LOWY INSTITUTE
FOR INTERNATIONAL POLICY

FEBRUARY 2013

ANALYSIS

China's Foreign Policy Dilemma

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Executive summary

Foreign policy will not be a top priority of China's new leader Xi Jinping. Xi is under pressure from many sectors of society to tackle China's formidable domestic problems. To stay in power Xi must ensure continued economic growth and social stability.

Due to the new leadership's preoccupation with domestic issues, Chinese foreign policy can be expected to be reactive. This may have serious consequences because of the potentially explosive nature of two of China's most pressing foreign policy challenges: how to decrease tensions with Japan over the Senkaku/Diaoyu islands and with Southeast Asian states over territorial claims in the South China Sea.

A lack of attention by China's senior leaders to these sovereignty disputes is a recipe for disaster. If a maritime or aerial incident occurs, nationalist pressure will narrow the room for manoeuvre of leaders in each of the countries involved in the incident. There are numerous foreign and security policy actors within China who favour Beijing taking a more forceful stance in its foreign policy. Regional stability could be at risk if China's new leadership merely reacts as events unfold, as has too often been the case in recent years.

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China's foreign policy dilemma*

The international community assumes that China is on the rise. Stunning economic growth and rapid military modernisation reflect the ascent of this huge and populous nation to world-power status.

Chinese, on the other hand, regardless of whether they are policymakers, businessmen or intellectuals, are deeply worried about the future of their country. They question China's ability to continue to rise because of daunting domestic problems, many of which can only be tackled by bold reform of the one-party state. The leaders of the Communist Party of China (CPC) are aware that far-reaching legal reform and major structural changes in the financial sector are prerequisites for continued economic growth. The establishment of the rule of law would also curb corruption and social injustice, causes of widespread public dissatisfaction. While there is general consensus among Chinese officials that reform is necessary, there are significant disagreements on the specifics of reform. Powerful interest groups, upon which the Party relies for political support, do not want to see their privileges eroded.

This gulf between the outside world's perceptions of China as a rising power and the preoccupation of Chinese leaders with internal problems complicates attempts to understand China's foreign policy. On the one hand, China's rise causes jitters in the international community, especially since China in recent years has become more assertive internationally. No one knows with certainty how a rising China will use its power. In private, many Chinese policymakers and analysts concede that they do not know either, despite China's assurances in public that its rise will be peaceful.[1] On the other hand, China's international role is not the foremost concern of the country's leaders. Time and again over the course of 2012, in discussions with officials working on foreign policy, China's serious domestic challenges were the main topic of conversation.[2] These officials highlighted the amount of effort that China's top leader, Xi Jinping, will need to devote to tackling domestic problems. Only about one-tenth of the lengthy work report of the 18th CPC Party Congress, a policy guidance document for the next five years, dealt with external issues.

Due to these domestic pressures, China's foreign policy will continue to be reactive. Foreign policy, while important, will not be a top priority of Xi Jinping or any of the other six members of the Politburo Standing Committee (PSC), the ultimate decision-making body of the Communist Party. No one on the PSC is specifically in charge of foreign policy. In addition, like all decisions in the PSC, key foreign policy positions are determined on the basis of a consensus-building process. As a result, both official foreign policy actors and those on the margins of the policy establishment can try to influence the process by lobbying any given PSC member.[3] As chair of the PSC, Xi Jinping has the last word when pressing foreign and security policy decisions need to be made, but he has multiple responsibilities.

In China, rank and influence are determined according to one's position in the Communist Party. For the past five years State Counsellor Dai Bingguo, who has been in charge of the day-to-day management of China's diplomacy, and Foreign Minister Yang Jiechi have been

mere members of the 204-member Central Committee, the third-level power structure of the Party, under the PSC and Politburo. Hence, all of the Politburo's 25 members outranked both Dai and Yang.[4] Dai is retiring and is expected to again be replaced by a Central Committee member, another reflection of the relatively low importance of foreign policy on the leadership's agenda. Whoever succeeds Dai and Yang in the government realignment in March 2013 will continue to serve as key managers of China's diplomacy, not its crafters.

This Analysis assesses China's most imminent foreign policy challenges against the background of a pressing domestic agenda. It begins with an overview of China's foreign policy objectives. The next section discusses the major foreign policy issues facing China's new leaders: relations with the United States, Japan, Southeast Asia, and North Korea. The paper concludes by discussing the factors that will shape China's foreign policy in the next few years.

China's foreign policy objectives

Officially, China defines its foreign policy objectives as follows: first, domestic political stability; second, sovereign security, territorial integrity and national unification; and third, China's sustainable economic and social development.[5] It is noteworthy that the primary objective is domestic stability – which means ensuring that the Communist Party stays in power and the socialist system remains intact.[6] At the same time, China's leaders acknowledge that a stable external environment is conducive to achieving these three main goals.

An underlying, although unstated, objective is that China seeks respect as a major power and wishes to be seen as a responsible member of the international community. Ever since the founding of the People's Republic of China in 1949, the Communist Party has emphasised the need for China to regain respect and dignity as a great nation after being humiliated by foreign invaders for over a century. Today, after three decades of rapid economic growth, Chinese officials feel that China no longer needs to acquiesce to outsiders' demands, something that they feel China has been compelled to do in the past for the sake of the country's modernisation. At the same time, they crave recognition for China's increasing contributions to global stability and prosperity. China has a dual identity, in the words of scholar Jing Men: a strange combination of self-superiority and self-inferiority.[7] This dichotomy is evident in Chinese foreign policy thinking despite the country's increased power and standing in the international arena.

Xi's first public activity after becoming China's top leader was to tour an exhibition entitled 'The Road to Revival' at the National Museum in Beijing. During the visit Xi spoke about the renewal of the Chinese nation and the 'China Dream', usually a reference to the need for domestic reform to ensure that China continues to modernise. Xi's remarks were, however, seen by some observers as a signal that he wants to be viewed as a leader who will support China taking assertive measures internationally.[8] Others point to a remark Xi made in 2009 while visiting Mexico City as proof of a supposedly nationalist streak. In a taped broadcast on Hong Kong television, Xi said: 'There are a few foreigners, with full bellies, who have nothing better to do than try to point

fingers at our country. China does not export revolution, hunger, poverty nor does China cause you any headaches. Just what else do you want?'[9]

Regardless of how these events are interpreted, Xi must consider the strong nationalist sentiments amongst Chinese elites and establish his credentials as a Communist Party leader who will defend China's national interests. He cannot risk being perceived as a leader who allows China to be humiliated by foreigners, in particular by Japan or by Western countries.

The 18th Party Congress work report, the single most important public document outlining the Party's strategy over the next five years, also hints at a more assertive Chinese foreign policy. It pledges to 'never yield to outside pressure', a phrase which was not in the 2007 work report. Another new addition was the promise to 'protect China's legitimate rights and interests overseas' when working to promote public diplomacy.[10]

China's key foreign policy challenges

China's new leaders face pressing foreign policy challenges. They must maintain a constructive relationship with the United States, find a way to defuse tensions over sovereignty disputes with Japan and Southeast Asian nations, and manage ties with North Korea.

Relations with the United States

Xi Jinping can be expected to strive toward constructive ties with Washington. The two countries are highly interdependent. A deterioration in China's most important bilateral relationship would seriously undermine the imperative of ensuring economic growth and initiating major structural reform. Nevertheless, in the China-US relationship the tension between China's focus on domestic reform and its desire to be respected internationally is especially acute. Therefore, maintaining cooperative relations with Washington will continue to be a major challenge for China's leaders.

When visiting Washington as vice-president in early 2012 Xi Jinping spoke about the need for both countries to respect each other's 'core interests'. Chinese officials have in recent years stressed this point, suggesting there are certain 'lines' that cannot be crossed in relations with China. In 2009 Hu Jintao broadly defined China's core interests as safeguarding 'sovereignty, security, and development'. But these core interests are sometimes in tension with each other, and the definition of what constitutes core interests is constantly debated among Chinese analysts. These debates in turn give rise to speculation among foreign observers that, as its power grows, China is contemplating an expansion of its 'core interests'. Wang Jisi, an authoritative Chinese foreign policy specialist, dismisses this. He notes that apart from the issue of Taiwan, 'the Chinese government has never officially identified any single foreign policy issue as one of the country's core interests.'[11]

In China, Barack Obama's speech to the Australian Parliament in 2011 has been interpreted as being aimed unequivocally at China.[12] From Beijing's perspective, Washington's 'rebalancing' to Asia is overwhelmingly seen as an effort by the United States to slow down China's rise to limit its rightful role as a major regional power. After

How international are China's new leaders?

It is remarkable, but at the same time troubling, that so little is known about the international outlook of the leaders in the world's second largest economy. Contrary to leaders-in-waiting in Western countries, **Xi Jinping** did not publicly expound on his vision of China's international role before becoming the top leader. Despite the dramatic changes which the Communist Party has overseen in China during the past 30 years, the personal views of senior leaders remain as opaque as the decision-making processes in China.

The current Politburo Standing Committee has more international experience than the previous PSC had at the time of its appointment. Nonetheless, its members do not have the same kind of first-hand knowledge of the outside world as millions of Chinese who have studied and worked abroad over the past three decades. Only one member of the current PSC has studied abroad – **Zhang Dejiang** attended university in Pyongyang.

What we know about Xi Jinping's international outlook is what the Chinese authorities want us to know. Any assessment is based on official Chinese media sources, other open analysis, a handful of his own public statements, private discussions with Chinese officials who have had dealings with Xi, and the 18th Party Congress work report that Xi had a role in crafting.[13]

Xi's official biography does not mention command of a foreign language. He was an adolescent during the Cultural Revolution when China was closed to the outside world.

Nevertheless, over the past five years Xi has travelled extensively. He is also regarded as being somewhat familiar with life in the West because his daughter studies at Harvard University and his sister has lived in Canada.

Like Xi, **Li Keqiang**, second in CPC hierarchy and China's future premier, has made dozens of overseas visits in preparation for his senior position. Li gives speeches in English. He is expected to be principally responsible for the economy and the key senior leader in charge of relations with the European Union, China's largest trading partner.

Wang Qishan is the current PSC's foreign affairs heavyweight, having served as China's delegation leader at the US-China Strategic and Economic Dialogue since 2009. Though Wang has been tasked with heading the new leadership's anti-corruption drive, his long experience in the financial sector means he will weigh in on economic decisions and financial reform, alongside Li; he will also serve as Xi's right-hand man on China-US relations. Several US officials, among them former treasury secretaries Hank Paulson and Timothy Geithner, speak highly of Wang. Paulson has said Wang, an 'avid historian' with a 'wicked sense of humour', 'understands the U.S. and knows that each of our two countries benefits from the other's economic success'.[14] Geithner has called Wang China's 'pre-eminent problem solver.'[15]

Obama's speech it has become difficult for even the most moderate Chinese analysts to claim that US intentions toward China are benign.[16]

Obama's Canberra speech drew particular ire in Beijing because it was seen as advocating regime change in China. Obama's exact words were: 'Other models have been tried and they have failed – fascism and communism, rule by one man and rule by committee. And they failed for the same simple reason: They ignore the ultimate source of power and legitimacy – the will of the people.'[17] The paramount goal of the CPC leadership is regime survival. Obama even took a swipe at China's spectacular economic progress by stating that 'prosperity without freedom is just another form of poverty'.[18]

The closest that the Chinese government has come to responding to Washington's rebalancing strategy is to state the need for a 'new type of major power relationship'. Xi Jinping mentioned this concept when visiting Washington in 2012 and it is included as a goal in the Party Congress work report.[19] It recognises that China, as the rising power, and the United States, as the dominant power, have conflicting views of security. It acknowledges that there is a need to avoid the kind of havoc that has historically accompanied global power transitions. To date, the concept has mostly been used by Chinese analysts to advocate changes in US behaviour toward China rather than to suggest that both sides must adjust their stances toward each other.

Outside of the Chinese government, a wide spectrum of opinion exists as to how China should respond to US rebalancing. A common thread among Chinese foreign policy experts is the belief that 'time is on China's side'. Chu Shulong of Tsinghua University writes: 'China should not ... utilise any pointed strategy to counter the US and Japan's ...unconstructive regional strategy. This is not because China is fearful, but because the US and Japan ... can no longer do as they please.'[20] A second theme is that China needs a stronger strategic focus on Asia. Cui Liru, who heads one of China's most influential security policy think tanks, believes China should place the Asia-Pacific at the heart of a 'diplomacy-first' strategy.[21]

There are numerous issues on which Beijing and Washington do not see eye to eye, ranging from China's trade practices and human rights abuses to how to deal with Iran, North Korea and Syria. One of the most sensitive and contentious issues is US intelligence gathering in China's exclusive economic zone (EEZ). According to Bonnie Glaser, a leading American specialist on South China Sea disputes, the most likely and dangerous contingency involving the United States in the South China Sea is a clash stemming from US military operations within China's EEZ that provokes an armed Chinese response.[22] In Washington's view, the United Nations Convention on the Law of the Sea (UNCLOS) does not prevent military forces of any country from conducting military activities in EEZs without the coastal state's notice or consent. In Beijing's view, reconnaissance activities undertaken without prior notification and without permission of the coastal state violate Chinese domestic law and international law. Operations by China's growing fleet of submarines as well as routine interceptions of US reconnaissance flights increase the risk of an incident.

Despite the pessimism expressed by both Chinese and American analysts about deepening China-US strategic mistrust, there are signs of growing maturity in the relationship.[23] One example was the manner in which two potentially destabilising crises in 2012 were defused by Chinese and American diplomats. Even five years ago these two crises – an asylum request by Bo Xilai's police chief on the eve of Xi's Washington visit and the flight of blind activist Chen Guangcheng to the US Embassy in Beijing just before the US-China Strategic and Economic Dialogue – might have derailed relations. This time they did not. It reflects growing recognition by senior officials in both countries that they must find the means to get along.

Relations with Japan

Xi Jinping's immediate foreign policy test will be his ability to ease tensions with Japan over disputed islands in the East China Sea, called Senkaku in Japanese and Diaoyu in Chinese (see map on last page). The situation is explosive. In the event that a collision – either accidental or intentional – between Japanese and Chinese vessels or aircraft leads to a loss of life, an armed conflict could erupt between the two countries. Emotionally charged nationalist sentiment among Chinese and Japanese citizens and officials makes it extremely difficult for senior leaders of either country to put forward a proposal which would stabilise the fraught situation.

Genuine acrimony lingers between the two nations despite over 40 years of comprehensive economic and societal ties. Strong anti-Japanese sentiment amongst Chinese people stems in part from the perception that Japan has never fully atoned for World War II atrocities and in part from the Communist Party's continuous emphasis on the victimisation of Chinese at the hands of the Japanese prior to 1949. Japanese people, in turn, are apprehensive about China's growing power and assertiveness. Over the past decade, ties between China and Japan have deteriorated on several occasions, often as a result of inflammatory statements and visits to the controversial Yasukuni war shrine by right-wing Japanese politicians.

In recent years, incidents around the Senkaku/Diaoyu islands have become the main source of tension between the two countries.[24] The governments in Beijing, Taipei and Tokyo all claim sovereignty over what are basically large uninhabited rock islets, which were annexed by Japan in 1895. The United States occupied them in 1945 and handed over the administrative rights of the islands to Japan in 1972 although they were privately owned.[25] There are potentially large oil and gas deposits in the seabed near the islands.[26]

The current stand-off over the Senkaku/Diaoyu islands came to a head in September 2012 when Japan's central government purchased four of the five disputed islands from a Japanese family who had owned them for decades. According to Japanese officials, the government's decision was made to deter Tokyo's right-wing governor Shintaro Ishihara from fulfilling his publicly announced plan to purchase the islands. Ishihara is notorious for his nationalist outbursts. He refers to the People's Republic of China as 'Shina', a derogatory term associated with Japan's 1937-1945 occupation of parts of China. Ishihara has also said that the Rape of Nanking, in which the Imperial Japanese Army killed more

than 200,000 Chinese civilians, 'is a story made up by the Chinese.'[27]

From Beijing's perspective, the change in ownership of the disputed islands signalled an unacceptable change in the *status quo*. Some observers, writing in Chinese-language overseas publications, claimed that the timing of the Japanese government's purchase was intentionally chosen to coincide with the politically sensitive period ahead of the CPC leadership change at the Party Congress.[28] Whether intentional or not, the Japanese government could not have purchased the islands at a more volatile time. Even some Japanese diplomats privately criticised the timing of the decision by former Prime Minister Noda, who later acknowledged that he had underestimated the Beijing government's reaction to the purchase.[29]

Beijing condemned the purchase as a gross violation of China's sovereignty. Subsequently, the Chinese authorities gave their blessing to an outpouring of anti-Japanese sentiment in massive demonstrations across China. This led to attacks on Japanese companies and citizens. Furthermore, vessels under the command of China's maritime law enforcement agencies started to regularly patrol the area around the Senkaku/Diaoyu islands, crossing into the 12-nautical-mile territorial zone around the islands, with the intention of 'protecting' China's sovereignty.[30] In December 2012 a Chinese civilian surveillance plane conducted an aerial patrol of the islands for the first time, entering what Japan regards as its air space. Japan responded by sending F-15 fighter jets to intercept the Chinese aircraft.[31] The risk of an incident further increased in early 2013 after China also began scrambling air force fighter jets in response to flights over the islands by Japanese aircraft.[32]

Prior to the change in ownership of the islands, China's law enforcement agency vessels had already been involved in numerous incidents in disputed waters in the East and South China Seas. Initially, a plausible explanation for the increasing assertiveness of Chinese civilian agency vessels was an overzealous pursuit of their mandate to defend China's sovereignty in disputed waters combined with a lack of attention to these activities by the senior Chinese leadership. However, this is no longer necessarily the case. In mid-2012 Xi Jinping was reportedly put in charge of a new senior leaders group tasked to focus on maritime security. In September 2012, soon after the Japanese government's purchase of the disputed islands, Xi was also made head of a new 'Office to Respond to the Diaoyu Crisis'.[33] Therefore, one can assume that Xi Jinping has been consulted about the patrols.

In January 2013 a Chinese official involved in the standoff with Japan said in private conversation that 'it would be inaccurate to say that Xi Jinping is not aware of the dangers related to the Diaoyu issue, but at times he is intentionally given exaggerated assessments by those who want him to take a tough stance.'[34] The official added, 'the maritime enforcement agencies are still left to independently enforce senior-level directives, and once these agencies have acted, it is very difficult for a senior leader to criticise actions, which were taken in the spirit of defending China's national interests.'

Xi Jinping has every reason to avoid a further deterioration of China-Japan ties. Those who claim that Xi might want to create a national

crisis involving Japan to divert public attention away from domestic problems ignore the importance of Japan to China's continued economic growth. Xi's foremost concern is stability, achieved by ensuring a robust economy. Trade between China and Japan was worth US$329 billion in 2012. Japanese companies employ millions of Chinese.[35]

China's economy has already been hurt by recent anti-Japanese sentiment in China. As Hu Shuli, an influential business editor, pointed out when she advocated a cooling of emotions during the 2012 anti-Japanese protests in China: 'A boycott of Japanese products would not only result in a block on the useful transfer of technology that comes with the import of [Japanese]... products, it would cause massive job losses. This would be disastrous in a shaky Chinese economy.'[36] Japanese direct investment in October 2012 decreased 32.4 per cent from 2011 levels. The United States has, at least for the time being, displaced China as Japan's largest export market.[37] A military conflict would have even graver economic consequences for both sides.

An escalation of tensions between China and Japan would also cause serious problems in China-US ties, which Xi does not desire. While American officials have publicly said that the United States does not take sides on the dispute regarding sovereignty of the islands, they have also confirmed that the Japan-US defence treaty covers the Senkaku Islands.[38] An armed attack on Japan would invoke the defence treaty, thereby obligating the United States to assist Japan in defending the islands.

It is worth noting that according to a senior Japanese military official a collision between maritime law enforcement vessels or aircraft would not constitute an 'attack on Japan' by the terms of the treaty. Only a deliberate act by units of the People's Liberation Army (PLA) may qualify as such an attack.[39]

Although media reports often fail to recognise the difference, patrols of disputed waters are almost always undertaken by vessels of China's civilian law enforcement agencies, not the PLA Navy. While the PLA has consistently supported China defending its territorial claims, it is likely to have been consulted on the decision to use civilian agencies in disputed waters as a way to decrease the risk of military escalation. There are tight linkages between the PLA and the civilian maritime agencies, whose personnel the PLA trains.[40] It is important to remember, however, that the PLA does not speak with one voice. A handful of PLA officers regularly express uncompromising views about China's territorial claims in the Chinese media, which in turn has spurred belligerent commentary among media commentators and netizens.[41] These well-known military commentators would not be able to express publicly such views without the support of at least one high-ranking PLA leader.

In sum, while Xi will try to manage tensions with Japan, he will have to tread extremely carefully to avoid creating a perception amongst Chinese that he is weak in defending China's national interests. One option would be to use diplomatic channels to reach an understanding that each country would send patrols to the Senkaku/Diaoyu area on alternate days. This would require the tacit acknowledgement by Japan that the sovereignty of the islands is disputed, something Japan does not currently concede. According to Tokyo, no

dispute exists – the islands belong to Japan. In the short term it would be equally essential to reach an agreement to share fishing rights in the disputed waters because confrontations between fishermen have sparked many of the recent incidents.

An agreement to jointly develop fossil resources would require a significant decrease in tensions between the two countries. Such an agreement was reached between Xi Jinping's predecessor, Hu Jintao, and then-Prime Minister Yasuo Fukuda in 2008 in an area (Pinghu Trough) of the East China Sea in which Japan acknowledges the existence of a territorial dispute. But the agreement was never implemented, in part due to renewed friction between China and Japan and in part because of strong resistance by Chinese resource companies.[42] As for the underlying dispute over sovereignty of the islands, ultimately the only feasible option is for the two governments to 'lay aside these issues' as the late Deng Xiaoping advocated in 1978, and defer a final resolution to future generations.[43]

Relations with Southeast Asia

Another major challenge for China's new leadership is how to manage the risk of conflict in the South China Sea (see map on last page). One of the major successes of China's foreign policy after the 1997 Asian financial crisis was Beijing's skillful diplomacy in Southeast Asia. China signed the Treaty of Amity and Cooperation with the Association of Southeast Asian Nations (ASEAN), joined with Japan and South Korea in ASEAN +3, and initiated more joint projects in the region than either the United States or Japan.[44]

However, since 2010 the reservoir of goodwill which China had built up in Southeast Asia over more than a decade has all but evaporated. States in the region fear Beijing is using its growing military, political and economic power to coerce Vietnam and the Philippines, in particular, to accept China's territorial claims in the South China Sea. China, in turn, views fishing and resource exploration activities by Vietnam and the Philippines in what it regards as its territorial waters as infringing on its sovereignty. Beijing fears that anything less than a forceful response would be interpreted – both domestically and internationally – as a forfeiture of its sovereign rights. Chinese commentators routinely warn that China cannot idly stand by and tolerate encroachment on China's rights by other countries.[45]

The situation in the South China Sea is further complicated by the fact that Taiwan, Malaysia and Brunei, in addition to China, Vietnam, and the Philippines, also have longstanding territorial and jurisdictional claims in various parts of the South China Sea. This affects their right to fish and exploit oil, gas and mineral deposits in the region. Several factors have increased tensions in recent years: first, rising nationalism across the region has put pressure on leaders to defend territorial integrity; second, the exploration activities of national and multinational resource companies in disputed waters have intensified; and third, the actions of maritime law enforcement vessels from China, the Philippines and Vietnam in harassing those deemed as violators have become more assertive and audacious.

China's actions over the last few years are at odds with its pledge, reiterated in the 18th Party Congress work report, to 'consolidate friendly relations and deepen mutually beneficial cooperation' with its neighbours.[46] Beijing further alienates its Southeast Asian neighbours by opposing multilateral conflict resolution mechanisms and insisting on bilateral negotiations to resolve or manage the disputes. Beijing vehemently protests what it sees as 'meddling' by the United States in the South China Sea and refuses to involve non-claimants in any negotiation framework.

The growing anxiety that China's rise evokes in countries both near and far is a serious challenge for China. 'Hedging' has become a more prominent aspect of managing relations with China in capitals across the region. Beijing has not a single genuine friend in its neighbourhood. Although governments across the region are taking steps to align themselves closer to the United States as a result of tensions in the South China Sea, they do not want to end up in a situation in which they have to choose between Beijing and Washington.[47]

The most feasible way to reduce tensions in the South China Sea would be for Xi Jinping to adopt a multilateral approach to manage conflicting interests. This would be a game changer. Even if China moved slowly before committing to binding resolutions, China's acceptance of multilateral talks would be welcomed by Southeast Asian governments.

Chinese Southeast Asia experts are aware that China has lost political credibility in many Southeast Asian capitals because of the South China Sea disputes. But, as with any discussion of China's policies toward its neighbours, the experts emphasise Xi Jinping's need to avoid looking as if he were making a concession. Xi must first rally support among diverse domestic constituencies by initiating bold domestic reform and must consolidate his power base before embarking on new initiatives in the international domain. Thus, tensions in the South China Sea will continue.

If Xi Jinping fails to fend off demands by nationalists to display China's determination to defend its sovereignty, a limited armed conflict with either the Philippines or Vietnam cannot be ruled out. China is not only the stronger party in terms of military capabilities. In economic terms, the damage for China would be nowhere near as substantial as it would be vis-à-vis Japan if ties seriously deteriorated, and it would be almost negligible compared to the huge setback Vietnam's and the Philippine's economies are liable to suffer.[48]

Relations with North Korea

Finally, North Korea will remain a key challenge for the Chinese leadership. China's new leaders will struggle to manage relations with Kim Jong-un. The young North Korean leader has already shown his intent to develop the country's missile and nuclear capabilities, despite China's opposition. Further North Korean nuclear testing cannot be ruled out, which would complicate China's relations with key regional nations such as Japan, South Korea and the United States.[49] China's inability to deter Pyongyang from acquiring nuclear weapons would also dent Beijing's hopes of being viewed as a responsible major power.

China's long-standing North Korea policy of 'no war, no instability, no nukes', makes clear

Beijing's priorities. 'No war' and 'no instability' outrank 'no nukes'. China is unlikely to change this policy, despite pressure from the international community. Chinese officials are extremely frustrated by North Korea's development of its nuclear program and its refusal to open up and adopt economic reforms. But China's leaders fear that a regime collapse in Pyongyang would set off massive refugee flows with serious economic and social consequences in China's northeast provinces.[50] Beijing is also concerned about the possibility of US troops on its border, which could be the consequence of a sudden North Korean collapse and establishment of a unified Korea. Additionally, China's military opposes turning its back on its comrade-in-arms from the Korean War.[51]

China's support of the decision by the United Nations Security Council in January 2013 to expand sanctions against North Korea following Pyongyang's rocket launch may have been a signal of Beijing's frustration reaching the point of exasperation. Nevertheless, Beijing is unlikely to fundamentally alter its present approach and seriously pressure Pyongyang by cutting off cash and food flows to its neighbour.

Two of the seven PSC members, Li Keqiang and Zhang Dejiang, have held high-ranking positions in northeast China. They are bound to be wary of risking stability in an area with which they are familiar. They support China's making every effort to expand economic ties with North Korea in the hope that it will deter a collapse of the country into anarchy. Furthermore, Wang Jiarui, a leading Chinese official on North Korea, continues to be a Central Committee member. Whatever job he is assigned in March 2013 when the new government positions are unveiled, he will remain involved in decision-making on North Korea. Among senior civilian officials, Wang Jiarui in particular opposed any public criticism by Beijing of Pyongyang in 2010 following the sinking of the South Korean corvette Cheonan and North Korean shelling of South Korea's Yeonpyong Island.[52]

North Korea is viewed by Chinese analysts as 'the most divisive of foreign policy issues among Chinese senior leaders'.[53] In private, Chinese officials admit that they do not have an effective North Korea policy. But they do not see an alternative to their current approach.[54]

Managing multiple pressures

Although the 18th Party Congress work report decreed that domestic issues, rather than foreign relations, will determine China's development, the new leaders are aware that they need to ensure a stable external environment conducive to economic growth. They will also have to take note of and respond to broader trends which directly affect China's modernisation drive; for example, its dependency on imported resources and open sea lines of communication.

The focus of China's new leaders on domestic concerns increases the risk that the country's foreign policy will be reactive. This is especially relevant in the case of ongoing tensions over various island disputes. Inattention by China's senior leaders to these islands disputes is a recipe for disaster. Once a maritime or aerial incident occurs, domestic pressure will further narrow the room for manoeuvre of leaders in

each of the countries involved in the incident. There are numerous foreign and security policy actors within China who favour Beijing taking a more forceful stance on sovereignty issues. They can only be managed by close attention of the senior leadership to developments related to the islands disputes. Regional stability is at risk if China's senior leadership merely reacts as events unfold, as has too often been the case in Beijing in recent years.

Two decisions taken in late 2012, one by the Hainan provincial government and the other by the Ministry of Public Security, are worrying reminders of the dysfunctionality of decision-making in China. They also underline the damage a single government entity can cause to China's international relations. In November, the Ministry of Public Security issued new passports with maps including disputed islands as Chinese territory. Predictably, this caused an outcry in neighbouring countries. The Foreign Ministry was not consulted on this decision ahead of time, and Foreign Minister Yang Jiechi was described as being 'furious' upon hearing the news.[55] In December, the Hainan provincial government announced that China's maritime law enforcement agency vessels would stop and search ships in contested areas of the South China Sea. No central government approval was sought.[56]

In both cases, the senior leadership was caught unaware by decisions taken at a lower level. Only a senior leader with solid authority and one confident of his power base would be in a position to publicly retract the new policies after the fact. China does after all officially claim these disputed waters as its own territory, so issuing a directive to nullify these new policies would be interpreted as China bowing to outside pressure. As a new leader, Xi's power base is yet to be consolidated. He must balance among various interest groups, who often have competing agendas but on whom Xi relies for political support.

It is not uncommon for Chinese officials to appeal to foreigners about the need to understand China's shortcomings in the realm of foreign policy. Outsiders often struggle with the notion that China's leadership is still unfamiliar with how to use its power. Sometimes this is what Chinese authorities want others to think; sometimes it is also accurate. China has burst onto the global stage faster than the Chinese themselves expected, and policymakers often lack sufficient experience and expertise in managing complex international relations as a major power.

Chinese leaders are still uncertain of what their position on many issues should be. They do not want to unleash self-destructive nationalist forces, but at the same time they seek respect and want China to be treated as a major power. Moreover, they struggle to manage pressure from an increasingly diverse society, in which multiple actors strive to influence foreign policy amidst fierce competition for government funding and, ultimately, power within the system. In that sense, many of China's foreign policy challenges are not 'foreign policy'-related at all.[57] Rather the challenge stems from the deficiencies of China's present system of governance.

NOTES

* The author is grateful to Anthony Bubalo, Dr Michael Fullilove, Dr Bates Gill, Dr Dave McRae, Rory Medcalf and Dr Zha Daojiong for their comments on the first draft of this Analysis. She also thanks Joel Wing-Lun and Harrison Palmer for their research assistance.

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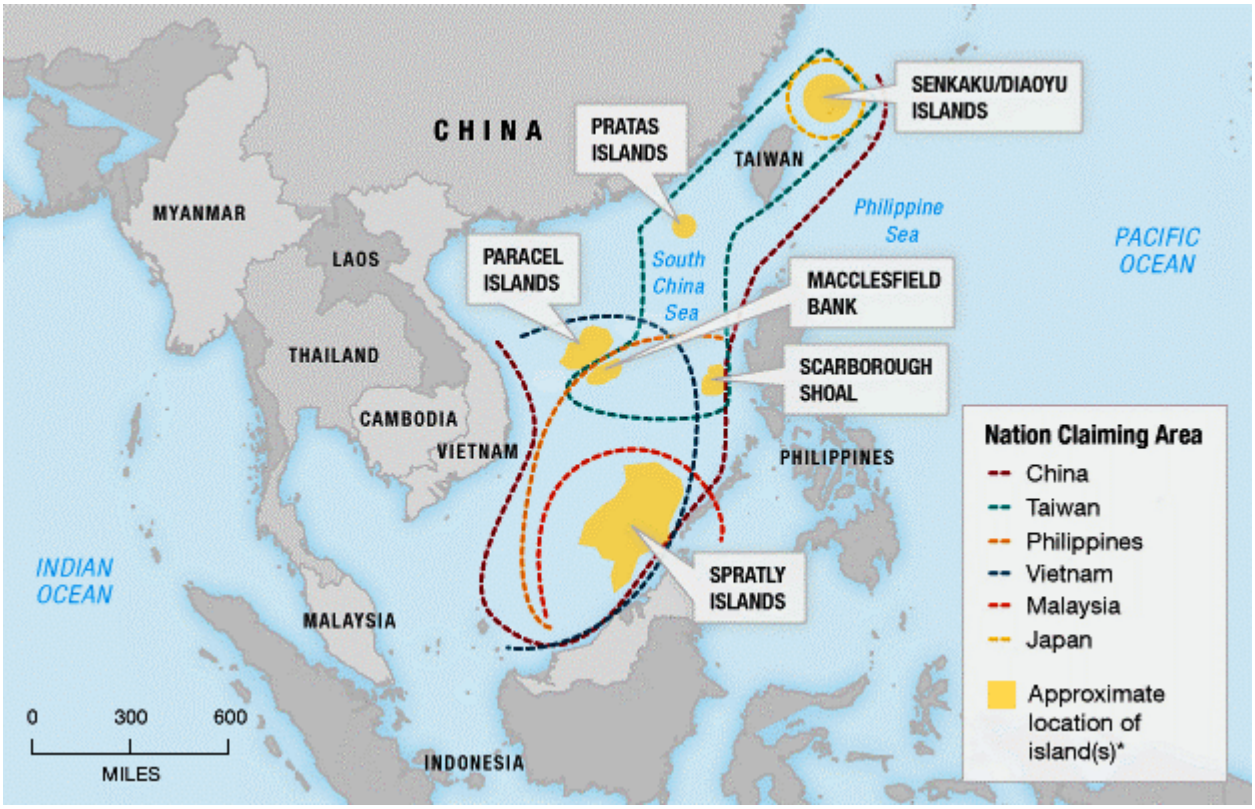

Stephanie d'Otreppe/NPR

The disputed maritime and island territories in the East and South China Sea. Note the Senkaku/Daioyu Islands northeast of Taiwan, and the Spratly Islands in the south, part of which are also claimed by Brunei.

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