebalancing and Air/Sea Battle Plan

During the ASEAN Regional Forum in Hanoi on 20 July 2010, then US Secretary of State, Hillary Clinton stated that it is vital to American interests that the freedom of navigation, open access to Asia’s maritime commons, and the littoral states’ respect for international maritime law in the South China Sea are respected. She mentioned US preparedness to facilitate multilateral negotiations to settle the dispute over the Spratly Islands. In November 2011, the Obama Administration announced a strategic pivot to the Asia-Pacific region. Accordingly, this refocusing of American strategic attention to the Asia-Pacific is “to ensure that the US will play a larger and long-term role in reshaping the region and its future.” The main gambit is backed by the efforts to buttress its diplomatic strategy of constraining China with a stick. This strategy does not provide a Cold War style containment of China which is deemed simplistic and wrong, rather to make China acknowledge “America’s strength, determination, and strategy.” \(^{56}\) Its ultimate goal is to shape the norms and rules of the Asia-Pacific region and to ensure that “international law and norms be respected, that commerce and freedom of navigation are not impeded, that emerging powers build trust with their neighbors, and that disagreements are resolved peacefully without threats of coercion.” \(^{57}\)

The US strategic rebalancing to Asia entails two interconnected strategic efforts: 1) a geographical rebalancing of America’s global priority from the Middle East and South Asia to the Asia-Pacific; and 2) a shift away from the army-oriented, expensive, and troop-intensive counter-insurgency campaign to the development of robust air and naval capabilities to ensure American technological edge in air and naval warfare. \(^{58}\) Despite the downside, these courses of action signify more advantages: a) the US continued involvement in global security affairs, notwithstanding the strategic pivot to the Asia-Pacific where American economic and security interests are linked to the region’s
growth and dynamism;\textsuperscript{59} b) the end of the US Army’s and Marine Corps’ large-scale counter-insurgency campaigns that have preoccupied the American military since 2001, but the uninterrupted operations and maintenance of the US Navy’s 11 aircraft carriers; and c) less investments on new weapons systems like the Joint Strike Jet Fighter, defence and offense in cyberspace, high-tech arms and equipment for Special Operations forces, existing nuclear forces, and the broad area of intelligence, surveillance and reconnaissance but more resources that are likely to be for the rapid development of capabilities essential for air and naval superiority.\textsuperscript{60} Accordingly, the emphasis on new technologies will enable the US Navy and Air Force to counter China and Iran’s ability to incapacitate American power projection near their shores or airspace, through cyber-warfare, ballistic and cruise missiles, and advanced air defences.\textsuperscript{61} Thus, the US military must invest in technology to neutralize or disable China’s new asymmetric capabilities.

In June 2012, former Defense Secretary Leon Panetta detailed America’s pivot to the Asia-Pacific during the Shangri-La Dialogue in Singapore. He revealed that the US Navy would have shifted 60 per cent of its maritime assets to the Pacific by 2020. This strategic manoeuvre would involve the deployment of six aircraft carriers, a majority of the navy’s cruisers, destroyers, and littoral ships designed to operate closely offshore.\textsuperscript{62} It would also move into position highly advanced war materiel such as the F-22 Raptor fighter jets, Virginia Class fast attack submarines, lightly armed but fast Littoral Combat Ships (LCS), and a new class of destroyers labelled DDG-1000, improved precision-guided weapons, and new electronic warfare communication systems. Then Secretary Panetta added that the US military is also developing new weapon systems such as an aerial-refueling tanker, a bomber, and an aircraft for anti-submarine warfare. These new weapon systems will provide American forces with “the freedom of maneuver in areas which their access and freedom of action may be threatened.”\textsuperscript{63}

The global restructuring of US naval and air assets to the Pacific will give teeth to the Pentagon’s 2010 Air/Sea Battle Doctrine. The doctrine projects that in the unthinkable case of a war with China, the US armed forces will use combined air and naval forces to override or deter China’s anti-access system within the first-island-chain.\textsuperscript{64} Similarly, it envisions US air and naval units attacking Chinese surveillance and integrated air defense systems, followed by a weighted campaign to bomb Chinese land-based ballistic and anti-ship missile system to “seize and sustain the initiative in air, sea, space, and cyber domains.”\textsuperscript{65} As an operational concept, the doctrine proposes the development of a new generation of naval and air weapon systems, as well as the deeper commitments of American allies along East Asia’s northern and southern coast, close to the South China Sea, namely Japan, Australia, South Korea, and the Philippines.\textsuperscript{66}
6. Extending the Sino-Japanese Rivalry into Southeast Asia

Japan has taken a keen interest in China’s creeping expansionism in the South China Sea after the Mischief Reef incident between China and the Philippines in early 1995. Since then, it has closely monitored the PLAN’s build-up and sporadic flaunting of its naval prowess. At present, Japan is entangled in the South China Sea dispute in which, initially, it had no direct interest. Former Japanese Foreign Minister Katsuay Okada noted in July 2010 that the unstable situation in the South China Sea could hamper Japan’s trade and threaten regional peace. In 2012, the National Institute for Defense Studies in Tokyo published in its China Security Report: “Being in dispute with China over the EEZ and the boundary of the continental shelf in the East China Sea, Japan inevitably has to pay attention to China’s action in the South China Sea.”

There are two other reasons why the South China Sea dispute worries Japan. First, if China succeeds in intimidating the small littoral Southeast Asian states, it could pose the same gambit in the East China Sea where Japan has staked a claim to the Senkaku Islands. Second, China’s control of the South China Sea and the East China Sea is part strategy of depriving the US Navy access to China’s surrounding waters, and giving the PLAN ingress to the Western Pacific outside of the First Island Chain. If the US Navy is driven out of the western part of the Pacific, the PLAN can easily dominate the South China Sea because the navies of the Southeast Asian claimant states cannot match Chinese naval prowess. Simply, Tokyo preempts Beijing’s calculation that if Chinese belligerence can end the South China Sea dispute, then it can similarly resolve the rivalry with Japan over the Senkaku Islands in the East China Sea.

The US pivot to Asia provides further impetus for Japan to balance China in the South China Sea. It entails strengthening American presence in Japan and South Korea, which is the cornerstone of the strategy, even as the US also builds up its security relationship with other states in and around Southeast Asia. Specific to the maritime issue, the US always underscores in the freedom of navigation in the disputed sea that can only be guaranteed if the South China Sea remains part of the global commons, that is, it belongs to all states and is not subject to a sovereign control by a single powerful regional state. Hence, the Obama Administration supports the coalition of states that can constrain China relative to the South China Sea dispute. To complement the US effort, Japan forged separate defence partnerships and naval exchanges with these two ASEAN member-states. It also promised to provide coast guard vessels and training to both countries to boost their ability to patrol their respective maritime territories.

More significantly, Prime Minister Shinzo Abe is pushing for the reinterpretation of Article 9 (the Peace Clause) of the 1947 Japanese Constitution
to enable the Self-Defense Forces (SDF) to exercise the right of “collective self-defense.” A loose interpretation of this vague provision will allow Japan to extend military assistance to allies such as the US even if Japan is not attacked. Likewise, the SDF can come to the aid of Japan’s security partners that are under armed attack by a third party. Japan’s modern and relatively large Maritime-Self Defense Force (MSDF), a fleet of six Aegis combat system equipped destroyers with 39 guided missile destroyers, and 16 conventional submarines, can fill the strategic gap in the South China Sea. The MSDF can be supported by the Air-Self-Defense Force (ASDF) with its expanding operational reach made possible by the development of mid-air refueling capacity and the acquisition of the Boeing KC-767 tanker. The Institute of International Institute for Strategic Studies observes that Japan’s National Defense Program Guidelines for 2011-2015 contain reform measures enabling the SDF to respond to the shifting power structure in East Asia. Thus, Japan can strategically address China’s assertiveness in the South China Sea and assume an active role in the US-Japan security alliance.

7. Managing but Not Solving the Dispute

China claims almost 80 per cent of the South China Sea. However, it cannot exercise complete territorial control over the Spratlys and its surrounding waters since these land features are occupied by the other claimant states, and more significantly, because of the growing involvement of the US and Japan in the maritime dispute. The US is troubled by China’s bullying behaviour towards the small claimant states. It also thinks that any Chinese use of force against Vietnam and the Philippines (a formal treaty ally of the US) challenges American military supremacy and diplomatic influence in East Asia. Meanwhile, Japan, pressured by China over the Senkaku Islands dispute, has become involved in the South China Sea dispute as well. The stable but fragile security situation can be described as an old-fashioned strategic balancing of a major regional power by two small powers that depend on external maritime powers to maintain the status quo in the South China Sea for the foreseeable future. On the dynamics of this balance of power system in Southeast Asia, the Australian-based Lowy Institute for International Policy notes:

Balancing can serve Washington’s interests by allowing it to husband US national power and focus increasingly limited resources where they will be most effective. …In an overwhelmingly maritime theatre the United States can continue to play to its maritime strengths, drawing on its long-range surveillance and strike capabilities to maintain its forces ‘over-the-horizon’ and projecting power forward should the regional balance of power falter.
Characterizing the system further, the Lowy Institute continues:

The system assumes competition between states and hence the ever-present risk of aggression and conflict … in which the participants agree, if only tacitly, to curb competition for influence in the interest of maintaining system-wide stability.

Key to the system is its inherent dynamism. If the power of one state grows disproportionately, the system adjusts through a realignment of the relationships among the others. Some states – those most susceptible to the gravitational pull of the growing power – will be attracted closer to it. Others will respond by drawing closer to each other and to an alternative pole or poles in the system. Some states will attempt a mix of both, as is evident in Southeast Asia today.

The choice states make in response to a balance of power dynamic need not be based solely on power considerations: questions of how benign they perceive a powerful state to be also influence their decisions about balancing or bandwagoning.79

Thus far, the balance of power system in the South China Sea has prevented an armed conflict among the claimant states, prompting Professor David Scott to state that “the benefits of such balancing may become apparent because balancing is itself a stabilizing process.”80 However, the balance of power situation has two major flaws. One, it generates a very fluid situation wherein any error or miscalculation by any claimant state may trigger an armed confrontation that may escalate and may drag the other maritime powers into a major systemic war. Two, while the balance of power system has stabilized the situation, it has simply failed to resolve the dispute, and creating a tense impasse. The claimant states might use this lull to build-up their respective military capabilities for any eventuality.

As a case in point, China has consistently delayed the resolution of the dispute to establish its control of the contested areas and deter the other states from strengthening their claims.81 This rules out any possibility of compromises. As a counter-measure, the Philippines and Vietnam adopt a balancing strategy that draws the US and Japan into the fray. Interestingly, these external maritime powers are anxious to curtail China’s growing strategic clout in East Asia. At present, China finds itself trapped in its own security dilemma as it faces increasing American and Japanese naval presence and pressure in the South China Sea. Despite almost decades of restructuring and modernization, the Chinese leadership is not yet entirely confident that its untried (and inexperienced) armed forces can win wars under high technology conditions when confronted by the US Navy supported by Japan’s Maritime Self-Defense Force.82 The International Institute for Strategic Studies observes that despite the PLA’s blue-water navy ambitions, China yet has to put in place all the assets necessary to form an effective carrier task group for blue-water aspirations.83
If the balance of power works against its interests, China might use force on any of the claimant states who have strengthened their security ties with the US and Japan. Nonetheless, such manoeuvring by China will invite possible intervention by these two maritime powers especially if Chinese forces make the strategic push against American (and Japanese) naval presence in the first-island-chain. In effect, the current balance of power system can become the proverbial “calm before the storm.” Looking at the possibility of a direct armed conflict between China and the US (and its allies), an American academic notes:

Should Beijing and Washington find themselves in a conflict, the huge US advantage in conventional forces would increase the temptation for Washington to threaten to or actually use force. Recognizing the temptation facing Washington, Beijing might in turn feel pressure to use its conventional forces before they are destroyed. Although China could not reverse the military imbalance, it might believe that quickly imposing high costs on the United States would be the best way to get it to back off. …Under such circumstances, both Beijing and Washington would have incentives to initiate an attack.84

It is imperative, therefore, to look into the prospect of resolving this maritime conflict at the most opportune time. This goal must be pursued amidst the emerging power reconfiguration in East Asia.

8. From Conflict Irresolution to Stable Peace?

The paralysis of conflict irresolution in the South China Sea dispute requires transforming the balance of power system into a schema of stable peace. Stable peace can be concretized in a state system where the probability of war, especially among the major states, is minimized.85 From an interactive perspective, it means a greatly reduced probability of political units (states) resorting to violence to achieve their political and strategic ends. When applied to the South China Sea dispute, the process involves the following stages.

The first stage necessitates one party in the dispute to initiate a unilateral accommodation by sending a message of benign intent to the other parties and offering an unambiguous concession on a matter of common interest or concern to them. In this case, the party that should effect a unilateral accommodation is China. This unilateral accommodation requires the following set of actions on the part of China.

1) China needs to modify, if not abandon, its strategy of delaying the resolution of the dispute to consolidate its expansive claim, and to prevent other claimant states from cementing their own claims.86 Such
modification obliges China to recognize the legitimacy of the small littoral states’ maritime claims based on traditional and contemporary international laws.

2) China should transform its sovereign claim over the islands and waters of the South China Sea to historic title, and respect the claimant states’ territorial rights under the UNCLOS. China can initiate a forum in Beijing among the claimant states to discuss their conflicting claims and respective territorial rights under international law while defining China’s historic title (not sovereignty) over the South China Sea.

3) China should also refrain from further militarizing its claims in the South China Sea and must live up with its mantra of Good Neighbour Policy by “shelving disputes and conducting joint development with a modified provision that setting aside disputes requires the other claimant states recognizing China’s historic (not sovereignty) title over the South China Sea.”

4) China should also convey the message that it is willing to work with the other claimant states for conflict resolution, and is no longer interested settling the dispute from its position of preponderant power. It should also initiate unilateral actions that include reduced presence or altered rules of engagement of Chinese civilian ships in the contested areas. It should revive the negotiations with ASEAN on a Code of Conduct on the South China Sea.

Through these moves, China deliberately makes itself vulnerable to exploitation by the small claimant states. However, such demonstration of vulnerability is important for two reasons: First, by undertaking unusual and costly actions, the initiating state increases the chances that its actions will be noticed and correctly interpreted by the other claimant states. Second, the initiating state takes a calculated risk that it will not be taken advantage of by the other claimant states, as well as proves and believes that it and the other states respectively do not have predatory intent.

The second stage involves the implementation of individual acts of unilateral accommodation paving the way for reciprocal restraint by the other disputing states. All parties should readily practice accommodation and expect reciprocity; cautious testing gives way to a purposeful effort to dampen rivalry and advance reconciliation. At this stage, China and the ASEAN states should consider signing a Code of Conduct on the South China Sea and even an Incident at Sea Agreement (INCSEA) that will define how their naval and coast guard units should operate in the disputed waters. Hotline between naval commanders, and even among heads of states should be opened. The claimant states should also convene a multilateral forum to discuss the resolution of maritime disputes through bilateral or multilateral mechanisms.
such as the International Tribunal for the Law of Sea in Hamburg; the International Court of Justice in The Hague; ad-hoc arbitration in accordance with Annex VII of UNCLOS; or special arbitral tribunal. They should also establish a cooperative maritime regime or authority in China to facilitate the mutual adjustment of maritime claims and sharing of resources. This body can regulate the behaviour of claimant states according to agreed rules and norms, which will substantiate the notion of common good. At this stage, the smaller claimant states will become more sensitive to China’s strategic interests of making the waters within the first-island-chain a buffer against external maritime powers.

Unilateral accommodation by a major power, reciprocal restraints by all the parties, the winding down of geo-strategic competition, and mutual manifestation of benign intention should usher in the third stage – the intensification of direct contact of the claimant states’ civil societies. This societal integration can lead to joint economic ventures in the disputed waters such as joint development of hydrocarbon and fisheries resources by the claimant states’ private companies and their foreign partners.

Given the complexity of the South China Sea dispute, the settlement of the sovereignty issue is not easy. It is frequently suggested that claimant states put aside their territorial claims and instead, engage in the exploration and exploitation of oil, gas, hydrocarbon, and fishery resources. However, there has been no progress in this area. The claimant states and private companies expect the dispute to be resolved first before starting oil exploration and drilling operations to prevent harassment or armed confrontation. Unfortunately, the claimant states refuse to abandon their long-held positions or denounce the use of force in settling the dispute. China’s unilateral accommodation and reciprocal restraint by the small claimant states can set clear maritime demarcations, and generate norms on joint resource exploration and development. The operations of offshore private enterprises in the disputed waters specifically for the offshore oil and gas could increase the current reserves in the world market.

The joint exploration of natural resources in the South China Sea is not a means to circumvent the territorial disputes or a prerequisite for cooperative political relations. Rather, it should be the result of improving relations among the disputing states that can further enhance reconciliation among them. Cooperative joint development ventures involve domestic bureaucracies, private companies, ordinary citizens, and other interest groups in the process of conflict resolution. Private companies will seize the opportunity to increase trade and investments that foster integration among the disputing states’ civil societies as their citizens interact with their counterparts from the other claimant states through business contacts, tourism, scientific and cultural links, and academic exchanges. Paraphrasing Kupchan, "Joint development
ventures in the South China Sea will create powerful constituencies among the claimant states that will have vested interests in the stable peace, and will lobby within their countries for policies of reciprocal restraint and economic integration. 94

The fourth and final stage in the establishment of a stable peace in the South China Sea is the generation of a new narrative about how the disputing states’ relations are transformed from conflict to reconciliation. It will show adversarial or neutral references to their relations giving way to a rhetoric that connotes images of partnership and friendship. 95 The most basic modification of the narrative is China’s behavioural change in the South China Sea dispute – a litmus test of its determination and sincerity to effect a peaceful emergence in East Asia. Another narrative can be aligned with President Xi Jinping’s idea of “China-ASEAN Having One Common Destiny.” In his speech before the Indonesian Parliament on 2 October 2013, President Xi Jinping proposed the formation of a China-ASEAN community with a common destiny and a new blueprint for a new 21st century maritime silk road. 96 He commented that China and the ASEAN member states should revive the ancient concept of a maritime silk road as a comprehensive strategy of “Maintaining a Stable Environment among Neighbours.”

Expounding the idea, President Xi stressed that the seaway has always been a bridge between China and Southeast Asia. Since ancient times, the maritime Silk Road has linked China to the Southeast Asian region which became an important commercial hub. Through this historic trade route, China traded silk, ceramics and tea to its overseas market that reached as far the Roman Empire. A new maritime silk road in the 21st century will reflect the shared aspiration of both China and its Southeast Asian neighbours and the culmination of their long and common history. The resolution of the South China Sea can be narrated as the two sides’ determined efforts to forge a common destiny, and to revive the 21st Century Maritime Silk Road which will make their surrounding waters a common link among East Asian countries.

9. A Stable Peace or a Systemic War?

The necessary condition before the process leading to a stable peace could commence is the willingness of one party in the dispute to initiate a unilateral accommodation by sending a message of benign intent to the other parties and offering an unambiguous concession on a matter of common interest or concern to them. With its size and location in East Asia, a robust economy and military might, China is the most able to initiate a unilateral accommodation. Such course of action will confirm that China does not want a geo-strategic completion in the South China Sea. Thus, China should be conciliatory and
flexible to prevent the small littoral rivals from regularly adopting a balancing
stance buttressed by both the US and Japan. Looking at the prospect of
China effecting a unilateral accommodation in the South China Sea dispute,
Professor Taylor observes:

Compromise is possible because pressing a claim to another state’s land
carries some price or opportunity costs, usually unrealized military,
economic or diplomatic assistance. When these costs outweigh the value of
land at stake, compromise becomes more attractive than delay, and a state
will trade concession for aid from territorial opponent to counter the more
pressing threat that it faces.

In the South China Sea, China should be most likely to compromise
when improved ties with claimant states become more important that the
islands or maritime rights being contested.

In his 2008 book *Strong Borders Secure Nation*, Professor Taylor argues:

China is most likely to consider compromise in off-shore disputes in
response to external threats. Looking forward, however, compromise is
unlikely, as whatever external threats occur will have to outweigh the value
of petroleum and sea-lane security is linked to these islands. One possibility
for compromise might stem from heightened tension between China and the
United States for influence in Southeast Asia. In this scenario, China might
be more than willing to trade concessions in the Spratlys or Paracels for
improved ties with regional states.

Unfortunately, instead of being conciliatory to the small Southeast Asian
powers, China is currently embarking on a policy of maritime expansionism
as its claimed sovereignty not only on Taiwan but also Japan’s Senkaku Island
and most of the 1.7 million square miles that make up the East China and
South China Seas, where five small powers assert territorial and maritime
claims. The current Chinese leadership feels confident that with their country’s
new political and economic clout and the strong People’s Liberation Army
(PLA), China can boldly advance its “core interests” in the maritime domain.
This is reflected by China’s insistence on the “Air Defense Identification
Zone (ADIZ)” in the East China Sea, the conduct of live-fire exercises by
the People’s Liberation Army Navy (PLAN), and the People’s Liberation
Air Force (PLAAF) in the West Pacific, and the hardline response of PLAN
and other maritime law enforcement agencies during several confrontations
with the Philippine and Vietnamese civilian ships in the South China
Sea. China’s long-term goal is to enable the PLAN to extend its combat
capabilities into the far seas or the sea areas adjacent to the outer rims of the
first island chain, and those of the north Pacific. This will enable China
to rapidly respond to diverse challenges or threats emanating from the far
seas, to protect economic interests in or transiting through the far seas, and
to dissuade potential adversaries operating in the far seas from intervening in contingencies involving China.  

Driven by its ambition to become a major naval power in East Asia coupled with its growing wealth and naval prowess, China is convinced that it can resolve its territorial row with the small claimant states according to its own terms. It can also relay an implicit message to the US Navy to steer clear of the South China Sea and other contested maritime areas around China’s periphery. Its naval build-up, along with other Chinese realpolitik tactics, has generated tense or sometimes crisis situations. Nevertheless, China’s assertive power-based approach in imposing its claim over the South China Sea has rekindled American strategic attention and interest in the dispute. When push comes to shove, China’s use of force against any of the claimant states in the South China Sea dispute will generate two perceptions among Southeast Asian countries: a) that China is challenging American naval supremacy in East Asia’s maritime periphery; and b) that an armed clash in the South China Sea will determine the future security dynamics of the region. China’s use of force against any of the small claimant states can trigger a major regional conflict. Instead of a stable peace in East Asia, current developments in the South China Sea tragically point to the prospect that the region will experience an outbreak of a major systemic conflict.

10. Conclusion

Since 2009, China has taken an aggressive approach in pursuing its expansive maritime claim in the South China Sea. This approach uses the strategy of delaying the resolution of the dispute as it imposes its sovereignty over the contested territories while deterring the small claimant states from strengthening their own claims. Small claimant states such as the Philippines and Vietnam have responded to China’s gambit by enlisting the diplomatic and strategic support of the US and Japan in an effort to balance China. Both external maritime powers have shown interest in the dispute and have extended military assistance to the Philippines and Vietnam. This, in turn, raises the prospect of the three major powers militarily confronting each other in the South China Sea.

At stake in this territorial dispute is not simply the control of a huge and strategic maritime area. More importantly, it is the future of East Asia. Will the region avoid the various competitions, conflicts, and wars that Europe experienced prior to 1945? Or will Europe’s past be East Asia’s future? And more significantly, will East Asia experience a stable peace or a systemic war? Unfortunately, China’s delaying tactic and geo-strategic agenda inevitably direct the region towards the second scenario where “Asia’s uncertain future will be Europe’s bellicose and violent past.” However, this
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worst-case scenario is avoidable if a stable peace will break out in East Asia. This process will start if China changes its approach to the dispute. The long-term resolution of the imbroglio will only begin by China’s unilateral accommodation of the views and interests of the small claimant states to prevent them from forming a counterbalancing coalition led by the US and supported by Japan. Professor Taylor has observed that China has extended certain concessions to improve ties with these states. Taking this first step entails enormous constraints as well as diplomatic flexibility, and more importantly, humility on the part of an emergent power. Nevertheless, Chinese foreign policy has yet to manifest fully that like a seasoned warrior, China understands and appreciates the sagacity of Sun Tzu’s ancient aphorism in warfare:

As water changes its course in accordance with the contours of the terrain, so a warrior changes his tactics in accordance with the enemy’s changing situation. There is no fixed tactic in war, just as there is no constant course in the flow of water. He who wins modifies his tactics in accordance with the changing enemy situation and this works miracle.

Notes

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The Effect of International Relations on Cross-Border Economic Ties: A Case Study of Taiwan’s Economic Policies toward China

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Abstract
To have a more comprehensive understanding of the relationship between cross-border economic ties and international relations, we have to study not only the effect of the former on the latter but also vice versa. From this point of view, the purpose of this paper is to examine whether and how the relations between countries affect their economic ties by conducting an in-depth qualitative case study of the impact of China-Taiwan relations on Taiwan’s economic policies toward China. Focusing on the previous two administrations of Taiwan (i.e. the Lee Teng-hui Administration from 1988 to 2000 and the Chen Shui-bian Administration from 2000 to 2008), this paper discovers a similar pattern of policy change between the aforementioned two administrations when it comes to China-Taiwan economic ties: they both turned against so-called “cross-strait economic ties” at the end while they were relatively open to these ties in the beginning. By tracing the development of China-Taiwan relations and the policy change with regard to cross-strait economic ties during the Lee and the Chen Administrations, this paper argues that it is, among other things, the increasingly tense China-Taiwan relations that stimulated Lee and Chen to adopt an anti-openness policy at the end.

Keywords: effect of international relations on transnational economic ties, China-Taiwan relations, China-Taiwan economic ties, Taiwan’s economic policies toward China

1. Introduction
There have been various studies about the effect of cross-border economic ties on international relations. While some argue that there is a positive relationship between them, others cast doubt on such a relationship. However, it is worth noting that, though a very important research topic, the exploration
of whether economic interdependence among countries leads to peace constitutes just part of the research on the relationship between cross-border economic ties and international relations. To have a more comprehensive understanding of this relationship, we have to study not only the effect of the former on the latter but also vice versa as well. Here, the conflict-prone relations between China and Taiwan since 1949 and the growing economic ties across the Taiwan Strait since the late 1980s have arguably made the case of China-Taiwan relations one of the best for studying the aforementioned relationship. Yet, while there have been many works examining the effect of so-called “cross-strait economic ties” on China-Taiwan relations, there are relatively few studies focusing on the effect of the latter on the former.

Therefore, to enrich the research on the relationship between cross-border economic ties and international relations in general and that between China-Taiwan economic ties and their political relations in particular, I conduct in this paper a case study of the effect of China-Taiwan relations on Taiwan’s economic policies toward China during the previous two administrations of Taiwan (i.e. the Lee Teng-hui Administration from 1988 to 2000 and the Chen Shui-bian Administration from 2000 to 2008). The findings of this paper reveal that international relations do have an effect, though a very complicated one as shown in the case of China-Taiwan relations, on cross-border economic ties. Also, in terms of the study of China-Taiwan relations, the analysis conducted in this paper uncovers a more comprehensive picture of how China-Taiwan relations affect their economic ties than the previous and sometimes conflicting findings which, as this paper will demonstrate, just tell us part of the whole story. Here, it is worth pointing out that this paper does not intend to argue that the effect of China-Taiwan political relations on their economic ties outweighs the effect of the latter on the former. There is no doubt that the question of whether and how economic ties between China and Taiwan would lead to peace in the Taiwan Strait is worth exploring for both academic and practical purposes. However, that being said, it is equally important to know that any understanding of such a relationship would be incomplete without some understanding of the effect of China-Taiwan political relations on their economic ties as well as the recognition of the fact that such a relationship is actually a two-way one.1

More specifically, this paper finds that, first of all, the Taiwanese government throughout the period between 1988 and 2008 cared about both of the negative effect of cross-strait economic ties on Taiwan’s national security and their positive effect on its economic development. Second and most importantly, while the Taiwanese government under normal circumstances tended to weigh very positively the economic benefits brought to Taiwan by its economic ties with China and therefore tried to find a good balance between the negative and the positive effects of cross-strait economic ties, it unequiv-
ocally weighed the negative effect of cross-strait economic ties on Taiwan’s national security much more than their positive effect on Taiwan’s economic development and therefore tried to impose more restrictions on cross-strait economic ties when China-Taiwan relations turned extremely tense (i.e. Lee’s policy of “no haste, be patient” in 1996 following the 1995-1996 Taiwan Strait Crisis, and Chen’s policy of “active management and effective opening” in 2006 following the introduction of the Anti-Secession Law by China in 2005).

This paper is divided into six parts. After the introduction part, I will review the literature on the mutual effect between cross-border economic ties and international relations in part two, and then in the third part, discuss the studies about the case of China-Taiwan relations. In the fourth part, I will examine China-Taiwan economic ties and Taiwan’s economic policies toward China during the previous two administrations of Taiwan (i.e. the Lee and the Chen Administrations from 1988 to 2008). Following the fourth part, I will in the fifth part demonstrate the effect of China-Taiwan relations on the policy change with regard to cross-strait economic ties during the aforementioned two Taiwanese administrations. Finally, I will conclude by summarizing the findings and discussing their implications for current and future China-Taiwan relations.

2. Literature Review: Cross-border Economic Ties and International Relations

The relationship between cross-border economic ties and international politics is a popular topic in the field of international relations. According to liberals, economic ties between countries lead to peace. This liberal argument about the linkage between economic interdependence and peace appeared very early. For example, Norman Angell (1909) argued in the early 20th century that the growing economic ties among the countries in Europe made a certain European country’s waging a war against its neighbours to destroy or confiscate their wealth worthless or even an economic suicide because, according to him, a European country’s national wealth largely depended on the cross-border economic activities between it and its neighbours. Among the contemporary liberal theories with regard to the relationship between economic ties and peace, Bruce Russett and John Oneal’s theory of “triangulating peace” (Russett and Oneal, 2001), which is derived from Immanuel Kant’s idea of “perpetual peace” (Kant, 1795), is one of the best known. According to this theory, there are three factors that, independently or aggregately, lead to peace: “democracy,” “international organization,” and “economic interdependence.” In general, liberals believe that there is a positive relationship between economic ties and peace for the following three reasons (Kastner, 2006: 320). First of all, the costs of waging a war against
your economic partner are very high: a war between you and a country with which you trade and in which you invest must in turn have a negative effect on your own economy. Second, economic ties change countries’ preferences: when countries become more and more economically interdependent, economic interests, compared with other national interests such as military buildup, would become more and more important in the relations between them. Third, strong economic ties make non-military threats credible: non-military threats or measures such as economic sanctions or embargoes would be more likely to be employed in a conflict between countries that have strong economic ties than that between those with weak ties.

There are scholars disagreeing with the liberal view mentioned above. Many realists such as Edward Hallett Carr (1964) criticize the liberals like Woodrow Wilson who, in the post-WWI era, argued that international organizations such as the League of Nations and free trade among countries would lead to peace for being utopians. According to Carr, countries are selfish and always try to increase their military, economic, and ideological power to protect and pursue their national interests, and therefore we should give up utopianism and focus on power politics when dealing with issues about international relations. Albert Hirschman (1945) also argues that countries, especially large ones, tend to exploit international trade to expand their national power, using international trade as a weapon to create power disequilibrium against small trading countries and build relationships of dependence, influence, or even domination to their advantage. The relative gains theory (Grieco, 1998) is another realist theory that contradicts the liberal view on the relationship between economic ties and peace. According to this theory, a country that knows its partner is not cheating in their cooperative relationship might still want to stop such a relationship if it finds that its partner gains relatively more than it does from the cooperation. It is because, given that your partner today might become your enemy tomorrow in an anarchical international system, allowing your current partner to achieve relatively more gains than you would probably make it a very formidable enemy in the future when your relationship turns from partnership into rivalry. In addition, there are studies showing that economic interdependence may actually be a source of conflict rather than peace. For example, Japan’s large trade surplus against the US, resulting from Japan’s unique trade pattern which focuses on “inter-industry” rather than “intra-industry” trade, has been the major source of economic conflict between the two countries (Gilpin, 2003).

Finally, there are also scholars arguing that the relationship between economic interdependence and peace is actually more complicated than believed. For example, according to Katherine Barbieri (1996), the relationship is not linear but curvilinear: while a low to moderate level of interdependence may lead to peace, a high level of interdependence increases the likelihood of
conflict. Also, the theory of trade expectations (Copeland, 1996) demonstrates that the expectations about future trade matter: if highly interdependent countries expect that the level of their trade will remain high in the future, interdependence brings about peace; in contrast, if they expect that the level will become low, interdependence may lead to conflicts.

It is worth pointing out here that, despite the abundant literature about the effect of economic interdependence on international relations, there are however studies showing that the effect of economic interdependence on war or peace is actually not as significant as many believe (Buzan, 1984), and that it is the latter that significantly affects the former: militarized conflicts among countries inhibit trade among them (Keshk, Pollins and Reuveny, 2004; Kim and Rousseau, 2005).

Studying the effect of bilateral diplomatic relations on imports, Brian M. Pollins (1989a and 1989b) finds that “trade does indeed follow the flag”: while trade between countries declines when their relations become more hostile, it increases when the relations become friendlier. It is also found that similarities between countries in foreign policy stances, along with similarities in political systems, positively affect their trade relationships (Dixon and Moon, 1993). Furthermore, some studies reveal that political-military alliances do play a positive role as well in promoting trade (Gowa and Mansfield, 2004). Similarly, there are studies showing that war disrupts trade for both major and non-major power relations (Anderton and Carter, 2001). In addition, it is found that territorial disputes have a negative effect on trade while settled borders with clear agreements over jurisdiction encourage trans-border economic relations (Simmons, 2005).

In general, as the scholars who believe that “trade follows the flag” argue, bad relations between countries negatively affect their economic ties because international actors, whether they are states, firms, or individuals, care about the political or economic costs, either explicit or potential, brought by their transnational economic exchanges with their enemies, which they anticipate would negatively affect their political or economic interests in the future. More specifically, confrontational relations between countries prevent economic ties from growing due to the following four reasons (Kastner, 2007: 667-668). First of all, states discourage economic ties because they are worried that these ties would enhance their enemies’ economic or even military capabilities. Second, they try to cut economic ties when they are concerned about the economic dependence resulting from those ties, which in turn might make them vulnerable to economic coercion. Third, political leaders of a country have a strong incentive to impose restrictions on economic ties not only because of the aforementioned security reasons but also due to their concerns about the emergence of the domestic constituents who economically benefit from and therefore support those ties, which in turn
would not only facilitate those undesirable ties but also cause damage to their own domestic legitimacy. Finally, firms reduce their cross-border economic activities because they expect that when states including their own conflict with each other, there is a good chance that borders could be closed and sanctions or embargoes might be imposed, which in turn would negatively affect their economic interests.

There are, of course, some studies questioning the effect of international relations on cross-border economic ties. For example, Barbieri and Levy (1999 and 2001) argue that war actually has no significant long-term effect on trade relationship among countries. In addition, there are studies showing that while countries with common interests and those that have a democratic system tend to have more trade with each other, there is not necessarily more trade between allies (Morrow, Siverson, and Taberes, 1998). Finally, like the effect of economic ties on peace, some research also discovers a more complicated picture of the effect of international relations on economic ties. It is found that whether a militarized conflict is expected or not matters: an unexpected conflict is more likely to reduce trade than an expected one (Li and Sacko, 2002). Furthermore, alliances that involve strong commitments of defence are more likely to promote trade among allies than those without such commitments (Long, 2003).

3. Case Study: China-Taiwan Relations

An emerging pattern of China-Taiwan relations which simultaneously involves “economic interdependence” and “political divergence” (Zhao, 1997) over the past two decades has made scholars studying China-Taiwan relations become more and more interested in the relationship between cross-border economic ties and international relations.

On the basis of the liberal view, it is argued that when the economic ties between China and Taiwan become stronger, war in the Taiwan Strait becomes highly unlikely. As Karen Sutter (2002) argues, the deepening cross-strait economic cooperation will one day lead to peaceful China-Taiwan relations because stability, which is very important to both of China’s and Taiwan’s economic development, is now becoming a common value shared by both sides and a pragmatic alternative to independence or unification. There are also scholars like Greg Mastel (2001: 51), Paul J. Bolt (2001), and Cal Clark (2002) who, while admitting that the economic ties between China and Taiwan are not sufficient to resolve the whole cross-strait political and military conflicts, believe that those ties do have an ability to ease the cross-strait tension to a significant extent, arguing that China and Taiwan would make efforts to moderate the cross-strait tension to a manageable degree in order to preserve the economic ties between them.
There are those who doubt that economic ties across the Taiwan Strait will lead to peace. It is argued by scholars like George T. Crane (1993), Chien-Min Chao (2003), and Phillip C. Saunders (2005: 985) that the economic integration between China and Taiwan will not decrease the likelihood of cross-strait conflict because the main problems that trigger the China-Taiwan rivalry are highly politicized ones (i.e. the issues of identity and sovereignty), and it is hard to imagine that either China or Taiwan will compromise on these issues despite the growth of the economic ties between them. Scott Kastner (2006) also finds that the evidence supporting the liberal view on the relationship between economic ties and peace is ambiguous in the case of China-Taiwan relations. According to him, in the period from the early 1990s to the mid-2000s, although the cross-strait economic ties grew, each side seemed to have no intention to treat the other side well: while the Chinese leaders continued to threaten Taiwan verbally and at times militarily, the Taiwanese leaders continued to threaten Taiwan verbally and at times militarily, the Taiwanese leaders continued to provoke China.

While most of the studies focus on whether China-Taiwan economic ties affect their political relations, there is also research, though not very much so far, exploring this issue in a reversed way, examining the effect of China-Taiwan relations on their economic ties. For example, Ping Deng (2000) employs the relative gains theory to explain the Taiwanese government’s effort to impose restrictions on cross-strait economic ties during the 1990s. According to him, the restrictions were imposed largely due to Taiwanese political leaders’ worry that Taiwan’s economic interdependence with China was actually giving the latter huge economic and political benefits at the expense of Taiwan’s national security; in other words, they were worried that cross-strait economic ties would strengthen China’s economic power which might be transformed into military and political threats to Taiwan in the future. Some Taiwanese political leaders also believe that the economic interdependence between China and Taiwan is asymmetrical because there is an excess of capital and job outflows from Taiwan to China; and, due to such asymmetrical interdependence, they are worried that Taiwan is too economically dependent on China and is gradually being economically “hollowed out” by China (Deng, 2000: 971-973; Wong, 2005: 45-51). Furthermore, China’s alleged use of cross-strait economic ties as political tools to influence Taiwan’s China policy also concerns them (Kahler and Kastner, 2006: 534). Specifically, they believe that China is trying to make Taiwan economically dependent on China in order to not only hollow out Taiwan’s economy but also use the Taiwanese business people who have economic interests in China to influence the Taiwanese government’s China policy-making. Because of the aforementioned concerns, these Taiwanese political leaders demand more restrictions on cross-strait economic ties, arguing that national security is more important than economic gains (Zhao,
Yet, despite the aforementioned findings with regard to the negative effect of China-Taiwan rivalry on their economic ties, there are also studies showing that the effect of China-Taiwan relations on their economic ties are actually not as significant as believed. For example, Kastner (2007 and 2009) argues that confrontational China-Taiwan relations have no negative effect on their economic ties. According to him, China-Taiwan economic ties did continue to grow even when their political relations were tense because Taiwanese economic internationalists (i.e. the Taiwanese business people who benefit from and therefore support cross-strait economic ties) are powerful in Taiwan’s political system, and the Taiwanese political leaders are accountable to them.

The review of the general literature in the previous section and that of the case of China-Taiwan relations here in this section demonstrate that, in order to have a more comprehensive understanding of the relationship between cross-border economic ties and international relations, we have to study not only the effect of the former on the latter but also vice versa as well. This point is especially important when it comes to research on the case of China-Taiwan relations given the fact that most of the studies regarding this case so far have mainly focused on the effect of China-Taiwan economic ties on their political relations only. To fill this gap in the study of China-Taiwan relations and to enrich the study of the relationship between cross-border economic ties and international relations in general, in the remainder of this paper, I will examine whether and how China-Taiwan relations affect their economic ties by exploring the effect of China-Taiwan relations on Taiwan’s economic policies toward China during the previous two administrations of Taiwan (i.e. the Lee and the Chen Administrations from 1988 to 2008). It is worth pointing out here that the nature of China-Taiwan economic ties, as well as that of Taiwan’s economic policies toward China, is actually much more complicated than it appears at first glance: they involve not only international trade but also globalized value chain partnerships, investment-driven economic transactions, finance-related economic projects, etc. However, to simplify the discussions, this paper, like many of the previous studies on this similar topic, will only focus on a broader picture of China-Taiwan economic ties instead of making distinctions between those widely diversified types of economic activities involved.

4. China-Taiwan Economic Ties and Taiwan’s Economic Policies toward China

China began to lift its ban on cross-strait economic ties in the late 1970s (Boutin, 1997: 86; Dent, 2001: 15). As for Taiwan, it was not until the late 1980s that it started to make formal laws to regulate the trade across the
Taiwan Strait (Leng, 1996: 106; Boutin, 1997: 79; Zhao, 1997: 179; Dent, 2001: 13). In August 1988, following the lifting of the currency and travel restrictions in 1987, the Taiwanese government officially allowed the indirect trade between China and Taiwan, making public the “Principles Governing the Indirect Import of Goods from Mainland China.” In June 1989, it promulgated the “Regulations on the Goods in the Mainland”; and in August 1990, the “Regulations on Indirect Export to the Mainland” were introduced. In addition to trade, Taiwan tried to regulate Taiwanese investment in China as well (Zhao, 1997: 179; Bolt, 2001: 86; Sutter, 2002: 525). In October 1990, while not allowing any Chinese investment in Taiwan, the Taiwanese government officially allowed Taiwanese to indirectly invest in China and promulgated the “Regulations on Indirect Investment or Technological Cooperation in the Mainland Area” which legalized the Taiwanese investment in China that did not negatively affect Taiwan’s economic development and national security. With the introduction of the aforementioned measures, as we can see in the figure below (Figure 1), cross-strait economic ties began to grow.

**Figure 1**  Trend of Growing Cross-strait Economic Ties (1990-2008)

In terms of Taiwanese investment in China, by the end of 2001, more than 80 per cent of the Taiwanese companies that invested anywhere else overseas had already invested in China as well (White, 2004: 312). Also, although the annual amount of Taiwanese investment in China has stopped growing since the mid-1990s as Figure 1 shows, if we examine Taiwanese investment in China as a percentage of Taiwan’s outward foreign direct investment (FDI), China’s role as an important destination of Taiwanese foreign investment was increasingly obvious in the period from 1990 to 2008. While the number was virtually zero prior to 1987 and was only 9 per cent by the end of 1989, it rose to 42 per cent in 1997, reached 50 per cent by the end of 2000, and became as high as 53 per cent in 2005 (Chang, 1992: 135-136; Zhao, 1997: 180; Bolt, 2001: 92; Sutter, 2002: 528; Wu, 2007: 995). Moreover, when it comes to cross-strait trade, which is largely investment-driven (Wu, 1994: 46), the annual amount constantly grew in the aforementioned period of time.

Examining the trend of growing cross-strait economic ties that I have discussed above, many scholars believe that the Taiwanese government actually had little control over it. For one thing, it is found that the Taiwanese government was, by and large, playing “institutional catch-up” when it came to cross-strait economic ties, trying to place rules over the economic ties that had already been significant, or in other words, trying to legalize what had already happened (Chu, 1997: 238-239; Sutter, 2002: 523; Steinfeld, 2005: 234). For another thing, as Kastner (2007 and 2009) argues, the Taiwanese government faced constant pressures for openness from the Taiwanese business people (or those whom Kastner calls “economic internationalists”) who benefited from and therefore advocated more cross-strait economic ties. Actually, the previous two administrations of Taiwan (i.e. the Lee and the Chen Administrations) did try to reverse the trend of growing ties or at least to slow it down by implementing the policy of “no haste, be patient” in 1996 and that of “active management and effective opening” in 2006, respectively. Yet, these policies faced severe criticisms from many Taiwanese business people and failed to reduce their enthusiasm to rush “westward,” which in many cases was through a third country or territory (Boutin, 1997: 81; Leng, 1998: 501-503; Sutter, 2002: 527; Steinfeld, 2005: 232; Wong, 2005: 59).

However, although it can be argued that the Taiwanese government actually had little effective control over cross-strait economic ties and that the aforementioned polices implemented by the Lee and the Chen Administrations to impose more restrictions on cross-strait economic ties did not effectively reverse the trend of growing ties, it is still worth examining why and how these policies were introduced in the first place. In fact, both of the Lee and the Chen Administrations were not completely against the economic ties between China and Taiwan in the very beginning. Actually, if we compare these two administrations in terms of their economic policies
toward China, a similar pattern of policy change with regard to cross-strait economic ties becomes obvious: they both turned against the economic ties between China and Taiwan at the end while they were relatively open to these ties in the beginning. Given the fact that the Taiwanese business community constantly lobbied for more economic openness during the Lee and the Chen Administrations, why did these two administrations respond to their demands positively in the beginning but negatively at a later point? Tracing the development of China-Taiwan relations and the changes in Taiwan’s economic policies toward China throughout the 1990s and the 2000s, I argue that the development of China-Taiwan relations matters when it comes to Taiwan’s policies toward cross-strait economic ties if we take Taiwan’s domestic politics into account. More specifically, China-Taiwan relations do affect Taiwan’s economic policies toward China with Taiwan’s domestic politics as an intervening variable.

5. The Effect of China-Taiwan Relations on Taiwan’s Economic Policies toward China

The Taiwanese government has an ambivalent feeling toward cross-strait economic ties. On the one hand, in addition to economic dependence, it is worried that growing economic ties would facilitate China’s economic growth, which in turn might not only make China grow faster than Taiwan but also provide an important source for China’s military buildup against Taiwan (Bolt, 2001: 101). On the other hand, it feels that the growing economic ties would give Taiwan easy access to China’s huge market and its abundant cheap labour and therefore might economically benefit Taiwan. This ambivalent feeling arguably originates in Taiwanese political elites’ long-lasting tendency to regard economic development as a top priority for Taiwan (Boutin, 1997: 78). Also, this tendency to prioritize economic development, among other things such as financial needs for electoral campaigns (Kastner, 2007: 679), is a reason why the business community has been so influential in Taiwan’s domestic politics.

Given this ambivalent feeling toward cross-strait economic ties, as well as the pressures from the business community for economic openness, both of the Lee and the Chen Administrations had a relatively open attitude toward cross-strait economic ties in the beginning, trying to find a good balance between national security and economic benefits associated with cross-strait economic ties in order to not only please the influential business community but also exploit the economic ties for Taiwan’s economic development. However, as I will argue in more detail later, when China-Taiwan relations became extremely tense due to the 1995-1996 Taiwan Strait Crisis and the introduction of the Anti-Secession Law by China in 2005, the Lee and
the Chen Administrations, respectively, began to weigh national security disproportionately more than economic gains when it came to cross-strait economic ties.

There have been, of course, many cases of conflicts between China and Taiwan in addition to these two events. However, it was arguably these two particular events that increased the tension between China and Taiwan to an extremely high level during the Lee and the Chen Administrations. More specifically, from 1988 to 1995 when the Taiwan Strait Crisis erupted and from 1996 to 2005 when the Anti-Secession Law was made public, there was undoubtedly tension between China and Taiwan on various occasions. Nevertheless, the aforementioned two events are distinct compared to others in that they involved China taking unprecedented tough actions against what it regarded as Taiwan’s separatism. In the case of the 1995-1996 Taiwan Strait Crisis, China conducted a large-scale military exercise against Taiwan that had not been seen in decades (Zhao, 1999-2000: 497-498; Whiting, 2001: 120-123; Clark, 2002: 753; Pan, 2003: 394; Tung, 2003: 157), and in the case of the Anti-Secession Law, China legalized for the first time since 1949 its attempt to use force against Taiwan in order to prevent Taiwan from becoming a dé jure independent state (Lieberthal, 2005: 57; DeLisle, 2010: 505). Therefore, to the Taiwanese government (or more specifically the Lee and the Chen Administrations), these two events significantly revealed in no uncertain terms that China was serious about using force against Taiwan, and as the rest of this section will demonstrate, the Lee and the Chen Administrations’ attitudes and policies toward cross-strait economic ties did change following the 1995-1996 Taiwan Strait Crisis and the introduction of the Anti-Secession Law by China in 2005, respectively.

5.1. The Lee Administration’s Economic Policy toward China

Since the Lee Administration officially gave the green light to “indirect” economic ties between China and Taiwan, pressures from the Taiwanese business people for more economic openness toward China never stopped. Starting in the early 1990s, they began to express their dissatisfaction with their government’s unwillingness to lift the remaining restrictions on cross-strait economic ties. They argued that Taiwanese manufacturers, who played a very important role in Taiwan’s economic development, could survive and become internationally competitive only if they were able to access the Chinese market and labour. However, although they criticized the Lee Administration for being “a big stone on the track” when it came to cross-strait economic ties, their relations with their own government were not particularly tense at this stage. One important reason for the not-so-tense relations concerns the Lee Administration’s open attitude toward cross-strait economic
ties back then, which made the Taiwanese business people feel that their government was not completely opposing their demands for more openness.

It is worth noting that there was actually an internal conflict during this period of time within the Lee Administration between the pro-openness officials (most of whom were from Taiwan’s Council for Economic Planning and Development) and the anti-openness officials (most of whom were from Taiwan’s Mainland Affairs Council) about the policy on cross-strait economic ties (Boutin, 1997: 80-81; Chu, 1997: 235 and 243), which explains why the Lee Administration back then continued to avoid making any concrete promise on lifting the remaining restrictions. However, despite this internal conflict, the Lee Administration in general constantly told the business community that it understood what they wanted and was not completely against their pro-openness ideas. For example, the Lee Administration revealed on many occasions that it knew the economic importance of the Chinese market and labour to the Taiwanese manufacturers who wanted to increase their international competitiveness.\(^5\) Also, starting in 1994, an increasing number of officials from the Lee Administration began to acknowledge that the direct cross-strait transport link would constitute an important part of the Taiwanese government’s plan for the “Asia-Pacific Regional Operations Centre,” and in March 1995, the Lee Administration even made a decision to build the “offshore shipping centres” to allow direct point-to-point shipping across the Taiwan Strait (Chu, 1997: 238 and 243-244).\(^6\) Overall, the Lee Administration’s attitudes toward cross-strait economic ties back then were as follows: (1) although it understood very well that the issues concerning cross-strait economic ties were not only economic issues but also political ones that involved Taiwan’s national security, it believed that the ties would economically benefit Taiwan to some extent; and (2) therefore, taking both of the economic benefits and national security into account, it decided to move toward the direction of openness at a slow but cautiously steady pace.\(^7\)

The conflict that was not very intense since the early 1990s between the Taiwanese business community and the Lee Administration however turned severe after the Taiwan Strait Crisis that lasted from July 1995 to March 1996. During and after the crisis, the Lee Administration was convinced that national security was much more important than economic gains and that it should therefore take the negative effects of China-Taiwan economic relations on national security more seriously when making any policy about cross-strait economic ties. More specifically, while the major focus of the Lee Administration before the crisis was on “economic integration,” that focus was shifted to “stability” afterwards (Chu, 1997: 244; Leng, 1998: 498-499; Sutter, 2002: 525). As for the business people in Taiwan, although some of them lost their investment confidence about China during the crisis, a majority
of them still believed that doing business with China was a right economic decision to make. According to a survey conducted by Taiwan’s National Federation of Industries, more than 50 per cent of China-based Taiwanese business people decided to keep investing or even increase their investment in China during the crisis. Given their economy-first attitude during the 1995-1996 Taiwan Strait Crisis as revealed by the aforementioned survey, it is no surprise that, to protect and promote their economic interests in China, the Taiwanese business people kept urging the Lee Administration to lift the remaining restrictions on cross-strait economic ties after the crisis.

The growing conflict between the Taiwanese business people and their government in the wake of the 1995-1996 Taiwan Strait Crisis finally turned into a rivalry between them in mid-September 1996 when President Lee of Taiwan blamed the Taiwanese business people’s investment in China for facilitating China’s effort to “besiege the Taiwanese government with the Taiwanese business people.” Believing that China-Taiwan economic ties were causing damage to Taiwan’s national security, the Lee Administration implemented the policy of “no haste, be patient” in order to curb the trend of growing cross-strait economic ties (Boutin, 1997: 89; Leng, 1998: 500; Yu, 1999: 44; Deng, 2000: 965-966; Dent, 2001: 17; Bolt, 2001: 87; Sutter, 2002: 526; Fuller, 2008: 241). The most important restrictive regulation imposed by this policy was the prohibition against any individual investment in China that was over 50 million US Dollars. In addition, a company’s total investment in China was not allowed to exceed 40 per cent of its net worth. The policy also made stricter several restrictive regulations that had already been in place before. For example, while investment was still distinguished into three categories (i.e. first, the permitted case: the investment that could be made in China without the government’s permission; second, the special case: the investment that could be made in China only with the government’s permission; and third, the prohibited case: the investment that could not be made in China no matter what), the number of prohibited cases was expanded which eventually included all kinds of investment involving advanced technology and infrastructure.

It is worth noting that there were undoubtedly restrictive regulations on cross-strait economic ties before the policy of “no haste, be patient.” However, with a relatively open attitude toward cross-strait economic ties, the Lee Administration in the first place did not impose any effective control mechanism to support these regulations. For example, before the policy of “no haste, be patient,” what the Lee Administration really tried to do about the growing outflow of Taiwanese capital to China was to provide incentives encouraging Taiwanese business people to leave their capital in Taiwan (e.g. tax incentives, loose pollution regulations, cheap industrial lands, etc.) instead of imposing harsh punishments to discourage the investment in China (Chu,
1997: 242-243; Boutin, 1997: 84 and 90). Obviously, with the policy of “no haste, be patient,” the Lee Administration decided to change its strategy from providing incentives to imposing punishments that it hoped could effectively discourage Taiwanese business people from investing in China.

The Lee Administration’s unequivocally negative attitude toward cross-strait economic ties after the 1995-1996 Taiwan Strait Crisis, which was revealed by the implementation of its new policy of “no haste, be patient,” was severely criticized by the Taiwanese business community. Actually, as I have mentioned, this new policy neither dampened the Taiwanese business people’s economic interests in China nor reversed the trend of growing cross-strait economic ties in general. However, the analysis of the policy change with regard to cross-strait economic ties during the Lee Administration that I have conducted above did demonstrate that the development of China-Taiwan relations matters when it comes to Taiwan’s economic policies toward China. While the Taiwanese business community never stopped demanding more economic openness toward China during the Lee Administration, the Lee Administration responded to their demands positively, or at least not very negatively, in the beginning but extremely negatively at a later point. Here, the growing tension between China and Taiwan due to the 1995-1996 Taiwan Strait Crisis, which stimulated the Lee Administration to change its attitude toward cross-strait economic ties and begin to weigh national security much more than economic gains, matters. We also see the same pattern in the case of the Chen Administration that succeeded the Lee Administration in 2000.

5.2. The Chen Administration’s Economic Policy toward China

The policy of “no haste, be patient” was unpopular among not only the Taiwanese business community but also the general public. The enduring pro-economic growth tendency at the elite level that I have discussed might arguably affect the public attitude toward economic development at the mass level as well, making the general public in Taiwan inclined to see economic growth as one of the most crucial national goals and one of the most important sources of national pride. Under this circumstance, it is very difficult for the people in Taiwan to ignore the economic benefits that would be brought to Taiwan by cross-strait economic ties. Therefore, while Taiwanese people might be well aware of the costs of growing China-Taiwan economic ties (i.e. the negative effect of those ties on national security), because of their positive attitude toward cross-strait economic ties in terms of the economic benefits associated with those ties, they feel upset when their government tries to significantly reverse the trend of growing ties. This pro-economic growth tendency at the mass level would arguably make even more Taiwanese public lose their confidence in the Taiwanese government’s handling of the
issues about cross-strait economic ties when they see severe criticisms from the business community against their government’s economic policy toward China (Kastner, 2007: 679). This explains why the Taiwanese government’s policy of “no haste, be patient” became unpopular in the late 1990s. As the table below (Table 1) shows, the support rate for the policy was low from 1997 to 1999. Even though China’s verbal criticisms against the Lee Administration’s “two-state theory” (i.e. a statement that China-Taiwan relations are “special state-to-state” relations) since July 1999 (Bolt, 2001: 81; Langdon, 2001: 177; White, 2004: 308-309) and its attempt to politicize the international aids to Taiwan in the wake of a devastating earthquake (i.e. the so-called “921 Earthquake”) two months later (Chao, 2003: 292) angered most of the Taiwanese people and therefore significantly boosted the support rate for the policy of “no haste, be patient” in November 1999, the percentage of the people who supported the policy was still lower than that of the people who disliked it.

As the policy of “no haste, be patient” became unpopular in Taiwan, in order to be politically attractive to the Taiwanese public in general and the business community in particular, politicians in Taiwan had to, either voluntarily or involuntarily, reveal a negative attitude toward the policy as well. This is one of the reasons why all of the major candidates in the 2000 Taiwanese presidential election, including the candidate from the ruling party Kuomintang (KMT) (i.e. Lien Chan), proposed a relatively pro-openness policy toward cross-strait economic ties during their campaigns (Bolt, 2001: 100; Mastel, 2001: 50; Chu, 2004: 507-508). At the end, Chen Shui-bian from the Democratic Progressive Party (DPP) won the election, and the new government of Taiwan (i.e. the Chen Administration) promised that it would reconsider the unpopular “no haste, be patient” policy.

It is worth pointing out that although the new Taiwanese government already stated in the very beginning that economic openness was its policy

Table 1 Public Attitude toward the Policy of “No Haste, Be Patient”, 1997-1999 (percentage)

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goal, the business community that wanted to see the goal achieved as soon as possible still kept pressing the Chen Administration to speed up the pace of economic openness. However, like their relations with the Lee Administration in the early 1990s, the Taiwanese business people’s relations with their new government were actually not very tense at this stage because of the Chen Administration’s open attitude toward cross-strait economic ties.

While there were officials from the new Taiwanese government and politicians from the new ruling party DPP (most of whom were pro-Taiwan’s independence) having a wary attitude toward cross-strait economic ties, the Chen Administration in general did reveal a relatively neutral attitude toward the economic ties, trying to take a middle-of-the-road approach and come up with a policy that could satisfy as many people as possible (Kemenade, 2001: 66). Its neutral attitude were understandable given the political and economic situation it faced. As a new president in 2000 who won the election by a small margin in a three-way contest, Chen realized that, in order to increase his chances of winning the reelection four years later, he had to try to appeal to not only his political allies and the voters who supported him in 2000 but also as far as possible to many of those who did not, especially the influential business people (Wong, 2005: 66; Kastner, 2007: 679-680). Because of this, he had a very strong incentive to reveal in public a neutral attitude towards cross-strait economic ties and press as many officials from his administration as possible to employ a neutral approach to those ties. In addition, there is evidence showing that the tense cross-strait relations resulting from his predecessor’s “two-state theory” as well as his being regarded by China as a “pro-independence” Taiwanese president did encourage Chen to take promoting cross-strait economic ties into account as one of the possible ways to ease the tension (Bolt, 2001: 85; Clark, 2002: 764). Finally, the stagnation of Taiwan’s economy in the early 2000s, due to the weak economy in the US and Japan as well as the lack of effective economic reform in Taiwan, was also an important factor that forced Chen to consider a pro-openness approach (Clark, 2002: 764; Tucker, 2002: 16; Chu, 2003: 978; Kastner, 2007: 679-680).

The Chen Administration eventually fulfilled its promise for economic openness when it reached a preliminary consensus with the business community in mid-August 2001 to repeal the policy of “no haste, be patient” at the Economic Development Advisory Conference, a national conference chaired by President Chen himself, where the representatives of capital, labour, parties, and academia were invited to discuss with the officials from the Chen Administration the most important economic issues facing Taiwan (Sutter, 2002: 532; Chao, 2003: 282-283). Two days after the aforementioned consensus was reached, President Chen confirmed that the policy of “no haste, be patient” would soon be replaced by the policy of “active opening
and effective management” and said that the replacement was a wise and necessary thing for his administration to do.\textsuperscript{11}

The “no haste, be patient” policy was officially replaced by the policy of “active opening and effective management” in November 2001 (Chu, 2003: 978; Chu, 2004: 509; Fuller, 2008: 242). Although the new policy still imposed restrictions on cross-strait economic ties, it lifted some of the most unpopular restrictive regulations associated with the policy of “no haste, be patient.” First, while the investment limit set at 40 per cent of a company’s net worth was upheld, the infamous “US$50 million cap” on Taiwanese investment in China was removed; second, investment less than 20 million US Dollars no longer required any official permission; and third, the list of the prohibited cases of investment was shortened. In general, this policy change revealed a shift from “firm-specific, micro-controls” to “macro-controls” over cross-strait economic ties by the Taiwanese government (Dent, 2001: 19).

It is worth noting that the pressures from the Taiwanese business community for much more openness did continue; yet, with the Chen Administration’s relatively open attitude toward cross-strait economic ties, which was revealed by its effort to repeal the policy of “no haste, be patient,” the relations between the Chen Administration and the business community were non-confrontational, if not completely peaceful, at this stage.

Their relations however became very tense after the Anti-Secession Law was officially passed by China’s National People’s Congress in mid-March 2005. For one thing, much to the Chen Administration’s dismay, the introduction of the aforementioned law by China, which was regarded by it as having a great negative impact on Taiwan’s national security, did not stop the Taiwanese business community’s demands for more economic openness toward China. Furthermore, following the passage of the law, in late March, one of the most influential Taiwanese business leaders (i.e. Hsu Wen-lung who used to be regarded as pro-Taiwan’s independence) issued, or presumably was forced to issue, an open letter in favour of the idea of one-China and against Taiwan’s de jure independence (Leng, 2005: 63-79).\textsuperscript{12} This letter arguably made the Chen Administration feel that the Taiwanese business people, due to growing cross-strait economic ties, had already become a political tool, either voluntarily or involuntarily, for China against Taiwan. Also, it was referred to by those who were against cross-strait economic ties as another undeniable evidence for the negative effect of cross-strait economic ties on Taiwan’s national security. For example, the next day after the aforementioned open letter was issued, the former Taiwanese president Lee urged the Chen Administration in a harsh tone to “immediately” and “completely” stop its policy of “active opening and effective management,” warning that the economic openness toward China had already created a condition for China to “besiege the Taiwanese government with the Taiwanese business people.”\textsuperscript{13}
Worried about Taiwan’s national security following the passage of China’s Anti-Secession Law and the issuance of Hsu’s open letter and, at the same time, facing the business community’s continuous push for more economic ties with China even in the wake of what it regarded as China’s extremely hostile gesture toward Taiwan, the Chen Administration began to believe that the negative effect of cross-strait economic ties on Taiwan’s national security actually outweighed their positive effect on Taiwan’s economic development. In April 2005, the Chen Administration officially announced that it would reconsider its current policy on cross-strait economic ties and begin to pay more attention to “management” than “opening.” Then, in his New Year Speech for the year 2006, President Chen revealed that the policy of “active opening and effective management” would be replaced by the policy of “active management and effective opening” very soon.

Notwithstanding the Taiwanese business community’s protests against an anti-openness policy, in March 2006, the Chen Administration officially introduced the policy of “active management and effective opening” (Fuller, 2008: 244). While this new policy did not impose any new restriction on cross-strait economic ties, it was undoubtedly an anti-openness policy because its major objective was to discourage the growth of cross-strait economic ties by actively enforcing the restrictive regulations set by the previous policy of “active opening and effective management.” Some of the most important measures associated with the new policy of “active management and effective opening” are as follows: first, the Taiwanese government would diligently search for cases of illegal investment; second, the government would carefully review the applications for sensitive investment (e.g. investment involving a huge amount of money or advanced technology) and follow up on it after it was approved; and third, the government would make public the information about a certain company’s investment in China if necessary.

Like the policy of “no haste, be patient” in 1996 that tried to decelerate the growth of cross-strait economic ties in the wake of the 1995-1996 Taiwan Strait Crisis, the policy of “active management and effective opening” in 2006 that served the same purpose in the wake of the introduction of the Anti-Secession Law by China in 2005 was not popular among not only the Taiwanese business community but also the Taiwanese general public due to the pro-economic growth tendency among the Taiwanese public that I have discussed. After President Chen announced on the first day of 2006 that he would replace the policy of “active opening and effective management” with the policy of “active management and effective opening,” a public poll conducted the next day showed that only 24 per cent of the Taiwanese public supported the proposed policy change. Again, the unpopularity of the policy of “active management and effective opening” is one of the reasons why both of the candidates for the 2008 Taiwanese presidential election, including
the one from the then ruling party DPP (i.e. Hsieh Chang-ting), proposed a relatively pro-openness policy toward cross-strait economic ties. At the end, Ma Yin-jeou from the KMT won, and the new Taiwanese government which is the current one (i.e. the Ma Administration) immediately revealed a very positive attitude toward cross-strait economic ties. In August 2008, the investment limit on a Taiwanese company’s investment in China was raised from 40 per cent to 60 per cent of that company’s total worth. In December 2008, the direct cross-strait transport link was officially built. Two years later, in June 2010, the Ma Administration signed the Economic Cooperation Framework Agreement (ECFA), an economic agreement similar to a free trade agreement, with the Chinese government. The Ma Administration has maintained its pro-openness attitude since then; and currently, it is working on two projects to further strengthen economic ties between China and Taiwan: the “Cross-Strait Service Trade Agreement” and the “Cross-Strait Goods Trade Agreement.”

It is worth noting again here that, like the policy of “no haste, be patient” implemented by the Lee Administration, the policy of “active management and effective opening” implemented by the Chen Administration did not effectively discourage the Taiwanese business community from doing business with China, not to mention reversing the trend of growing cross-strait economic ties in general. However, like the discussion about the case of the policy change during the Lee Administration, the analysis of the policy change during the Chen Administration that I have conducted above again demonstrates that the development of China-Taiwan relations matters. More specifically, while the Taiwanese business community constantly demanded more cross-strait economic ties during the Chen Administration, the Chen Administration responded to their demands very positively in the beginning but very negatively at a later point; here, the introduction of the Anti-Secession Law by China, which significantly stimulated the Chen Administration to weigh national security much more than economic gains when it came to cross-strait economic ties, played a key role.

6. Conclusion

This paper, by studying the case of China-Taiwan relations, demonstrates that international relations do have an effect on cross-border economic ties or at least how governments of countries handle those economic ties. Focusing on Taiwan’s economic policies toward China from 1988 to 2008, it is found that while the Taiwanese government under normal circumstances tended to come up with an economic policy that could make good use of cross-strait economic ties to Taiwan’s economic advantage, it became completely against those ties when it perceived China’s extreme hostility toward Taiwan. As my
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The analysis has revealed, while both of the Lee and the Chen Administrations had a relatively open attitude toward the economic ties between China and Taiwan in the beginning, they turned completely against those ties after the 1995-1996 Taiwan Strait Crisis and the introduction of the Anti-Secession Law by China in 2005, respectively.

There is no doubt that, as many scholars studying cross-strait economic ties have already found, the Taiwanese government’s effort to reverse the trend of growing cross-strait economic ties (i.e., Lee’s policy of “no haste, be patient” in 1996 and Chen’s policy of “active management and effective opening” in 2006) never paid off: they could not effectively stop the Taiwanese business community’s economic rush to China, and therefore the economic ties between China and Taiwan did actually keep growing. However, it is still worth pointing out that although cross-strait economic ties did continue to grow from 1988 to 2008, the Taiwanese government during this period of time actually had different attitudes and policies toward cross-strait economic ties at different stages. Here, as my paper has demonstrated, the development of China-Taiwan relations matters a great deal. More specifically, while the Taiwanese government in general tended to weigh the positive effect of cross-strait economic ties on Taiwan’s economic development more than, or at least as much as, their negative effect on Taiwan’s national security and therefore try to exploit these ties to facilitate Taiwan’s economic development, it became obsessed with the latter and therefore weighed the latter disproportionately more than the former when China-Taiwan relations turned extremely tense.

Also, based on the aforementioned findings, this paper uncovers a more comprehensive picture of the effect of China-Taiwan political relations on their economic ties than the previous studies. It is true that, as Kastner (2007 and 2009) argues, the Taiwanese business community is very influential in Taiwan. This explains well why the Lee and the Chen Administrations worked hard in the beginning to positively, or at least not negatively, respond to the Taiwanese business people’s demands for more openness. Yet, the Taiwanese business community’s influence was not always effective. When the extremely tense China-Taiwan relations changed the Lee and the Chen Administrations’ cost-benefit calculation on cross-strait economic ties, they decided to stop listening to the business community and even regarded the Taiwanese business people who constantly advocated more cross-strait economic ties as political tools used by China against Taiwan. Here, many studies that I have discussed in this paper have already explained very well how the Taiwanese government’s worry about Taiwan’s national security affects its economic policy toward China. Nevertheless, this is again just part of the whole story. Actually, the influence of the business community still matters in the long run. This is why the policy of “no haste, be patient” and...
that of “active management and effective opening” were eventually repealed by the Chen Administration and the current Taiwanese administration (i.e. the Ma Administration), respectively.

The Ma Administration has maintained a positive attitude and pro-openness policy toward cross-strait economic ties since 2008, emphasizing that the benefits of cross-strait economic ties for Taiwan’s economy are much greater than their costs for Taiwan’s national security. It can be argued that this positive development of cross-strait economic relations, among other things, is contributing to the peaceful China-Taiwan relations that we see currently and might continue to keep China-Taiwan relations less confrontational in the long run. However, based on the findings of this paper, it is equally important to understand that the currently peaceful relationship between China and Taiwan, among other things, is also the reason why the Ma Administration has no problem seeing cross-strait economic ties grow. Therefore, it is reasonable to argue that, in the future, if the Ma Administration or any of the Taiwanese administrations succeeding it perceives an extreme Chinese aggression, they, like the Lee and the Chen Administrations, might also begin to weigh the negative effect of cross-strait economic ties much more than the positive one and then try to impose stricter restrictions on those ties even under huge pressures from the business community for more openness. Yet, it is worth pointing out here that, as the cases of the Lee and the Chen Administrations tell us, an effort by the Taiwanese government in the future, if there is any, to weaken China-Taiwan economic relations would still be very unlikely, if not completely impossible, to succeed in reversing the trend of growing cross-strait economic ties.

Notes
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1. I thank one of the anonymous reviewers for raising this important point.
2. I thank one of the anonymous reviewers for raising this important point.
5. See Note 2.
6. See also “Mainland Affairs Council and Council for Economic Planning and Development hold different positions about the Asia-Pacific Regional Operations
Center”, *United Daily News*, 12th June 1994; “Taiwan’s policy toward the direct cross-strait transportation”, *China Times*, 6th March 1995; and Note 3.


12. See also “Lu Hsiu-lien: Hsu should not be blamed for being forced to write the open letter”, *China Times*, 28th March 2005; “Lee Teng-hui: Those words were not written by Hsu”, *China Times*, 29th March 2005; and “Wang Yung-ching believes that Hsu Wen-lung has spoken his mind”, *China Times*, 3rd April 2005.


15. “President Chen: Taiwan would rather have no opening if there is no good management”, *United Daily News*, 4th January 2006.


18. “The ‘40% cap’ is replaced with a 60% one”, *Commercial Times*, 27th August 2008; “The direct cross-strait sea and air transport link is completely built”, *Commercial Times*, 15th December 2008; and “The era of unrestricted cross-strait economic exchanges is coming”, *Commercial Times*, 30th June 2010.

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US-China Relations: A Media Perspective

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Abstract
The relationship between the United States and China carries with it paramount implications for international order and stability. The rapid rise of China’s economic power during the past three decades makes it more so. Since the bulk of existing political science literature on bilateral relations focuses on the official stance and moves that shaped the bilateral interactions, the social and cultural aspects have been largely marginalized. This paper aims to fill the gap by exploring the US media portrayal of China in the new millennium and its implications for US-China relations. The study of the US media coverage of China is expected to shed light on the broader social and cultural context in which US foreign policy towards China operates. This knowledge will help to broaden our understanding about both the opportunities and challenges for bilateral interactions between the two powers in the future.

Keywords: China threat, US media, bilateral interactions, foreign policy, human rights

1. Introduction
After three decades of “opening up” and economic reform, China has achieved extraordinary economic progress that attracted worldwide attention. The rapid economic growth unsurprisingly was also accompanied by modernization of its military and projection of its soft power worldwide in recent decades. All these combined propelled China further into a central position of power, causing strong repercussions in the international community thereof. As the Chinese economy further expanded, so did the doubt and speculation from the international community. Despite the degree of interdependence between China and the United States and a positive response to a rising China among certain scholars and policy makers, the rapid emergence or resurgence of China as a world power had been approached with more caution than acclaim in the United States. The US discomfort
about China had to do with a myriad of issues that have been constant causes of diplomatic entanglements between the two powers, ranging from trade disputes, human rights concerns, military modernization, geographical influence, Taiwan, international role, etc. The discomfort on the US side became heightened in the 1990s. “China Threat” rhetoric was born as a result. The intensive debate of China's threat reached its peak in 1997 when Foreign Affairs carried an article by Burnstein and Munro entitled “The Coming Conflict with America” (Bernstein and Munro, 1997). The “China Threat” has been subjected to diversified interpretations and explanations since then.

One primary concern underlying the “China Threat” rhetoric has to do with the potentiality of a rising China to upset the existing balance-of-power of the international system (Mearsheimer, 2001; Halper, 2012). Additionally, there were worries about China’s ideological and cultural idiosyncrasies (Xia, 2009). Moreover, there have also been geopolitical and geo-economic concerns about the rise of China and its implications for the US projection of power worldwide (Roy, 1994; Gries, 1999; Ravenhill, 2006). There were, of course, concerns about China’s military modernization and expansion as well (Whiting, 1996; Shambaugh, 1996). Despite the different focus among all versions of the “China Threat”, there was a shared perception of rising China as a disturbing factor to international order and stability. The underlying rationale invariably reflects a fixed mind-set that revolves around the zero-sum game rule.

Needless to say, the biggest factor that shaped the dynamics of the international system in the post-Cold War era is globalization. The enlarged international interaction and interdependence is fundamentally transforming governance at both state and international levels. As globalization deepens, unprecedented interdependence among countries has been fostered regardless of ideological, cultural, and geographical disparity. This, in turn, necessitates increased cooperation and coordination across the globe. While keeping the strategic alertness and scepticism is healthy, the drumming of the “China Threat” rhetoric in the context of an unprecedentedly interdependent world could be self-defeating. It will not only substantively harm American interests but also heighten opportunities for unnecessary frictions due to miscalculation and miscommunication. The political consequences of overestimating and overreacting to the “China Threat” have been forecasted and criticized for years (Ross, 1997; Broomfield, 2003; Johnson, 2003; Pan, 2004). Both scholars and foreign relations specialists emphasized that the United States should not follow the example of the Cold War in setting the parameters of containing China because the interests of both states are too much intertwined already. Failure to arrive at cooperative and positive agreements will be detrimental to the rest of the world, both financially, geopolitically and socially. As illustrated by the bilateral interactions between the two
powers since the 1990s, Beijing and Washington have come to realize that the two sides needed to face a new reality in which both “were too large to be dominated, too special to be transformed, and too necessary to each other to be able to afford isolation” as early as two decades ago (Kissinger, 2012). The America’s struggle to actively expand engagement with China amidst continued debates and disputes over issues such as terrorism, human rights, trade practices, and international order over the past decades well indicated the acknowledgement of this reality among the cooler minds of politicians on both sides. Through the formal consultation mechanism, i.e. US-China strategic and economic dialogue, established under the Bush Administration, Beijing and Washington have actively searched for cooperation on an expanded list of issues in the new millennium via increased dialogues and communications. The efforts to redirect from the confrontational stance supported by the “China Threat” rhetoric to one that targets expanding cooperation and communication were also evident from China’s side. In addition to officially delivered speeches and talks about China’s peaceful rise, or the peaceful road of China’s development, China has made substantive efforts to build trust and reassure the US and the world the peaceful path it is determined to take for its resurgence and the responsible stakeholder role it is assuming internationally. In terms of formal diplomacy, Beijing has actively cooperated with Washington on the US-led War on Terror, North Korea and Iran crisis in the new millennium. Additionally, China has also made huge public diplomacy endeavours to promote cultural understanding between China and the US via hosting of the 2008 Beijing Olympics Games and 2010 Shanghai World Exposition as well as establishing Confucius Institutes worldwide (Zhang and Cameron, 2003).

While the flux of world affairs featured by increased interdependence among states renders the over emphasis of the “China Threat” rhetoric marginalized, if not irrelevant, among politicians and scholars (Johnson, 2003; Medeiros and Fravel, 2003; Callahan, 2005), what is the voice of the society in the United States? Will the media share the wisdom of valuing mutually beneficial partnership over mutual crimination given the ever expanding interactions and interdependence? Or is the media continuing to stick to the negative patterns in covering China since the late 1980s and beat the drum of “China Threat” rhetoric in the United States as in the past? (Stone and Xiao, 2007; Wu, 2006; Peng, 2004; Akhavan-Majid, 2000; Yang, 2003; Lee and Yang, 1996). Between mainstream media and the tabloids, what are the different voices if they exist? If the media coverage of China continues to be negative as in the past, what are the nuanced differences manifested during the period under study? At the end of the day, what are the implications of the dynamics of the US media coverage of China for the United States future China Policy and the bilateral interactions as well? This paper aims to explore
preliminary answers to the above questions via content analysis of US media coverage of China during the period from 2000 to 2012 and the interpretations of this analysis findings. As the goal of the paper is to broadly gauge US mass media’s coverage of China, a full spectrum of media outlets including both mainstream media and tabloids were included in the study. In order to gather knowledge of US media coverage of key policy issues between the two countries, a list of keywords essential to US-China relations have been used on the search engine of Google News one after another to generate data for the research. The research is expected to shed light on the broader social and cultural context in which the US foreign policy of China operates, which will help to deepen our understanding about both the opportunities and challenges for bilateral interactions between the two powers in the future. The paper will conclude with a critical analysis and reflection about the role of the media in US foreign policy making and implementation as well.

2. Research Methodology

A combination of content analysis and archival research is used for this research. For the content analysis part, a sample of 85 different news reports about China in the period from 2000 to 2012 was randomly selected from a range of news outlets in the United States (Appendix I), including *New York Times*, *Los Angeles Times*, *Christian Science Monitor*, *US News and World Report*, and *New York Post*. The newspaper articles were selected randomly based on multiple rounds of top Google News search with a number of keywords about China for the time frame of 2000-2012. The list of newspapers that showed up most frequently throughout the search process accidentally reflects a full spectrum of mainstream national newspapers, special interests newspapers, tabloids, and local newspapers. Specifically, multiple rounds of searches have been conducted using keywords such as Chinese and Policy, China and Military, China and Trade, China and Human Rights, China and Africa, etc. For the news reports gathered, preliminary content analysis had been conducted in terms of the tone, news frames, and bias, etc. The data generated from the analysis were subsequently subjected to analysis and interpretations.

3. Research Findings and Analysis

The result of both qualitative and quantitative analyses of the article sampled seems to support the notion that the American media is largely biased and it has been portraying China negatively to the American public.

To be more specific, from the 85 articles sampled, 74 per cent had a negative outlook and tone towards its opinions of China, 19 per cent were
neutral in nature, in which some criticism was present, but the emphasis was placed on shared ends between the US and China, and 7 per cent of the articles were positive (see Figure 1).

Both conservative and liberal media were critical of the Chinese government and politics in general. However, conservative media criticism targeted at the economic issues and China’s practices as opposed to the liberal media which focused mostly towards human rights issues. In 36 per cent of the articles analyzed, human rights were mentioned at least once in the articles even though the main issues of concern ranged from foreign relations to military issues, mainly by liberal media outlets, which tend to be the most critical of China’s human rights record. All three main ideological inclinations (liberal, centrist and conservative) have concerns over both internal politics and foreign relations of China.

As illustrated by Figure 2, the news interest on China experiences ups and downs. For the period under study, China received more exposure in the years 2001, 2005, 2007, 2008, 2009, 2011 and 2012. The issues covered in 2001 included terrorism, trade, China’s aid to Iraq, and US arms sale to Taiwan. The overall picture of the news coverage continued to be dominated by conflicting interest and competition for power and influence with one exception, i.e. China’s reaction to 9/11 and the subsequent anti-terrorism military actions. The news coverage in 2005, however, took an evident turn, from the predominating negative portrayal of China five years ago, to
an affirmative attitude towards China in terms of the currency controversy and increased international influence of China which has begun to emerge. Between 2007 and 2012, there was a steady growth of media interests in China with 2010 being the only anomaly. The coverage in 2007 mainly focused on China’s governance issues regarding medicine and toys and its human rights problems related to Sudan, pollution, and control of information. However, 2008 and 2009 witnessed the peak of the media beating the drum of “China Threat” rhetoric. While China made a formal announcement of its return to the centre of the world stage via its successful organization of the spectacular opening ceremony of the 2008 Beijing Olympics, the coverage of China in the same year, nonetheless, was extremely negative. Specifically, China was portrayed as a substantive threat to American interest in terms of its domestic governance, foreign relations, expanded international influence, enhanced cyber capacities, and its promotion of a different international order as well. The threat image was constructed by outstanding media spotlights on China’s lack of freedom, Taiwan controversy, boycotting of the Beijing Olympics opening ceremony, speculations over risks of China, China’s dismal human rights record, China-based cyber attack on the US military base in Afghanistan, China-Russia alliance, and the political nature of the Beijing Olympics. For the year of 2009, while the American media continued to frown over Chinese domestic governance, human rights issue, China-Africa relations, and development of its cyber capacities, positive portrayal of China in terms of the US-China partnership on global warming and general environmental issues peaked. The media attention given to China
in 2011 and 2012 reached unprecedented heights in 2011 and 2012. The 2011 coverage is all negative and comprehensive as well condemning China for almost all traditional areas of concern such as human rights, China’s domestic governance, cyber-attacks, trade practices, Taiwan, Africa, as well as China’s conflicting interests with the United States. With the scandal involving Bo Xilai, concerns over human rights activist Chen Guangcheng, as well as China’s forthcoming transition of power between the fourth and fifth generations of leadership, the coverage of China skyrocketed in 2012. Overall, the tone of coverage was moderately softened from the previous year and the news reports also proved to be more diverse in terms of not only issues selected but also news frames constructed for the reports. Although China remained targets of criticism and condemnation in terms of arms sale, domestic governance, trade practices, human rights, Taiwan, specific issues such as Chinese elite’s scandal, Apple’s investment in China, China’s proactive efforts to strength its soft power, US-China economic dialogue, and US-China collaboration over North Korea have been included.

The media image of China in all areas of military, foreign policy, trade, domestic governance, human rights was predominantly negative and emotionally charged. In terms of the overwhelming media criticism against China gathered from the collected sample, it is rather diversely targeted, ranging from both China’s domestic problems to its international endeavours. China is portrayed as a corrupt authoritarian regime with pervasive domestic problems and ulterior international ambitions. Domestically, the wide range of issues that were subjected to US media criticism include China’s handling of environmental problems, information control, political scandals involving Bo Xilai, SARS crisis, ethnic minorities in Xinjiang and Tibet, workplace safety, endemic corruption, and human rights abuses related to drug rehabilitation centres, political dissidents of Ai Weiwei and Chen Guangcheng, as well as the one child policy. When the American media established its own reputation for an insatiably hunger of political scandals, this pattern repeated itself in covering China as well. For the period under study, all media coverage of the Chinese domestic situation has been invariably negative. The coverage of Bo Xilai by LA Times focused on the endemic official corruption in China (LA Times, 2012). The report on the SARS crisis, also skewed toward the official control over information at the early stage (LA Times, 2003). The reports of Ai Weiwei, the outspoken artist in China, and Chen Guangchen, the human rights activist, also helped to reinforce the image of China as a brutal regime cracking down on political dissents (LA Times, 2012; USA Today, 2012; New York Post, 2012; US News and World Report, 2008). The Xinjiang conflict also became a prime case to report about the marginalization of ethnic minorities in China (New York Times, 2011).... To reinforce the negative image of China, some of the media even employed highly confusing and
heavily ideologically-charged terms such as “dictatorship”, “communist”, “authoritarian regime”, “ghost of Hegel”, “Leninist capitalist”, “oligarchic”, etc. to influence the American public. Internationally, issues related to China’s military expansion, soft power promotion, Taiwan, China-Russia Alliance, China-based cyber-attacks, China’s trade policy and practices, Beijing Olympics, China-Sudan relations, China’s manipulation of currency, exportation of poisonous toys and confiscated drugs, the plane collision incident between the US and China, and China’s involvement in Africa have been given the most attention.

Among all the issues that attracted media attention, criticism against China’s trade policy and practices gained most spotlights. The overall tone in covering this topic was antagonistic and confrontational. According to media reports, China’s phenomenal economic achievements were the result of its taking advantage of the world’s liberal economic order via protectionist and unfair trade practices such as heavy subsidies to key industries, unfair treatment of foreign cooperation, strict limits over exports of raw materials, theft of intellectual property rights, manipulation of its currency, etc. These achievements, therefore, were believed to account for both the global economic recession and the domestic economic problems of the United States such as the downfall of the US economy and deteriorating quality of life of the US middle class. Because of the close correlation of the development of the Chinese economy and economic problems in the US specifically, the emergence of China’s economic power was depicted largely as a direct threat to the well-being of the US economy. In 2008, the *LA Times* even claimed that China’s authoritarian capitalist economy posed a bigger threat than “radical Islamism” for its capacity to be associated with economic, technological, or cultural modernity (*LA Times*, 2008). Shifting blames to China could effectively dilute domestic tension over policy failures and successfully shift domestic public attention from real problems in American politics. It is, however, neither beneficial to the healthy development of the American economy nor constructive to the smooth interactions between the US and China, which will be conducive to both parties involved. As global interdependence has made it imperative for the two countries to build a cooperative relationship for shared interests, they both should shoulder their respective share of responsibilities. In the case of the economic crisis experienced by the US, it was not just caused by China’s manipulative currency policy or its high saving rates, but also by the “US bubble demand” (Overholt, 2010). Thus, a well-researched and objective analysis of an issue like this was overshadowed by the media blaming it on China. When the US government announced after an investigation in 2005 that China was not manipulating its currency, this official information met with protests and questionings among American media. The *USA Today* carried a piece of news
entitled “Report on China Frustrates Critics” to give vent to its disappointment with the announcement (USA Today, 2005).

As part of a correlated concern over China’s economic development, China’s soaring involvement in Africa also attracted remarkable attention. The US media coverage on China’s African involvement increased sharply since 2006 when China made a decision to renew its all-weathered friendship with Africa via heavy investment. The renewed ties between China and Africa was clearly interpreted as a direct threat to US interests despite the very fact that China’s total investment in Africa accounts for only a small percentage of total US investment in the continent. Before China’s 2006 move to Africa, the continent has been largely neglected for years by the western hemisphere. Although it has been the consensus of the west that the best way for the African continent to overcome its poverty and related crises is for developed countries to invest in its infrastructure and instil sustainable practices to ensure further development of the continent, China’s increased presence in Africa was interpreted as a neo-imperialist move that is exploitive in nature. Specifically, its overall appearance was described as “harbouring barely concealed imperialist ambitions” that aimed to suck Africa dry (American Interest, 2012). Its heavy investment in African infrastructure, however, was interpreted as bait for procurement of natural resources (American Interest, 2012). Particularly, China was criticized relentlessly as a foul international player that disregard universal values of democracy and freedom for its hands-off policy featured by offers without political conditions. When it came to Sudan, China was additionally criticized for providing weapons for the corrupt Khartoum regime for oil even after the UN approved embargo (Christian Science Monitor, 2007; 2012).

The nature of China’s investment in Africa has been investigated in depth by researchers in the field, which have largely rendered the argument that China’s investment in Africa represents a well-orchestrated strategy to colonize the continent superficial if not totally irrelevant (Taylor, 2010; Edoho, 2011; and Langeveldt, 2011). There are scholars arguing that China’s investment in Africa has already proved to be beneficial to the continent in many cases such as oil and mineral exploration as well as agricultural production and processing (Langeveldt, 2011). As there has been western disengagement from the region for quite a long time, there are also scholars arguing that China’s involvement to a certain extent is filling the void left by the west (Edoho, 2011). Finally, there is also evidence about multileveled investment in Africa by not only Chinese states but also local governments, private businesses, and individuals from China (Taylor, 2010). Despite these, China’s involvement in Africa has been conceptualized and depicted by the American media as a “new form of colonialism” and “imperialistic expansion”. While China’s hands-off investment model in Africa has its
problems, this is true with the western model too. The very fact that Africa remains poor and chaotic after so many years presence of the western powers such as the United States, France, and Germany tells the story well. In this sense, the media equation of China’s renewed ties with Africa as imperialist expansion and ambition is as far-fetched as misleading. After all, the problems faced by African countries are up to the Africans to deal with at the end of the day. The world can offer helping hands, but the Africans have to make their decisions as to which route to take to get their country to the road of prosperity and stability.

Besides economic issues, the Chinese military was at the centre of discussion by the American media. China’s boosting economy inevitably allowed the state to invest more in its military and weaponry, which had been perceived by the American media as a direct threat to American international security interests, especially in East Asia (US News and World Report, 2008; Christian Science Monitor, 2011; New York Post, 2000; 2011). Criticism of the Chinese military constantly revolves around the “exaggerated insecurities” felt by the Americans (Glaser, 2011). While voicing deep concerns and anxiety over China’s modernization drive of its military, the media omitted the very fact that China’s military capacity given its population poses minimal, if not none, threats to the US, when the latter’s military strength is bigger than the sum of the rest of the world. China had reiterated its position of minimum deterrent and “no first-use” with regard to its nuclear capabilities. China had also been a strong supporter of multilateral disarmament, pushing for “drastic” reduction of nuclear weapons (Dahl, 2012). All these facts, however, were mostly unmentioned in American news outlets.

The modernization of Chinese military in the new millennium was clearly interpreted as an offensive posture. If a lack of transparency of the Chinese military further exacerbated the perception, the EU’s lifting of embargo on arms sale to China in 2005 and China’s military cooperation with Russia threw the American media into deeper anxieties. The LA Times referred 2008 as the year of return for both Russia and China, which poses substantial challenges to the new liberal international order led by the United States (LA Times, 2008). These security-driven anxieties, had found various venues to vent itself. The media drumming of the Chinese military threat resulted in various versions of Chinese conspiracy in terms of China’s arms sales to Africa, Iran and Sudan, China’s growing navy, and China’s closer ties with Russia in terms of military cooperation. In addition, there was a frequent reference to the US status as a Pacific power as the response to the perceived military threat posed by China in the Asia-Pacific region. Furthermore, as part of the norm of bilateral relations, the US media supported US arms sales to Taiwan to manage its overall insecurities with regards to a modernizing Chinese military without contextualizing it in any way for its audience.
As a high risk issue, Taiwan had been on the agenda of most international relations and military discussions/negotiations between the US and China. While scholars and policy makers have been actively searching for means to minimize “flash points” between the US and China, the US media, however, fanned aggression by omitting the intertwined interests and nuances of the situation. Take the article entitled “What’s good for Taiwan” published by the LA Times in 2008 for example (LA Times, 2008), it expresses an aggressive unilateral view of what Taiwan should be, as seen from American eyes, where complacency towards China should be avoided at all costs and no concessions should be made, all with an attempt to demonize China. Despite the heavy cost paid by the US for the Iraq War, the US media never seemed to learn the lesson. In this case, the media in beating the drum of heightening the tension across the Taiwan Strait disregard the will of the Taiwanese. When the incumbent President of Taiwan made a proposal for a peace accord between mainland China and the island in 2011, the Christian Science Monitor jeered the move as “stupid” and “weak”. An investigative analysis of the history and dynamics of the situation relating to the Taiwan issue was obviously absent from the media. The Taiwan issue is by no means a bilateral issue between mainland socialist China and the democratic Taiwan island. The US has heavy interests and involvement in this problem right from its very beginning. This crucial part of reality that will help the American public to develop a more rational evaluation of the situation was largely invisible in the US media.

Without any surprise, human rights was another issue on the list that gained considerable exposure for the period of study. From the arrest of outspoken artist Ai Weiwei, treatment of the addicts at a drug rehabilitation centre, enforcement of the one child policy, to pervasive information surveillance, government complicity in the house arrest of Chen Guancheng, and China’s connection with Sudan, the image of China as a constant violator of human rights was reinforced time and again. The media coverage of all the above mentioned cases all invariably supported the notion of an authoritatively evil regime that brutally mistreats its citizens. Needless to say, China has a lot of work to do in terms of improving human rights within its household. Yet the human rights record of the US is also problematic especially when it comes to the lack of consistency in humanitarian interventions. That being said, it is arguably misleading for the media to report about China’s human rights status without putting it in a historical and international context. This is especially true when historically human rights issues have been used as an excuse to selectively rationalize intimidating foreign policy, diplomatic coercion or sanctions for China. At the end of the day, what are the dynamics of the human rights situation in China? What changes have taken place? How? Information related to these questions will help the public to make sense of the specific cases covered by the media.
If all of the above-mentioned issues reflect the traditional areas of concerns in bilateral interactions, cyber security issues and China's public diplomacy efforts were adding to the existing list of new concerns about China for the period under study. Driven by the advancement of telecommunication technologies, competition and conflicts between the two powers quickly expanded into cyber space. For the period of study, there was an outcry to counter China-based cyber-attacks at government institutions and corporations in Canada, the United States, as well as the US military based in Afghanistan (New York Times, 2011). The very fact that the US government was making huge investment in enhancing its cyber security capacity reaffirmed the threats felt by the US government (Homelandsecuritynewswire.com, 2012). With regards to the soft power-oriented public diplomacy efforts by the Chinese government over the past decade, the reception by the American media was cautious and sceptical about its goals. The overall efforts by China to enhance its cultural influence worldwide was interpreted as China fighting a “cultural war” with the west. Chinese official promotion of serious video games, such as “glorious mission”, based on the Chinese Army’s training simulation was also interpreted as part of a multi-headed cultural offensive that tried to avoid a Chinese version of “Arab Spring”. This concern about the Chinese intention to expand culturally was also reflected by media criticism of Disney’s efforts to produce a Chinese movie “The Secret of the Magic Gourd” in 2005. The move by Disney, which used to be the synonym of American cultural imperialism, was believed to be the evidence of a threat of Chinese culture. For the period of study, the biggest showcase of Chinese efforts of public diplomacy was the 2008 Beijing Olympics. While the world was exclaiming the re-emergence of China in the 21st century via watching the Chinese grandiose presentation during the opening ceremony, the US media adopted a rather negative tone in covering the event. USA Today commented that the extravagant opening ceremony is a show-off which resembles the “making of an emperor-has-no-clothes moment” (USA Today, 2008). As the American media covered the games as a politicized event, issues like media control during the games, corruption of the International Olympic Committee, revoking of visa for a dissenting American athlete, and advocating for presidential boycott of the games have dominated their coverage (LA Times, 2008; New York Post, 2008; US News and World Report, 2008).

Overall, the US media depicted a largely negative image of China for the American public. Although it takes further research to understand in depth the underlying incentives to do so, be it political, economic, or organizational, this one-sided story telling invariably will increase chances for misinterpretations and misunderstandings between the people of the two sides, which might thwart rather than facilitate constructive moves towards mutual benefits.
4. Conclusion

American media’s depiction of China for the period of 2000-2012 was predominantly negative, which is a continuation of the same trend since the late 1980s after the fall of the former Soviet Union, thus reinforcing the “China Threat” rhetoric one way or the other in disregard of the changing international context. This is evident in both the media agenda and frames identified in the study. The research findings themselves, therefore, shed some light on the more hostile domestic social and cultural context in which America’s China policy operates.

As this media picture is divergent from Washington’s actual practices of deepening engagement and cooperation with China on an expanding list of issues since 9/11, it offers some food for thought regarding not only the foreign policy process in the United States but also the bilateral interactions between the two powers involved. In terms of the US foreign-policy process, as the public was fed with misleading information about US national interest and the international context, it is reasonable to question the democratic nature of foreign-policy making in the United States. The lack of investigative journalism and manipulation of information throughout the Iraq War via embedded journalism have resulted in heavy capital losses in terms of both hard and soft power for the US. If history is any guide, the media industry in this country indeed needs an overhaul with regards to the profit-driven degeneration of professionalism, which has marginalized investigative journalism in particular.

Internationally, the lack of objective information over China undoubtedly will create unnecessary barriers for the smooth communication and interaction between the two countries. If the American public continues to be misled to the exaggerated perceptions of the “China Threat”, there will be a diminishing leeway for the governments on both sides to engage in innovative policies in productive ways and the public opinion developed out of this will be self-defeating to American interests (Kissinger, 2011). The exaggerated insecurities from the US side, in a worst case scenario, might result in a “self-fulfilling prophecy” in which international incidents might be caused by misinterpretations of each other’s malignant intentions (Glaser, 2011). The mass media can be extremely powerful in constructing public minds and shaping public sentiments towards radical ends, which could result in disastrous outcomes. If Nazi Germany’s propaganda during WWI is too old a lesson to reflect upon, the propaganda orchestrated by North Korea to instigate pro-war and anti-American sentiments among its people today is a vivid illustration of the necessity to reflect upon the media’s role in international politics. As the ever escalating confrontation between North Korea and the United States confirmed once again, the threat of miscommunication and miscalculation to international order is both real and costly.
As it takes two to make peace, it is also important to note that the Chinese government is working rather proactively in enhancing its image abroad and in the United States particularly although with disputable outcomes. Although the driving force behind the Chinese endeavours is more about enhancing its projection of soft power and securing a peaceful environment for its domestic development than building trust with the United States, its increased international presence and interactions with the world will inevitably make Beijing a bigger stakeholder in international politics, thus opening up opportunities for constructive communication and understanding between the two sides. As part of China’s “stepping out” project, it is pursuing public relations strategies that include “lowering the proportion of coverage afforded to politics, and increasing the coverage of cultural, entertainment and human interest stories” in the United States, “which may help shift views of China from political differences toward cultural affinities, thus giving Americans a richer and more complete picture of modern China” (Xiuli and Shoemaker 2011: 17). While it is difficult, if not totally impossible, to foster cultural affinities between China and the US in the near future as China desires, engaging a growing China via increased communication will minimize miscalculations and misunderstandings that might lead to international crisis threatening the international order and stability.

The first twelve years of the new millennium have witnessed shifts in American strategic focus from Asia to the Middle East and Southeast Asia back and forth. The terrorist attack on September 11 redirected American attention from East Asia to the Middle East. The decade-long war on terror has incidentally offered prime opportunities for China’s resurgence after a century-long humiliation in the 1900s and a century-long political and economic struggle to regain its confidence and composure in the 2000s. While the US was embroiling itself in Iraq and Afghanistan, China has reaffirmed its position as a big power substantively backed by its economic capacities. As a response, the US is currently shifting its strategic focus from the Middle East back to East Asia after paying a heavy cost for its military involvement in Iraq and Afghanistan. This new reality is irreversible whether one likes it or not. So the questions to be asked here are really: How should the two powers position themselves in the new international context featured by increased interdependence and flux status of world affairs? With intertwined interests and the need to collaborate in dealing with transnational challenges such as terrorism, global warming, trade, etc., the cost of conflicts and confrontations between the two will predictably outweigh benefits to the respective national interests involved. Like it or not, the two powers need to search for innovative ways to achieve mutual benefits. This, however, will not come about, with the media misleading the people in either country via continued demonization and crimination.
Appendix 1: News Reports

Aamer Madhani, “China’s Xi, Obama Exchange Political Warnings”, USA Today, 16 February 2012.
Calum MacLeod, “Scandal Shines Light on China’s Growing Elite”, USA Today, 26 April 2012.
Calum MacLeod, “China Fights Culture War with West”, USA Today, 11 January 2012.
Charles Duhigg, “The iEconomy; In China, the Human Costs that are Built into an IPAD”, New York Times, 26 January 2012.
David Pierson, “China’s Economic Growth Brakes to Slowest Pace in 3 Years”, LA Times, 13 April 2012.


Ralph Jennings, “Bid for Peace Accord with China Backfires on Taiwan’s President”, *Christian Science Monitor*, 9 December 2011.


Mia Farrow and Ronan Farrow, “…… and Why He Should Stay Home”, *LA Times*, 13 July 2008.


Tom Minnerick, “Negatives of trade imbalance with China outweigh positives”, USA Today, 30 August 2011.
Staff, “Travelers told to avoid Beijing, Toronto”, LA Times, 24 April 2003.
Post Staff, “Chinese dissident’s friends claim he left embassy over threats to family”, New York Post, 2 May 2012.

Notes
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References


Abstract
At the point of this writing, the “China Dream (CD)” narrative is constantly shaped by public debates and multiple interpretations of their meanings. As these narratives are relatively new, academic literature in this area is comparatively less developed than those found in the media sector and they may not reflect the newest ongoing debates found in media sources. The author conducted research on recent narratives of CD by analyzing selected media materials from a three-year-old collection of newspaper dailies. From the study of media materials, it can be determined that some aspects of CD narratives are related to the ideas of energy security and environmental priorities but they are eclipsed by broader geopolitical discussions. This writing also tackles the question of whether the “China Dream (CD)” is an ideology, doctrine, belief, policy preference, value, propaganda or slogan.

Keywords: China, dream, narrative

1. Introduction and Literature Review
All states produce propaganda for the purpose of social mobilization, instilling patriotism and loyalty amongst its peoples, society and institutions. Harold Lasswell’s classical 1927 work argues that propaganda is related to the manipulation of “collective attitudes” through the use of force or softer forms of coercion (e.g. use of economic incentives) (Laswell, 1927: 627-628). Propaganda also makes use of selective symbols and signifiers to shape and guide public opinions and attitudes. Lasswell distinguishes between propaganda and advertising which he characterizes as “paid publicity” and the two may not coincide in terms of purposes (see ibid.: 628). Propaganda materials are contextually interpreted by its designers and recipients in accordance with dynamically-changing agendas, contexts and environmental factors. Very often, there is an intended target audience but, in reality, the
boundaries of this audience cannot be neatly delineated as unintended audiences are sometimes incorporated into the receiving group themselves or there may be resistance to the propaganda materials amongst members of the intended audience. There are no inherent values within propaganda materials themselves. These values are subjectively read and comprehended by interpreting parties when they craft or manipulate propaganda for their own interests and agendas. Positive and negative values attributed to propaganda materials are carefully negotiated by contesting forces and (state and non-state) interest groups in public narratives through their debates, coercion and persuasion.

What is the relationship between propaganda and political attitudes? In a more updated work, Stanley Feldman studies the relationship between public opinions and core beliefs/values. A question that Feldman asks in his writing is also relevant to the discussion in this paper – why are the masses attracted towards certain perspectives and viewpoints (Feldman, 1988: 417)? How do the state or its statesmen and politicians try to propagate these values to the masses (the general public). This is especially important since Feldman argues that exposure of these values are very important (“The more people are exposed to these structures and the better they comprehend them, the more likely their beliefs will be systematically organized” (see ibid.: 417)). How these values are propagated and disseminated to the public also depends on the political system in which they are located. In a democracy, statesmen and politicians tends to seek consensus and, in the absence of which, persuasion through policy-making or election campaigns. In an autocratic society, compliance is sought through state enforcement of obedience from the people through economic, social and political means (a combination of carrots and sticks). Propaganda is a subset of these means to seek general consensus. It is more forcefully and hegemonically presented in autocratic societies in comparison with the comparatively more subtle approach and pluralistic comprehension of the materials found in democratic societies. The rule of law in democratic societies also prevents arbitrary enforcement and forced compliance with collective attitudes/values/beliefs that is found in non-democratic ones. The ideal democratic impulse is to persuade members of a society to voluntarily accept ideas and concepts promoted by the state. Free will is the basis for voluntary societal acceptance of a policy, initiative, worldview or a campaign slogan.

2. Multiple Doctrinal Identities?
As a kind of political narrative, belief or set of values, a question then emerges related to the subject matter of this writing: how does one classify the “China Dream (CD)” narrative? Are they ideologies, doctrines, beliefs,
policy preferences, values, propaganda or slogans? How do the CD narrative (and can they) become widely-held attitudes towards dominant and prevailing political ideas and beliefs? Feldman defines political attitudes and beliefs as “organized (into) coherent structures by political elites for consumption by the public” (Feldman, 1988: 416-417). What are the intended audiences for all three narratives? The multiple identities of CD are complex, contextual and also evolutionary. For example, the CD narrative is an outcome of a gradual evolution from Mao’s leftist class struggles and utopian egalitarianism to Deng’s pragmatic near-term transition towards a modernizing society with better economic conditions. Improving economic conditions is paired off with sustained social stability. Reflective of state interest in maintaining social stability, the predecessor of the Xi-Li administration’s CD is the Hu-Wen administration’s xiaokang shehui (XKSH). It remains debatable if the two narratives (XKSH and CD) are interconnected although CD does contain some elements of XKSH in the wide and varying spectrum of interpretations by domestic and regional audiences. Securing a clean environment, jobs and income for the Chinese people are some of them.

An important work in understanding this evolutionary process is written by Josef Gregory Mahoney who argued that XKSH evolved according to influences from three main doctrines: (1) Confucianism’s conception of an orderly society based on its teachings was deconstructed by (2) Mao’s class struggles to attack the tendency of harmony to create a hierarchically-ordered society based on static social relations and falling into a state of inertial and disrupting egalitarianism and so (3) Deng Xiaoping stepped in to add a temporal dimension by arguing that XKSH was an immediate and near-term goal to provide social stability by increasing incomes and living standards (Mahoney, 2008: 111-113). XKSH was an eclectic collection of state priorities that married sustainable economic development with the maintenance of social and political stability. In this evolution, a carefully constructed social structure is taken apart by ideological doctrines favouring egalitarian and utopian distribution of wealth before it is injected with a dose of pragmatism to secure stable social conditions for implementation of economic reforms. The XKSH is an offshoot of Deng’s near-term pragmatism to secure stable social conditions and political stability for implementing ongoing reforms and dealing with the excesses of those reforms. Mainly a domestically-oriented doctrine, it was appropriated by the Hu-Wen administration as a slogan for catering to the rising middle classes and Chinese individuals who felt that they were lagging behind others in the economic miracle. Popular interpretations of XKSH also contextualized these ideas within prevailing socio-political trends. For example, according to Cary Huang’s (South China Morning Post reporter) interpretation of XKSH, it was a concept which Hu turned to when navigating China through a period of “rapid resource
consumption, increasing pollution and a widening wealth gap” (Huang, 2012: A5). If this interpretation was accepted, it would imply that energy and environmental issues were important components of the XKSH concept. The question then remains, how much continuity will XKSH have in influencing the direction of CD? What is the sustainability of this narrative? A pragmatic assessment of a society that combines wealth with sustainable development may be an answer to this conundrum. These are elements that The Economist proposed in the making of the CD. Its article titled “Chasing the Chinese Dream” argued that Xi may have adapted the CD concept from an October 2012 New York Times article written by Thomas Friedman (“China Needs Its Own Dream”) who urged Xi to come up with a new Chinese dream that is prosperous and sustainable.¹ Note also the official daily’s comparative take on the CD and the American Dream. The People’s Daily also hinted at some complementarities of the CD with the American Dream (AD) although the association of CD with AD is predated further back to its article on 12 February 2009:

The concept of “American dream” is familiar to everyone – through hard work, you will get ahead. The core values envisioned in the American dream have all along enlightened generations of ordinary Americans to start up from scratch and inch up the social ladders.²

The article highlights the feature of Calvinist ethics, meritocracy and hard work, suggesting to its Chinese audience that these qualities can also be transplanted to China with Chinese features. Given the Chinese government’s accent on egalitarianism, the same article urged parents and university graduates to temper with their expectations and adjust to environmental economic conditions in the job-hunting season. This particular angle of CD interpretation is specific for a targeted audience. It demonstrated the flexibility of the CD narrative in adapting to different social debates and issues. Because of this flexibility, it has also been critiqued for its ambiguity. Due to its characterized “vagueness” of the concept, The Economist decided to label it as a “slogan” subjected to a wide array of individual interpretations:

…the lack of specificity also carries risks. It provides a space in which the Chinese can think of their own dreams – which may not coincide with Mr Xi’s. Since November [2012] the term has not merely been promulgated. It has been discussed and even argued about across the political spectrum, both in articles published by the official media and in outpourings online. In effect, the public is defining the dream by itself.³

This interpretation is, however, not universal. An important commentary carried in the Global Times, often associated by foreign commentators and media analysts with official views or state-centric perspectives, argues that:
The “Chinese dream” is neither an empty slogan nor concept. It inspires China and its people to reach prosperity and strive for a better future. A country that actively makes progress will surely provide individuals with greater opportunities.4

The basis for forwarding this perspective is three-pronged: first, it puts forward the argument that collective and individual goals are incorporated into the idea of CD; second, it seeks to achieve equilibrium between communitarian goals and individual aspirations; third, legal safeguards and free market distribution of resources are utilized to bring about social equity and fairness.5 It is possible that both The Economist and Global Times are equally valid in their reading and interpretation of CD, just focusing on two different aspects of the same concept. The CD is both a slogan and a tangible entity. On the one hand, it facilitates planners and other elites to craft and shape China’s future through identifying important elements for the country’s future based on aggregated social agendas and interests (tangible policy inputs) while providing ample space for accommodating individual expressions of aspirations (aggregated wants and desires). The common point between the two readings is perhaps the idea of “meritocracy” – the concept that individuals deserve social mobility based on their own capabilities and the ability of the social and political systems to provide a structure that ensures fair competition and equal opportunities. These are tangible outputs of the CD concept. Reality often deviates from ideal but, without providing a direction for achieving the ideal mean, it is difficult to craft policies and introduce structural changes and reforms. In this broad overarching sense, it is also a slogan.

3. China’s CD

On 15 November 2012, Xi Jinping defined the CD when he assumed the position of General Secretary of the Chinese Communist Party (CCP): “Our people love life and expect a better education system, more job stability, better income, more reliable social security, medical care of a higher standard, more comfortable living conditions and a more beautiful environment….”6 Most of these items require energy to fuel the state aspirations but, in addition to managing its energy needs, the Chinese leadership is focusing on its environmental upgrading projects (the last item in the quotation) as part of its “China Dream (CD)” concept. A clean and green environment is also related to the previous administration’s “harmonious society (HS or xiaokang shehui XKSH)”.

Zhou Tianyong’s (Professor, Party School of the Central Committee of the Communist Party of China (CCP)) environmental reading of CD is probably one of the most explicit from the state and Party perspective: “People now dream for a beautiful natural environment and a safe social environment. They dream for safe water and food, and for clean air, noise-free
nights, unlittered streets, parks, and natural habitats such as wetlands, green mountains and clear rivers.”

The track record by the Chinese government in achieving environmental progress is evaluated differently by the media. For example, the *South China Morning Post* (SCMP) reported that the Pew Charitable Trusts’ study indicated China was benefitting (attracting US$65 billion clean energy investments in 2012) from the renewable energy sector (solar and wind). Such news were greeted contentiously and cautiously, given that there is room for further improvements in environmental efforts with the ongoing PM2.5 (particulate matter particles with a diameter less than 2.5 micrometres) smog and the appearance of floating farm animals in a Shanghai river at the point of this writing. David Tang’s commentary and narrative on the importance of a “people’s approach” in the provision of clean air, water and land is representative of China’s emphasis on environmental issues henceforth (whether in accordance with the CD or HS doctrines) (Tang, 2012: A13). But ideas about a clean environment in CD remains individualistically read and conceived. In the deliberate absence of a standardized definition of CD, any interpretation remains an idiosyncratic reading.

A caveat for associating environmental considerations solely with CD needs to be mitigated with the idea that the viability of a green energy industry is based on profitability. There is therefore a need to separate narrative from reality. While the CD narrative outlines an ideal situation of meeting the twin needs of energy supply and environmental clean-up, in reality, these two goals are not entirely complementary in the near term and they sometimes clash with each other, particularly when guided by profit-making imperatives. In meeting the twin goals of energy sufficiency and environmental priorities, Chinese planners are taking a two-pronged approach by securing more (potentially polluting) fossil fuels for its immediate energy needs while investing in green energy technologies and renewable sources of energy for the long run. In the fossil fuels sector, China’s largest coal group Shenhua is extending into logistical and coal investment businesses overseas (e.g. with the Russian En+ Group for basic transport infrastructure and port facilities, agreement signed on March 2013), particularly in periods of weaker coal demand. In a special issue of the *South China Morning Post* on Russia and Greater China, an excerpt drawn from the Russian media indicated that Chinese investments are heading towards an inaugural coal mine project in Russia, the Kuznetsk Basin mine in west Siberia. Similarly, domestic investments are going into electricity transmission infrastructure to overcome bottlenecks in the highway, rail and waterway transportation infrastructure for transporting its coal resources. These projects are likely to contribute to *status quo* emissions, meeting the energy needs side of the CD but not fully accommodating environmental expectations in the same “Dream”.
The fossil fuel projects are carried out in tandem with the renewable energy investments. China’s government and private sector are also heading towards more environmentally-friendly energy usage. In the renewable energy sector (a major feature of China’s clean energy push), China’s biggest wind turbine maker Xinjiang Goldwind Science and Technology is expanding its electricity supply portfolio in Australia. Counterbalancing increased fossil fuel use (particularly the polluting coal resources), there are other media reports indicating that China is getting serious about environmental violations. For example, according to Hong Kong’s widely-circulated Apple Daily, Shenhua, China’s largest coal company was fined RMB100,000 for contravening the environment and made to stop production work until further inspections and approvals are provided by the environmental authorities in China. Nobody is under the illusion that China can solve all its environmental issues immediately, given her reliance on coal resources:

If China maintains close to its current gross domestic product growth rate, its energy demand will reach 5 billion tonnes of coal equivalent by 2020. That means, by 2020, China will need to consume 3 billion tonnes of coal and 640 million tonnes of oil each year.

Coal represents the narrative point of convergence for the harmonious society (HS) idea where social agitation for a clean environment meets the priority of offering affordable energy sufficiency for Chinese consumers. In the coal industry, environmental issues are not restricted only to natural causes. Manmade causes have also been a concern with cave-ins and flooding of coal mines. While coal is a plentiful resource in China, it is also dangerous to extract the fuel. Coal mine accidents in China and elsewhere often make the news in the local and international dailies. They are also the subject of popular culture with films like Blind Shaft which depicts the harsh lives of coal miners. These images of the coal industry represent the undesirable and socially unacceptable side of the industry. In an attempt to address social harmony and the accessibility of CD to everyone regardless of social class and occupation, there are some attempts to revamp the coal industry (often perceived to be the most polluting within the fossil fuel sector). China Coal Energy (a firm with ties to the state and also listed on the stock market) plans to take over some mines from its mother company China National Coal Group which itself acquired small-scale mines to reform Shanxi (China’s coal country) mining sector’s mine safety and efficiency. The CD angle to the continued use of coal is probably reflected in the domestic concerns of Chinese and foreign environmentalists who have been arguing for a maximum quota on coal consumption in China. In the last Hu-Wen administration, Premier Wen advocated accelerating plans to limit
overall energy consumption, including a coal cap. Continuity of coal mine consolidation will depend on the CD orientation of the Xi-Li administration.

4. Conclusion

The CD idea is functionally not a doctrine intended to promote patriotism, nationalism and loyalty but a domestically-oriented slogan to mobilize people for state-building purposes and maintain social harmony for economic development to proceed. The fact that it can be individually interpreted is less important than how it provides some broad form of intangible national goals which reflect the national aspirations of its people, society and rising middle classes by allowing them to participate in the construction of the narrative. Narratives like CD and XKSH in the popular media and probably other sectors like academic and policy-making circles exhibit dual-purposes in serving both domestic and external functions. They are directed at the domestic audiences to address domestic social concerns while reaching out externally to an international audience to explain China’s domestic priorities in the years ahead. This dualistic function indicates that narratives are shaped and crafted for different audiences who then formulate their own responses and reception of those narratives. Outside narratives in the popular media and a slogan for the political leadership transition, it may also be possible to conceive the CD in social mobilization terms. In this rubric, Xi Jinping’s China Dream (CD) may be compared with Obama’s “change” speeches back in 2008. CD can resemble an impressionable phrase that a new political leader circulates for social mobilization when they assume office. The advent of social media like Weibo in China, however, adds the technological implication of the CD narrative since nowadays Chinese netizens participate in the discussion of how to interpret it. This may introduce a degree of fluidity and ambiguity to the China Dream narrative in the continuing evolution of Chinese official doctrines like Hu Jintao’s “Scientific Development” and Jiang Zimin’s “Three Representatives”.

Some commentators declare that their reading of the concept of CD is an individual one and may not reflect the orthodoxy of the slogan nor a collective interpretation (assuming if there were such readings in the first place). For example, John Gong’s narrative of CD written as a commentary for SCMP admits that his views are a “mostly individualistic interpretation of the Chinese dream in the context of the American dream (AD).” Different parties with varying agendas have appropriated CD for their own purposes and agendas, environmental agendas are only one of them. Simultaneous to these individual appropriations, the state priority of collective social mobilization through the CD concept sometimes appear in state media interpretations of the CD: “Similarly, only when everyone is hard-working and full of vigour to make their due contribution, can the “Chinese Dream” better
be realized.” In other words, while the CD can be appropriated individually for different personal aspirations, there is a collective contribution to make. A social contract is gradually formed in this way with Xi promising to “build a government that is clean, responsible, service-oriented, and which adheres to the rule of law.” In trying to reach broad consensus for this social contract, a People’s Daily article titled “Driving forces behind ‘Chinese dream’” highlighted the following areas for consideration:

The first is the pursuit of economic liftoff, livelihood improvement, and social and environmental progress. The second is the pursuit of fairness and justice, democracy and the rule of law, civic growth, cultural prosperity, educational progress, and technological innovation. The third is the pursuit of national wealth and military strength, national dignity, sovereign integrity, national unity, and world peace.

These are lofty ideas which are broad and universal enough to accommodate a wide consensus and yet still afford some degree of flexibility for interpretation. The accent here is pragmatism. The combination of state priorities (national defense, economic development, territorial integrity) and individual pursuits (right to education, equitable competitive environment and access to rule of law) creates incentives for both the state and the individual to shape the narrative of the CD. In other words, it tries to be all-encompassing in its audience reach by deliberately incorporating a broad swathe of legitimate social concerns.

The evolving interpretation of CD is a dynamic process in the media sector. The privately-owned free media found in Hong Kong and Japan are not subjected to propaganda and official censorship but, like all other media outfits in the free world, they practice their own form of self-censorship or toe the line of boundary markers laid down by the state or its bureaucracy while simultaneously challenging these boundary markers. News production in this case is therefore subjected to both state agendas and commercial interests of the media groups. Will the CD cross the path of US Rebalancing (USR), US Pivot (USP) or the American Dream (AD)? China Threat (CT) theorists or individuals who point out the threat of Chinese expansionism and model of development can refer to Tom Holland’s commentary which discussed Stephen Leeb and Gregory Dorsey’s publication *How China’s Growing Prosperity Threatens the American Way of Life*. Leeb and Dorsey noted that Chinese demand for resources results in a price increase of commodities that affect the purses of American consumers, e.g. energy costs in the US average household increased from 4 per cent of household income to 10 per cent. In this case, Chinese consumption seems to have the potential to affect the American Dream (AD), particularly the capacity of the US middle class to cope with monthly energy costs.
As for narratives from the state media, the *Caixin* commentary titled “Defining the Chinese Dream” is probably the most explicit writing that I came across which linked the US rebalancing strategy with the Chinese Dream. The commentary couched the CD in international relations jargon, associating it with soft power:

This is nothing short of a competition between the American Dream and the Chinese Dream. China has to adjust, elaborate and strengthen the substance of its Chinese Dream, to increase its moral appeal to others. Once this missing piece of the puzzle is filled in, Chinese diplomacy will have found a new lease of life.23

There are some possible follow-up questions in continuing research on this topical matter. If CD continues to evolve in accordance with China’s domestic situation, how many complementary features will it share with the American Dream (AD) narrative? Will USP and USR become a new form of manifest destiny supporting US’s destined rights to be in the Pacific, Asia and East Asia? Will it clash with the enhanced aspirations of the Chinese people and state and their CD aspirations? These are questions for future research as the CD/USR/USP becomes more concretized. In the meantime, based on the contesting narratives of the CD, USR and USP and the ambiguous nature of individual interpretations, it does not appear that they are very successful in shaping collective attitudes through externally-imposed uniform values, therefore they may not qualify as a form of propaganda un-problematically. They are, however, important narratives that are thrown out into the public (domestic and international) narrative spaces for shaping public discourses and justify individual agendas and interests. In the final analysis, the CD doctrine may evolve to accommodate future domestic political and social changes in China.

Notes
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Book Review

China is today Malaysia’s largest trading partner, while Malaysia has also become China’s largest trade partner among the ASEAN countries for seven consecutive years. For both China and Malaysia, the bilateral relationship has become very important and will be even more so in the future. Therefore, as the first study in the English language devoted to the history of bilateral relations between Malaysia and China, this book has its important practical significance and academic value because of its groundbreaking explorations and useful researches in this field.

At the beginning of the book, the author raises two key questions: First, why did Malaysia decide to normalize relations with China? Second, why did Malaysia become the first country in ASEAN to establish diplomatic relations with China? Then, the author uses the theoretical framework – Foreign Policy Analysis (FPA) and intends to define the parameters for Malaysia’s foreign policy. The author believes that the domestic-external linkages as well as personality factors were the main factors driving Malaysia’s policy towards China. Subsequently, the author divides the history of Malaysia-China relations into five sections in chronological order (which also constitute five main chapters). They are: 1957-1966, from independence to the end of *Konfrontasi*; 1967-1969, shifts in Malaysia’s internal and external environments; 1970-1972, Tun Razak and changes in Malaysian foreign policy; 1972-1974, the decision-making process and the road towards normalization; 1974, an assessment of Razak’s China visit.

In each of these chapters, the author surveys the general foreign policy towards China, Malaysian domestic politics, external factors, Malaysian political leaders’ personalities and the role of the government bureaucracy. And at the end of the book, the author discusses the meaning and limits of normalizing ties with China and concludes that: the country’s normalization policy was mainly driven by domestic considerations, while the personality of the main leaders also played an important role in the decision-making process. The ASEAN countries received no prior consultations on the normalization and in fact there were elements of competition amongst some countries in trying to be the first in establishing diplomatic relationships with China.
The most important contribution of the book is the comprehensive discussion of the development of Malaysia-China relations during the Cold War. As the author argues, because “there is little academic work done on Malaysian foreign policy, this study offers a contribution towards this body of literature” (p. 2). Especially, the book offers a unique analysis in the normalization process of the diplomatic bilateral relations of the two countries. A most outstanding feature of the book is that the author carefully considers Malaysia’s foreign policy-making process within the Cold War context, and combines the impacts of both camps (of the Cold War) and the contests among the neighbouring countries with the saliency of Malaysia’s domestic politics which include the ethnic politics dimension, the bureaucracy, and politicians’ political games. It therefore provides an interesting and important supplement to the current research in the field of International Cold War History.

Also, as the first English work on the history of Malaysia-China relations during the Cold War, this book makes full use of the Malaysian governmental archives and other historical materials.

However, behind the outstanding features of the book, there are also some shortcomings. The application of the theoretical framework seems to be a bit rigid and not wholly convincing. For instance, the author contends the applicability of Mohammed Ayoob’s pioneering work on the security dilemma of the developing countries to the case of Malaysia’s foreign policy, but then proceeded to acknowledge that it would have limited utility for an analysis of foreign policy-making of the Malaysian government. The subsequent chapters confirm that apart from combining the examination of domestic and external factors into the analysis of Malaysia’s changing policy towards China, there is no real “theory” in the book. The outstanding contribution of this book may be in history rather than theory.

Overall, this book offers a solid foundation for future studies in this area of research to build upon. Perhaps Chinese scholars should now use Chinese archives and materials and come up with a study from the Chinese side, and then we can get a fuller picture of the history of Malaysia-China bilateral relations during the Cold War.

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