

FREEMAN REPORT



MORE IN THIS ISSUE

Publication

“China’s New Leftists and the China Model Debate after the Financial Crisis” by **Charles W. Freeman III** and **Wen Jin Yuan**

Event

July 14 *U.S.-China Economic Engagement in Africa: Prospects for Cooperation*

Freeman Facts

Transportation Infrastructure Development in China (see p. 5)

QUOTE OF THE MONTH

“We urge relevant countries to take responsible monetary and fiscal policies to cut fiscal deficits and properly manage the debt crisis, to ensure a stable performance of global markets and maintain investor confidence.” ~Chinese Premier, **Wen Jiabao**, speaking after Standard and Poor’s unprecedented U.S. ratings downgrade and Europe’s continuing debt crisis triggered financial market turbulence worldwide. Following the downgrade, U.S. Treasury Secretary Timothy Geithner and Vice Premier Wang Qishan discussed challenges facing the global economy. During the U.S. debt ceiling gridlock, China had continuously urged the United States to abide by its international financial commitments.

Source: *Reuters*, August 9, 2011.

The *Freeman Report* provides an open forum for individual opinions and commentaries on China. All opinions expressed in the feature essay of the report are those of the author.

Feature Article**CHINA’S NONCONFRONTATIONAL ASSERTIVENESS IN THE SOUTH CHINA SEA**

By *Mingjiang Li*

Tensions have been on the rise in the South China Sea since 2009, although they seem to have gradually subsided more recently. These tensions are caused by the interaction of multiple factors, including the submission of continental shelf claims to the United Nations (UN), regional states’ diplomatic ambitions, claimant states’ growing interest in the South China Sea’s energy resources, and stronger maritime law enforcement measures by relevant claimant states, China’s in particular. Other factors are structural, such as regional states’ increasing anxiety over China’s rising military power and the intense strategic maneuvering between China and other major regional powers, most notably the United States.

Judging from China’s wavering posture between assertiveness and moderation in the South China Sea since 2009, it may be reasonable to conclude that “non-confrontational assertiveness” may best characterize China’s behavior in the dispute. There is good reason to believe that China is likely to continue to act in this manner in the coming years.

A More Assertive China

Fundamentally, China’s obstinacy and heavy-handedness in the South China Sea reflect its strong belief that its claim in the disputed territory is absolutely legitimate. Chinese history textbook narratives and media propaganda constantly support China’s claim with historical records of discovery, occupation, and utilization of the resources in the region. As a result, the Chinese firmly believe that China is entitled to “indisputable sovereignty” over the South China Sea. Chinese experts also reinforce China’s claim by stressing the nine-dotted line (or the U-shape line) map first publicized by the Republic of China in 1947. They argue that neighboring states did not protest against China’s 1947 position, which proves that they accepted China’s claim over the islands in the South China Sea.

However, outsiders regard the Chinese claim as tenuous at best. They suggest that the Chinese nine-dotted line contradicts the UN Convention on the Law of the Sea (UNCLOS) in many ways. China’s retort is that its historical rights and privileges should not be revoked by the introduction of new international laws. Chinese experts also maintain the view that China’s claim is supported by the principles of customary international law.

Besides the notion of legitimate entitlement, other factors seem to have fueled a tougher Chinese stance in the dispute. Recent years have witnessed a notable growth of self-confidence among Chinese foreign policymakers, particularly in the wake of China’s special role in easing the global financial crisis. China’s self-confidence is boosted by its success in developing maritime capabilities: oil and gas exploitation in the deep-sea areas,

(continued on p. 2)

naval modernization and law enforcement. Growing confidence in China's capabilities, together with the widespread use of the Internet, has led to a surge in nationalist sentiments within China. Rising nationalism is seen in Chinese netizens' growing awareness and outspokenness in their scrutiny over their own government's posture vis-à-vis other claimants' in the South China Sea.

In addition, the lack of expertise in maritime affairs also deters Chinese decision-makers from taking risks in making difficult decisions. On the one hand, they fear being misconstrued by watchful nationalists as selling out Chinese interests and so are unwilling to risk their political careers. On the other hand, they are concerned that public criticism of any soft position in the South China Sea might be compounded by widespread social injustices, corruption, and rising prices. Consequently, indecisiveness on the part of leaders has created ample room for bureaucratic infighting, resulting in hardliners gaining ground in policy deliberations to some extent. Similarly, various maritime law enforcement agencies have taken advantage of the domestic political atmosphere to advance their parochial interests, largely explaining the re-emergence of tensions in the South China Sea from March to July 2011 after a short interlude of calm in the previous months.

Non-confrontation to Be Sustained

While China believes that it has valid reasons to be assertive, it is hard to imagine China sustaining its confrontational strategy in the dispute. There are two reasons for this. First, Chinese experts believe that a continued stable and peaceful external environment is not only beneficial, but essential for achieving sustained domestic economic growth. Today, there is very little evidence to suggest that Chinese leaders would be willing to confront regional states or other major powers at the expense of economic development.

Secondly, Chinese decision-makers realize that China's overall strategic position in East Asia does not provide any leverage for China to adopt a confrontational approach towards any other major player in the region. After two decades of laborious efforts in consolidating its strategic foothold in the region, China is, by and large, still a strategically isolated big power in East Asia. China is not pleased with the situation but its leaders regard it as a strategic quandary that China will have to live with for a long time. China's missteps in the South China Sea will only undermine China's strategic position while strengthening the U.S. security role in East Asia.

Therefore, China's need for economic progress and its weak strategic position limit its room to maneuver in the South China Sea dispute. As long as these conditions persist, China is likely to maintain an approach that is distinctively non-confrontational.

Future Trends

This combination of non-confrontation and assertiveness is likely to dominate China's behavior in the South China Sea. The rest of the region may see many inconsistencies in China's policy ranging from constant rhetorical reassurance to heavy-handedness towards other claimants' actions. Despite Chinese displays of assertive actions and reactions, Beijing will refrain from escalating

IN THE NEWS

BEIJING – U.S. Vice President Joe Biden arrived in China on August 17, kicking off a nine-day Asia tour which includes stops in Mongolia and Japan. This trip is the first made by a senior U.S. official in the midst of the recent U.S. debt crisis, and Vice President Biden is expected to offer assurance of U.S. economic health. He will also use his time in China to build a stronger relationship with China's next leadership, particularly Chinese Vice President Xi Jinping. Other issues on the U.S. agenda include China's currency exchange rate, and cooperation in South Asia, North Korea and Iran, while the Chinese are expected to raise the issue of U.S. arms sales to Taiwan.

BEIJING – Chairman of the Joint Chiefs of Staff Admiral Mike Mullen visited Beijing on July 9-13 to meet with senior Chinese government and military officials, and held talks with his Chinese counterpart, PLA Chief of General Staff Chen Bingde. He also toured two PLA bases in Shandong and Zhejiang provinces. Admiral Mullen's trip – the first of its kind in over four years – followed a similar visit made by General Chen to the United States in May, and marked a period of improved military-to-military ties between the two countries. However, the trip also came at a time of rising tensions over territorial disputes in the South China Sea. While little progress was made on the South China Sea dispute, both sides agreed to collaborate maneuvers in the Gulf of Aden, convene talks on operational safety in Hawaii and China, and plan humanitarian relief exercises in 2012.

the tensions and conflicts into any major confrontation. Under the right conditions, China will not hesitate to perform damage control and mend fences with relevant parties in ways that may be easier to justify before its domestic audience.

Some recent Chinese actions attest to Beijing's non-confrontational approach. First, the recent conclusion of the implementation guidelines for the Declaration on the Conduct of Parties in the South China Sea (DOC) was perceived as a positive development. Second, China's eventual decision to sign the guidelines with ASEAN as a whole instead of signing with the disputant states only was regarded as a Chinese compromise. Third, Beijing's diplomatic offensive highlighting China's willingness to cooperate in the South China Sea during the ASEAN Regional Forum in July to some extent reassured regional states of China's moderation in the dispute. However, given China's changing domestic political contexts and other claimant parties, one can reasonably expect frictions to occur in the South China Sea from time to time, and future negotiations over a legally binding Code of Conduct to be a tough and protracted process.

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PUBLICATIONS

- “China’s Stake in the U.S. Debt Crisis,” *Critical Questions*, July 28, 2011. By **Charles W. Freeman III**, Chairholder, Freeman Chair in China Studies, and **Jeffrey D. Bean**, Research Assistant, Freeman Chair in China Studies, CSIS

As President Obama and the U.S. Congress debate solutions to the debt ceiling crisis, Chinese leaders are watching closely. China holds roughly \$1.1 trillion worth in U.S. treasuries, and carefully manages its currency, the renminbi (RMB), to closely track the value of the U.S. dollar. Market turmoil resulting from a failure to raise the debt ceiling would directly impact U.S. consumer confidence, reduce demand for Chinese exports, and force Beijing to make tough inflationary decisions. Furthermore, if the status of the dollar is perceived to be in question, the time frame for speeding up the internationalization of the RMB may be accelerated.

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- “China’s New Leftists and the China Model Debate after the Financial Crisis,” CSIS, July 28, 2011. By **Charles W. Freeman III**, Chairholder, Freeman Chair in China Studies, and **Wen Jin Yuan**, Researcher, Freeman Chair in China Studies, CSIS

In the wake of the 2008 global financial crisis, China’s leadership is now paying specific attention to the potential limits of the free market system. The New Left is an academic camp in China arguing that economic policy should not only focus on boosting growth but also on establishing a solid social safety net and enhancing social equity. Although the market-centric doctrine has produced glaring social inequities that require constructive policy attention, the solutions proposed by the New Leftists of strengthening state control over the economy will not necessarily resolve the widening income gap and sense of social alienation felt by many Chinese left relatively behind by thirty years of runaway growth.

[Click here to view the full report]

- “General Chen Bingde’s Unsolicited Counsel,” *CogitASIA Blog*, July 17, 2011. By **Bonnie S. Glaser**, Senior Fellow, Freeman Chair in China Studies and Senior Associate, Pacific Forum, CSIS

In recent meetings with his international counterparts, Chinese PLA Chief of the General Staff Chen Bringde offered some harsh criticism of the United States, accusing the country of acting like a hegemonic power and criticizing U.S. naval exercises with other nations in the South China Sea. Unfortunately, neither U.S. nor Chinese interests are served by portraying U.S.-China relations in the Asia Pacific as a zero-sum competition. General Chen’s comments ran counter to those of President Hu Jintao, who called for “win-win cooperation” between the United States and China during his visit to the United States in January.

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CONFERENCE AND EVENT

- **July 14** “U.S.-China Economic Engagement in Africa: Prospects for Cooperation”

As both the United States and China look to deepen their economic ties with African nations, there are also increased opportunities for cooperation. **Jennifer Cooke**, Director, CSIS Africa Program, gave a short introduction, stressing that Chinese strategies and economic interests in Africa are not monolithic. Panelists **Annie S. C. Wu**, standing member of the China Economic and Social Council (CESC), and **Yuming Sheng**, Senior Vice President of Sinohydro, both spoke about their experience conducting business in Africa, and discussed challenges and opportunities moving forward. **Wenping He**, Director of Research, Institute of West Asia and Africa of the Chinese Academy of Sciences, outlined the environmental and political conditions necessary for successful trilateral cooperation. All three panelists stressed the importance of finding appropriate African partners and including African voices in the discussion. **Stephen Hayes**, President and CEO of the Corporate Council on Africa, moderated the discussion.

PUBLICATIONS

- “U.S.-China-Taiwan Relations in the Run-up to 2012 Elections in Taiwan and the U.S. and Leadership Transition in China,” presented at a conference at the Carnegie Endowment of International Peace, July 7, 2011. By **Bonnie S. Glaser**, Senior Fellow, Freeman Chair in China Studies and Senior Associate, Pacific Forum, CSIS

Eased tensions and increased economic integration between Taiwan and Mainland China in recent years have contributed substantially to the stabilization of the triangular relationship among Taiwan, China, and the United States. In 2012, presidential elections will be held in both Taiwan and the United States, with the possibility that current leaders Ma Ying-jeou and Barack Obama will be re-elected or replaced. China’s President Hu Jintao will step down from his position as general secretary of the Chinese Communist Party in the fall, and relinquish his position as state president in the spring of 2013. These political processes and their unknown outcomes invariably introduce a degree of uncertainty into the U.S.-China-Taiwan relationship. While U.S. policy towards Taiwan is unlikely to change radically regardless of who is elected, a victory by Ma Ying-jeou’s opponent Tsai Ing-wen may lead to increased cross-strait tensions. However, use of military force by China is unlikely unless Taiwan independence is an existential threat.

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(continued on p.5)

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July

- “China’s Stake in the U.S. Debt Crisis,” *Critical Questions*, July 28, 2011. By **Charles W. Freeman III**, Chairholder, Freeman Chair in China Studies, and **Jeffrey D. Bean**, Research Assistant, Freeman Chair in China Studies, CSIS
- “China’s New Leftists and the China Model Debate after the Financial Crisis,” CSIS, July 28, 2011. By **Charles W. Freeman III**, Chairholder, Freeman Chair in China Studies, and **Wen Jin Yuan**, Researcher, Freeman Chair in China Studies, CSIS
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June

- “Tensions Flare in the South China Sea” (a Draft from the South China Sea Papers), June 30, 2011. By **Bonnie S. Glaser**, Senior Fellow, Freeman Chair in China Studies and Senior Associate, Pacific Forum, CSIS
- “A Shifting Balance: Chinese Assessments of U.S. Power,” *Capacity and Resolve: Foreign Assessments of U.S. Power*, CSIS, June 17, 2011. By **Bonnie S. Glaser**, Senior Fellow, Freeman Chair in China Studies and Senior Associate, Pacific Forum, CSIS
- “China’s Exchange Rate Politics: Decoding the Cleavage between the Chinese Ministry of Commerce and the People’s Bank of China,” CSIS, June 16, 2011. By **Charles W. Freeman III**, Chairholder, Freeman Chair in China Studies, and **Wen Jin Yuan**, Researcher, Freeman Chair in China Studies, CSIS
- “A Conversation on Emerging Power Geometry,” *Global Forecast 2011: International Security in a time of Uncertainty*, CSIS, June 15 2011. By **Charles W. Freeman III**, Chairholder, Freeman Chair in China Studies, **Karl F. Inderfurth**, Senior Advisor and Chairholder, Wadhvani Chair in U.S.-India Policy Studies, **Stephen Johnson**, Director, Americas Program, and **Stephen Flanagan**, Senior Vice President and Director, Henry A. Kissinger Chair, CSIS

May

- “Chinese Economic Cooperation Proposals meant to Signal Goodwill,” *CogitASIA Blog*, May 31, 2011. By **Brittany Billingsley**, Research Associate and Program Coordinator, Freeman Chair in China Studies, and **Jeffrey Bean**, Research Assistant, Freeman Chair in China Studies, CSIS
- “Garbling U.S. Policy toward Taiwan Poses Risks,” *cogitASIA Blog*, May 24, 2011. By **Bonnie S. Glaser**, Senior Fellow, Freeman Chair in China Studies and Senior Associate, Pacific Forum, CSIS
- “Pomp and Substance: Hu’s State Visit to the U.S.,” *Comparative Connections*, CSIS, May 2011. By **Bonnie S. Glaser**, Senior Fellow, Freeman Chair in China Studies and Senior Associate, Pacific Forum, CSIS, and **Brittany Billingsley**, Research Associate and Program Coordinator, Freeman Chair in China Studies
- “The U.S.-China Strategic and Economic Dialogue,” *Critical Questions*, CSIS, May 9, 2011. By **Charles W. Freeman III**, Chairholder, Freeman Chair in China Studies, and **Bonnie S. Glaser**, Senior Fellow, Freeman Chair in China Studies and Senior Associate, Pacific Forum, CSIS

PUBLICATIONS

• “*Tensions Flare in the South China Sea*” (a draft from the South China Sea Papers), June 30, 2011. By **Bonnie S. Glaser**, Senior Fellow, Freeman Chair in China Studies and Senior Associate, Pacific Forum, CSIS

Building tensions in the South China Sea, if left unattended, could sour relations in the region, prompt a regional arms race, and even worse, spark a military conflict. The region’s escalating tensions, rooted in competing territorial claims, are the result of a confluence of factors, such as rising demand for oil and gas, increased Chinese patrol capabilities, and the 2009 deadline for states to submit official territorial claims to the UN Commission on the Limits of the Continental Shelf. Any proposal to resolve these disputes should prioritize the preservation of peace in the region, and include a binding code of conduct between ASEAN and China.

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• “A Shifting Balance: Chinese Assessments of U.S. Power,” *Capacity and Resolve: Foreign Assessments of U.S. Power*, CSIS, June 17, 2011. By **Bonnie S. Glaser**, Senior Fellow, Freeman Chair in China Studies and Senior Associate, Pacific Forum, CSIS

Beijing’s assessment of the global balance of power, especially American power and the position of China vis-à-vis the United States, is a critical factor in Chinese foreign policy decisionmaking. As long as Chinese leaders perceive a long-lasting American preeminence – even in the face of a temporary decline – averting open confrontation with the United States will likely continue to define Chinese foreign policy. However, if Beijing were to conclude that the gap between Chinese and U.S. power was rapidly narrowing and represented a more enduring geopolitical shift, Chinese leaders might begin to challenge the United States more aggressively in order to take advantage of the opening and make gains on securing their core interests.

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• “A Conversation on Emerging Power Geometry,” *Global Forecast 2011: International Security in a Time of Uncertainty*, CSIS, June 15 2011. By **Charles W. Freeman III**, Chairholder, Freeman Chair in China Studies, **Karl F. Inderfurth**, Senior Advisor and Chairholder, Wadhvani Chair in U.S.-India Policy Studies, **Stephen Johnson**, Director, Americas Program, and **Stephen Flanagan**, Senior Vice President and Director, Henry A. Kissinger Chair, CSIS

China was largely insulated from the immediate effects of the financial crisis, and its ability to bounce back quickly became an opportunity for many in China to proclaim the success of the “China Model.” Yet China is deeply wary of its global responsibility, and will likely be most focused on its own domestic fragilities and leadership transition over the next year. The Obama administration’s early optimistic approach to cooperation with China was followed by subsequent frustration, and has now settled onto a more realistic, minimalist focus on reducing unnecessary frictions.

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FREEMAN FACTS

Transportation Infrastructure Development in China

1. China’s expressways totaled 46,000 miles in January 2011, 1,000 miles short of the U.S. interstate system. In the past five years, the Ministry of Transport has spent \$713 billion on road and water transportation, with the goal of building 52,800 miles of expressway by 2020.
2. The speed limit for China’s high-speed trains was lowered from 218 to 186 mi/hr, due to safety concerns. Critics say the trains are heavily based on foreign designs that are only meant to travel up to 155 mi/hr.
3. As of the end of 2010, 1,200 townships and 120,000 villages had no access to roads, 90% of which were located in western regions or rural areas. The government aims to invest \$4.55 billion in rural road construction in 2011, and extend its rural road network to 2.4 million miles by 2015.
4. As of May 2011, passenger volume was 2.91 billion and total freight volume was 526 million tons, both figures up 11% from May 2010.
5. On July 23, two trains collided near the eastern city of Wenzhou, killing 40 and injuring 191. This was the worst accident in China’s high speed railway system since 2008.

Sources: *China Daily*, *China Internet Information Center*, *Financial Times*, *Ministry of Transport*, *National Bureau of Statistics*, *Wall Street Journal*, and *Xinhua*

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