



# BULLETIN

No. 26 (758), 12 March 2015 © PISM

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## Dual-Track Neighbourhood Policy: Solidifying China's Leadership in Asia

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*Under Xi Jinping, China is greatly engaged in its neighbourhood. Beijing pursues two policies simultaneously in Asia. On the one hand, it offers economic assistance and assurances of its peaceful intentions, while on the other, coercing neighbours, including increasing its economic and military presence in disputed areas, which as a result raises distrust of it in the region. China's activities may be a signal of its readiness to assume leadership in Asia. The EU should exert pressure on the PRC to transform the EU–China strategic dialogue into an effective cooperation mechanism that also includes security issues.*

The current Chinese leadership pays great attention to its neighbourhood, which has become the core of leader Xi Jinping's diplomacy. Recently, one can observe an intensification of China's activities in the Asia-Pacific region. The PRC pursues two approaches towards countries there. On the one hand, it is strengthening its friendly and peaceful image by implementing new policies and institutions, making frequent high-level visits, including rare one-stop trips, and conducting "hosting diplomacy" (e.g., APEC in Beijing), highlighting the role of Asia as the centre of the world's power. But on the other hand, China presents a harsh face when it increases its economic and military presence in disputed areas. The main goal of this two-track approach is to create a favourable and stable environment for economic rationales, allowing it to become a "rule-setter", but mostly to strengthen its own position in Asia. China's activities and Xi's new catchphrase, "Asia-Pacific Dream", announced in late 2014, indicate the country's readiness to assume leadership in Asia and change the balance of power.

**Friendly Gestures.** Examples of China's friendly interactions are manifold. The most noticeable are economic and security initiatives aimed at placating neighbours who might feel overwhelmed by a stronger PRC in the region.

The most spectacular of these efforts is the "Silk Road" concept ("one belt, one road")—the flagship of China's foreign policy strategy. Despite its comprehensiveness and universal character (officially 64 countries are included), China argues that its neighbourhood is the core and will be the main beneficiary. The concept is promoted as an idea to improve connections within the region and enhance economic, political, cultural and people-to-people relations through offerings of generous assistance. In practical terms, it is a massive plan of infrastructure investment projects, such as roads, railways, pipelines and harbours, using Chinese capital, labour and technologies. The region may benefit from the China-sponsored Asia Infrastructure Investment Bank, established in late 2014, and the \$40 billion Silk Road Fund, which started operation a few weeks ago—both created in particular to finance infrastructure projects. Other forms of economic initiatives that might be beneficial for Asia are convergent with "Silk Road". Among them are Chinese engagement in new economic agreements (Regional Comprehensive Economic Partnership, or RCEP; the Free Trade Area for the Asia-Pacific, or FTAAP; FTAs with South Korea and Australia), special "Silk Road" economic zones, new regional projects such as the Bangladesh–China–India–Myanmar and China–Pakistan Economic Corridors, bilateral cooperation mechanisms with such countries as Mongolia, and other efforts.

Other gestures are security initiatives aimed at assuring its peaceful intentions and indicating that China is a primary security contributor. In May 2014, during the Conference on Interaction and Confidence-Building Measures in Asia (CICA), held in Shanghai, Xi announced a new Asian security concept, an idea for cooperative and interdependent security. The concept is based on his confidence that Asia is strong enough to protect its security without any

non-Asian actor's assistance—a reference to the U.S. For it to work, he argued, Asian states should cooperate with each other and strengthen existing and establish new mechanisms. It is apparent that China aspires to be a formidable player in the security domain in Asia.

But it is beyond doubt that the creation of a convivial atmosphere is not an example of China's altruism. All these benevolent gestures are being used to pursue its hard interests. The "Silk Road" and security diplomacy are aimed at economic rationales—to secure export markets, imports of raw materials, and to develop and diversify inland and maritime transport networks and make them safer. For China, which is facing its lowest economic growth in 24 years, the "Silk Road" is a kind of stimulus package of government-led investments. It is also a means to build its leadership in the region and to limit U.S. influence in Asia.

**Vexing Moves.** But China is also conducting worrisome activities that trigger tensions in the region. Among them is its military and economic presence on islands with disputed ownership. The PRC is constantly increasing its activities in both the East China and South China seas.

In the East China Sea, in late 2013 the PRC established its first-ever air defence identification zone (ADIZ), which covers the Diaoyu/Senkaku islands, claimed by both Beijing and Tokyo. Despite attempts to improve bilateral relations, including a handshake by Xi and Japanese Prime Minister Shinzo Abe at APEC, Beijing has not abandoned its efforts to ensure its sovereignty over the islands. For example, in late 2014, China started to construct a military base on Nanji Island in Zhejiang Province, close to Diaoyu/Senkaku. The threat from China is one of the main rationales for Abe to modify Japan's security policy, including a reinterpretation of the constitution.

Further, in recent years Beijing has been more active in the South China Sea as well, where it is involved in disputes with Vietnam, the Philippines, Brunei and Malaysia over territories lying inside the Chinese demarcation line known as the "nine-dash" line. It includes the Spratly and Paracel islands, the Macclesfield Bank and Scarborough Shoal. In May 2014, arguing the right to use its territorial waters, China established an oil rig (protected by military vessels) near the Paracels, declared a three-mile exclusion zone around the rig, and started drilling. This move sparked an acute dispute in Vietnam, including anti-Chinese riots. China moved the rig away earlier than planned and officials made trips to Vietnam to try to mend ties. Moreover, since mid-2014 the PRC has been conducting land reclamation on disputed islets, generating speculation that it is going to establish a South China Sea ADIZ. For example, on the Paracels, China is expanding its runway and refurbishing a harbour on Yongxing Island, while on Spratly, it is building new artificial islands near Fiery Cross Reef, Johnson South Reef and Gaven Reef. It plans to construct airstrips and aprons for military aircraft and harbours capable of hosting military and fishing vessels. The Philippines and Vietnam lodged protests, but China argues that all of its activities are within the scope of its sovereignty.

Such activities undermine China's intentions to present a friendly face and increase regional tension. For China, control over the disputed islets are important, as they are rich in offshore oil and natural gas and are abundant fishing grounds, as well as lie on major trade routes. Moreover, China is modernising its naval and fishing fleets, which lack offshore bases. This undermines China as a maritime power and underscores its navy's vulnerability in case of a military conflict. Augmenting its surveillance capacity is to satisfy nationalist sentiments and consolidate its leadership in its effort to become an Asian superpower.

**Implications for Asia and the EU.** Under its current leadership, China's neighbourhood is becoming an extremely important foreign policy direction. Xi would like to change the balance of power to make China a world power, norm-setter and to undermine the U.S. role in the region. All Chinese activities in the region are subordinated to these goals. But in recent months, after the brashness of the ADIZ and the oil rig manoeuvre, China is trying to pursue these aims in a more sophisticated manner by giving more attention to friendly gestures. This is especially visible with the "Silk Road" mantra, the increased number of official trips with peace manifestos, such as those defining the neighbourhood as a "community of destiny", while rebranding its vexing moves from self-initiated to reactions to others. It does this by claiming its actions were in response to other claimants' military activities on disputed islands, to Japan's security posture, or to U.S. military alliances in the region. Despite these efforts, China's behaviour raises concerns and its goodwill may lapse into acrimony. Some Asian states are suspicious of the "Silk Road" and see it as a political tool to balance U.S. and Russian efforts to revive their influence in Asia (e.g., Russia's Eurasian Customs Union), as a means to fulfil Chinese interests alone, or a way to increase China's presence in participating countries (in ports, logistic centres). The regional mistrust as a result of China's activities is rising.

The situation in Asia may have an impact on Europe, which cooperates extensively with the region and seeks stability there. The "Silk Road" includes Europe, and Poland as well, linked to China via the two continents' rail networks (including routes from Łódź to Chengdu, Warsaw to Suzhou, Duisburg to Chongqing, and Madrid to Yiwu) and maritime transport routes, and new projects are under consideration. Regional tensions may undermine cooperation and make China's flagship strategy fail. Both the EU and China have the same interest in defusing tensions in Asia. The recent modest EU pivot to Asia (FTA talks with Japan and others, an investment agreement with China, the appointment of an EU envoy to ASEAN) is a starting point but not enough, especially since progress has been slowed due to security challenges in the EU's own neighbourhood. Brussels should exert pressure on China to transform the EU-China strategic dialogue into an effective mechanism that also includes security issues. The EU should continue or develop security dialogues with other countries in the Asia-Pacific region.