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proposed for publication in “Il Talento – The Talent – politics beyond nations”, March 2005

www.thetalent.org

Years of the Dragon

China's steps on the world stage – where do they lead?

Chinese families around the world had been anxiously preparing for the festivities of greeting a new lunar year. Lanterns, dances, fireworks and sweets to please the kitchen god are the paraphernalia marking the event. On February 9, as the second new moon after the winter solstice was on the night sky, the Year of the Monkey gave way to the Year of the Rooster.

New Years are an opportunity to look back on the year past and judge the progress made on projects. Leaders in Beijing making an assessment of 2004, and outside analysts, will have to measure it up whether China as an actor on the international stage has held the promise of a Year of the Monkey: very intelligent, well-liked by everyone, and will have success in any field he chooses.

Humility has never been the strong trait of soothsayers but as their audience and occasional participant in the game one should be humbled by how apparent certainties about to whom the future was supposed to belong to have crumbled over the last fifteen years. The lament over “American overstretch” of the late 1980s the US unable to compete and losing its edge to a surging Japan and Germany, only to continue in the scare of imminent Japanese takeover of all US assets even after Nippon's bubble broke. As Japan faded into depression, East Asia's younger tigers seemed to spell out the dominance over a weak and self-indulgent West of “Asian values” – not spoken of too highly after the 1997 economic crises highlighted the region's deficiencies. Then, the United States was back with a vengeance: proponents of the “new economy” formed a choir with those of America's “unipolar” moment. While this last proposition has survived that momentous day of September 2001 and the upheavals that have followed it – the jury is still out – over the last years momentum has been building continuously for those hailing the rise of China.

Now, of course, ever since the end of the 19th century, the giant in the East had inspired the dreams of selling goods and religion to the untapped potential of its market of sheer overwhelming size. And as soon as the reforms of Deng Xiaoping took hold, it was only to be expected that the spell of numbers would again bind pundits, businessmen and politicians. The promise of China that for so long had seemed more imminent than justified, finally came close to living up to its fame, with astounding annual growth rates, soaring skyscrapers and pretentious projects.

The year of the Monkey, 2004, presented a series of events that only too evidently seem to suggest that at the least, China has entered the world stage for good, and to some may even hail the end of a US predominance in the Pacific Rim region and potentially even beyond that. Proponents of China as the power of the future believe they have been resoundingly vindicated.

The December 2004 takeover offer by Beijing's Lenovo Group for the PC division of IBM, the quintessential American technology company, has been the symbolic event most widely noted for signifying a turning of the table from recipient of foreign direct investment to active builder of homegrown business empires at a par with their Western competitors. From exporting simple manufactured goods to exporting capital. But while the deal still hangs in mid-air due to security concerns that a sale to a Chinese company founded with capital from the National Academy of Sciences arouses, the past year held events that may just as well or even better be a portent of China's preparation for the role of a world power. An immense resource hunger and incipient strategic responses to it, for instance.

The new “Neo-Imperialist”? Securing resources for China

2004 stands out as the year of exploding prices for mineral resources, energy and industrial inputs. Everything from copper to steel to natural gas rose as China was sucking up any excess supply it could find, breathing new profitability into ventures as diverse as German coal mines, Polish scrap metal dealers and Bolivian tin extraction. Already in 2003 China had surpassed Japan as the world's second largest consumer of petrol. The People's Republic currently holds a share seven percent of the world's crude oil consumption, one third of the coal and one quarter of the aluminum and steel markets, as well as forty percent of the annual use of cement. *The Economist* labeled China the “hungry dragon”, a dragon who rapidly had to learn that autonomy in consumption of natural resources was incompatible with its ambitious growth objectives. 2004 drove home a message of painful resource dependence. Soaring costs and continued shortages of some crucial industrial inputs have underlined that resources are a key supply bottleneck for China's growth. Beijing has therefore decided to seek direct control.

Whereas Japan's response in the de-globalizing and autarky-seeking first half of the 20th century was military expansion facing a similar problem, globalization and the openness to foreign direct investment provides China with an opportunity to do so in a nominally peaceful way. At the same time, total or partial state control of the Chinese investors that act abroad permits Beijing to ensure

that these projects will cater to domestic resource needs if necessary and partly uncouple China from price and supply volatility in the world market. The result may be nothing less than a variant of 19th and early 20th century geostrategic politics in modern garb – with China as a peculiar kind of state-capitalistic neoimperial power.

First steps abroad in that direction were taken as far back as 1996 when the state-owned China National Petroleum Company (CNPC) bought into a consortium exploring oil fields in Sudan, then as now a pariah state. The project took up production in 1999. Today, China buys 60 percent of the oil produced in Sudan and Sudanese production covers six percent of China's crude oil needs, about as much as the country currently imports from Russia. Another Chinese company, Sinopec has built a 1,600-kilometer pipeline from the oil fields in southern Sudan to Port Sudan on the Red Sea, part of a reported \$15 billion investment in the Sudanese oil industry. But trade relations between the two countries don't just go in one direction; China is also Sudan's biggest weapons supplier. These tanks, fighter planes, bombers, helicopters, machine guns and rocket-propelled grenades had intensified Sudan's two-decade-old North-South civil war. Indeed, it was this tight economic bond that made China reluctant to agree last autumn to United Nations sanctions against Sudan stemming from the massacres in the western region of Darfur. One feels reminded of the relationship the United States held with pre-revolutionary Iran.

And indeed, with Iran China signed a \$70 billion oil deal just last October, potentially complicating US efforts to isolate Iran diplomatically or pressure it to give up its ambitions for nuclear weapons.

Particularly delicate is the fact that the region currently most coveted by China is South America, ever since the 1823 declaration of President James Monroe considered the United States' exclusive backyard, closed to imperialistic ventures by non-hemispherical powers. The contacts that China has sought, are with countries that have not only a particularly rich endowment of natural resources and specialization in exporting raw materials, they are also – with the exception of Chile – outspoken critics of a supposed US imperialism and its pet project the Free-Trade Area of the Americas (FTAA). Despite their anti-imperialist rhetoric Chavez' Venezuela, Lula da Silva's Brazil, and Kirchner's Argentina as well as the Chile of Ricardo Lagos have fallen for the lure of exports to and investment from China, at a time when the foreign direct investment to the region remains weak after the latest currency and debt crises, and as the mushrooming US deficit continues to suck up the world's excess savings. China's head of state, Hu Jintao, crowned these successful contacts with a trip to Brasilia, Buenos Aires and Santiago last November, announcing a total of 100 billion USD investment in the region over the next ten years. Besides recognizing Brazil and Argentina as

officially-approved tourist destinations for Chinese vacationers, Hu had also brought along a congenial rhetoric to celebrate winning the status of “strategic partner” to the Brazilian and Argentinean government. He flattered his hosts with Deng Xiaopings' prediction that the 21st century will belong to the Pacific and Latin America.

Chinese investments are most striking in the fields of mineral exploration and extraction and infrastructure, but also in the food processing and agriculture. In Western Argentina, for instance, China has acquired extraction rights in a mineral-rich section of the Andes, as well as bought the principal railway crossing from Argentina into Chile, and seeks stakes in major shipping ports around the Southern cone. All is set to secure the entire supply chain of resources to China - a model of vertical integration that was already applied in Sudan and is reminiscent of Western companies in 1920s banana republics. Only that this time it is more tightly state-planned and -run.

In their joy over the shower of funds for the region, many have only reluctantly noted that this giant is not necessarily any more gentle than the one they love to loathe. In return for Chinese investments, Brazil and Argentina had to concede to China the WTO status of “fully-fledged market economy”, which robs them of any possibility to impose special tariffs on imports from China's quintessentially cheap manufacturing sector. This may very well spell the end for projects of home-grown and broad-based industrialization to these countries, whose manufacturing sectors already had a hard time becoming gradually competitive in the world market. A continent locked in its traditional nightmare of raw material purveyor is sure to produce at least revisionist historians decrying neoimperialism, and may well end up caught in the social instability it has become so infamous for. South America could be the first victim to instability caused by the reverberations of China's steps on the world stage.

While the future will tell whether South America remains the periphery in the world economy even as the core shifts and extends, the political-strategic importance of China's reaching out to South America is more immediate. Brazil, in particular, casts itself as one of the leaders of developing states, setting the tone for demands among the G20 and is a principal proponent and propagator of a “multi-polar world order”. The concept, in all its fuzziness, is also a favorite brainchild of China, not least because its realization promises to underwrite a regional predominance at the expense of the alleged American hegemon. Both share this strategic outlook with India, to whom China has lately sought closer ties after decades of a not always subdued rivalry.

Since the new generation of Chinese leaders has come to power, relations with India have improved considerably. In 2003, India's Prime Minister Atal Bihari Vajpayeeh signed an agreement of

cooperation on political, technological and economic issues, and recognized Tibet as Chinese territory. Between January and July 2004 Indian and Chinese diplomats met three times to peacefully resolve their conflicting border claims. Naval forces of both countries even held a joint maneuver in Chinese waters. Although China continues to support and strongly cooperate with India's neighbor and rival Pakistan, Beijing is showing goodwill of significant value by supporting the efforts of countries such as India and Brazil to achieve a permanent seat on an enlarged United Nations Security Council.

China's Charm-Offensive: Wooing U.S. partners in Asia-Pacific

This Chinese charm-offensive is most notably directed at the immediate neighborhood in East Asia. During the reign of Jiang Zemin, especially Southeast Asia was caught between admiration, respect and fear. While his open hostility towards Japan in the face of revanchist politicians there soured relations with the uneasy neighbor, the South China Sea's riparian states were disturbed by China's claims to islands like the Spratly or Pescadores and its navy's violent actions against non-Chinese fishermen in what it claimed to be territorial waters. But under Hu Jintao and Wen Jiabao China has become more aware that it is suspiciously viewed as the 800-pound gorilla in the region, and decided to tread softly.

The message sent is therefore one of equality of status and cooperation to mutual benefit, and has been well received in the region, where economic linkages are bound to grow closer. In early autumn of 2003, Hu and Wen visited Southeast Asia and brought along offers of free-trade agreements. These complemented by demonstrations of humility and friendliness were very well received in Bangkok and Singapore. In late October, Hu's visit to Australia was a resounding success, reaching out to one of the world's prime resource supplier but also an important middle-sized power that is still not fully decided as to where its place in the world is. So far this place was staunchly at the side of the US and with an enduring Anglo-Saxon self-image. This is where China is avid to change the mindset by the force of attraction. For China's mid- to long-term goal arguably is to create a strong East Asia and Pacific region of free-trade and close political relations, a regional sub-system where China is the natural hub to the spokes of the middle-sized and smaller countries around it. This, so far benign, recasting of what Japan had attempted as the "Greater East Asia Co-Prosperty Sphere" would slowly but surely marginalize the role of the United States in the region and be the masterstroke to China's vision of what the multipolar world should look like in its corner of the world. To this end, Japan and Australia, two cornerstone's of American presence and might, are crucial. Beijing has recognized that it has to invert its traditional focus that had the effect of

driving Japan closer into the arms of the United States instead of integrating and anchoring Nippon firmly in Asia.

Such a task has been made easier to some degree by Washington's blunders in dealing with countries of the region. Complaints have been getting more frequent that during the first Bush administration, the United States was fixated on its "Global War on Terror", allowing the issue to hijack external relations. Understandable as this may have been after the horrid events of New York and Washington, it hurt US standing and contacts in a region principally preoccupied with securing their way into the developed world. While for countries such as Indonesia, Malaysia, the Philippines and even Thailand terrorism and Islamic fundamentalism are an issue, it is far from being their only or even principal concern. Regional leaders have been noticeably put off by American mono-thematic approach to external relations after September 11, 2001. So, while the United States was bent on discussing terrorism at the ASEAN summit in Bali in early October 2003 – after all a forum principally for fostering economic cooperation – Beijing was able to conclude a treaty on "strategic partnership" with the ten member states. Where Washington is perceived as having embarked on an unilateral rampage, China appears favorably as stretching out its hands for cooperation on a basis of equality. Hu Jintao found all the right words when offering to the Australians, as to others "a new security concept featuring mutual trust, mutual benefit, equality and cooperation and strives to resolve disputes peacefully through dialogue and cooperation. We believe in democracy in international relations. The affairs of the world should be handled through consultation on the equal footing by all countries." Such rhetoric must sound melodious compared to the rumbling noises as which loose talk of self-indulgent unilateral celebration from some in Washington reverberates in sensitive parts of the world.

Even as to the closest ally of the United States in South Asia-Pacific, Australia, damage has been done. In back-to-back visits in October 2003, the receptions George W. Bush and Hu Jintao witnessed were worlds apart. And not to the favor of the American president. Bush was coolly received in Canberra's parliament, and brought the Australians little news except for a call to fight terror. Hu's longer speech was greeted with standing ovations as far more wide-ranging, and pledged to intensify trade, cultural and economic ties. Only last-minute diplomatic intervention by the United States held Australia back from too wholeheartedly embracing China's position on the issue of Taiwan. The democratic island under Washington's protection is all too easily forgotten over the charm and promise of its mainland brother.

Slowly but resolutely, Beijing is weaving its net in East Asian affairs. Its ambition is to be correctly

prepared and well-placed when the inexorable momentum of growth will have propelled it beyond doubt to the forefront of regional and world affairs.

China, the UN and a multilateral World Order

While *multipolarity* is far from being the same as *multilaterality*, and the latter may still only be a guise for a coalition of “vassals” under a domineering partner, China has lately taken important steps towards a larger role in multilateral organizations, first and foremost the United Nations. This is particularly striking as China enjoyed the dubious fame of being considered one of the key inhibitors of an effective UN for a long time. Firm and vociferous adherent to the principle of non-interference in internal affairs, fearing a precedent that may boomerang to Tibet or Xinjiang, China had for a long time resisted efforts to hand the UNSC a mandate for intervening against the consequences of internal stability policies by authoritarian governments around the world.

China appears to have ceased to be a principled opponent to non-interference, having adopted a more pragmatic approach that even accepts intervention as long as it serves Chinese interests in regional stability and national security. With an eye to North Korea, Jia Qingguo, foreign policy expert and assistant dean of Beijing University, calls for a – strictly regulated – right to intervene for the international community in case of regime collapse. For those cases, where China considers interference adverse to its interests it can still make discretionary use of its veto in the UN Security Council. By downgrading the topic rhetorically, China also clears a point of unnecessary and unproductive confrontation with the West.

Rather than opposing a potentially intrusive UN, China has reversed its perspective, looking to the UN as an avenue for its aspirations. Not only does China already enjoy a privileged position there, on an equal footing with the United States. Its leadership appears to have recognized the potential that lies in active commitment to the “international community” and the gain in prestige that comes with participation in UN programs and missions. Just like Germany makes its case for a permanent seat on the UNSC based on a “greater and active role in international affairs”, and the “responsibilities” it takes on, China's calculation is that a productive contribution to the UN will enhance its standing around the world, create goodwill and more easily reconcile a partly hostile or suspicious world with the pre-eminent position Beijing feels bound to grow into. And beyond the fact that their political influence will *de facto* remain for the moment circumscribed to a regional context, acting via multilateral institutions offers to open inroads to decision-making processes in other parts of the globe that would otherwise remain closed to China's influence.

Now, China's former minister of foreign affairs, Qian Qichen, even actively engaged in Kofi Annan's High-level Panel on Threats, Challenges and Change, and backed its 2004 proposal for a UN reform that would leave the international organization with a stronger, more assertive role. And unmistakably, Hu Jintao on his travels called upon the “members of international community [to] reaffirm their commitment to multilateralism and give full scope to the important role of the United Nations and its Security Council in maintaining world peace and security.” The contrast to the “old China” could hardly be greater. Or to the current United States administration: its allies in the media seem obsessed with deconstructing Kofi Annan. Its diplomacy appears as the most unwieldy hurdle to a reform of the UN desired by the majority of its members; and the nomination to ambassador of someone with as clear a fame as UN-basher as John Bolton is bound to feel like a slap in the face to allies who had just been promised renewed multilateralism. While Washington is committing one public relations disaster after another, China tries to stand clean as a the knight in shining armor.

Yet, even louder than words, China led deeds tell of its new perspective on the role and authority of the United Nations. In October of 2004, China sent several hundred troops of riot police on a six-month tour of duty into the immediate backyard of the United States: to Haiti. The symbolism of this farewell to non-intervention could hardly have been greater. For the first time, Chinese security forces took part in a UN-led combat/peace-enforcing mission. For Beijing, this unprecedented mission follows an instrumental logic that ties UN missions to Chinese world power status. Vice Minister of Ministry of Public Security Meng Hongwei told state television that "This is our country's obligation in safeguarding world peace. China, being a responsible major country in the world, should play such role".

Advertising itself as a “responsible major country” tough comes at a cost: one has to act like it, also closer to home. With every new dissonant and brazen remark coming out of Pyongyang, countries throughout Northeast Asia increasingly look to China for a solution. The challenge of North Korea's nuclear program and especially its diplomatic brashness reflect unfavorably upon Beijing, seen by many as a decisive patron of the North Korean regime. As a responsible actor on the international stage, and a strong regional power, China – whether it wants or not – will be expected to weigh in on Kim Jong-Il, and reign him in. Hu Jintao's clearer opposition against any North Korean ambitions than the soft line of his predecessor Jiang Zemin have created expectations in this respect. But the question is whether Beijing possesses enough influence in Pyongyang to exert decisive pressure. This challenge is incremented by the anxiety among China's old guard in foreign policy

not to weaken Kim's regime to the point of collapse, granting the West a symbolic and potentially strategic victory. These are the kinds of dilemma come with the responsibility inherent in Beijing wish to be welcomed as a major power.

Chinese desire of recognition for its status and role as a responsible actor in the international system has also led to the European efforts to win symbolic points in Beijing by lifting the arms embargo imposed after the 1989 Tiananmen Massacre. Such a step would remove the stain of being grouped with rogue regimes like Mugabe's Zimbabwe and Sudan or Myanmar, in particular since a similar embargo on Ghadaffi's Libya had just recently been lifted. It is easy to see how a Beijing anxious to portray itself as a responsible and trustworthy actor must feel about the continued existence of the embargo. Adding to that the Chinese preoccupation with “preserving face”, every visiting EU statesman is sure to get a friendly reminder of this thorn in the bilateral relations.

In this context, not only is Europe's failure surprising to communicate to a suspicious Washington, anxious to preserve its unipolar dominance as set out in the 2002 National Security Strategy, that this lifting of the embargo is mainly a goodwill gesture. The fact that despite strong and vociferous opposition from Washington -and Tokyo-, Europe is clinging to this gesture is a hint at how others are gradually re-evaluating their priorities in dealing with the current superpower and the rising Asian juggernaut.

China and classical power politics

Notwithstanding all the public diplomacy efforts: China is far from emerging from its cocoon as a “civilian power”, just yet.

The economic interest prevailed over the “responsible power”-reflex recently when China decided to support one of Africa's biggest domestic enemies. Robert Mugabe, shunned by African nations as the cause of his country's ruin and embargoed by the European Union and the United States, just received weapons worth 240 million USD, in time for the upcoming parliamentary elections. This support will hardly win China any favors, not even among developing countries. Alas, China is probably right in expecting it to be overlooked and conveniently forgotten once more important business comes up.

Something that will have a longer-term impact and should be watched with a keen interest when considering China's role in Asia as a military power is the extension of its reach it undertakes. And not surprisingly, the first major steps are also related to energy and resource strategy.

China is in an uncomfortable geographic predicament for a country aspiring to become a world power. To the North, South and West in borders inhospitable deserts, towering mountain ranges and jungles. There, since late 2001/early 2002 the United States has set up bases in Central, South, and West Asian countries, virtually bringing its military forces at the doorstep of China. The only outlets for its still small bluewater naval forces are to the East – and the Yellow Sea, the East China Sea and the South China Sea all are not regular high seas. Access to the Pacific Ocean is shielded by the series of islands belonging to allies of the United States: the Philippines, Taiwan and Japan – as well as the Korean peninsula. The decisive shipping lanes to the Middle East, chief purveyor of Chinese fossil fuels, run through the vulnerable straits at Malakka or between the Indonesian archipelago. This situation reminds of the century-long Russian search for access to ice-free harbors and the Mediterranean, than the more convenient location the United Kingdom and the United States enjoyed to project their power by way of the high seas. Those have not lost their importance, offering also potential swimming bases by means of air force carriers – even more important to a country that is unlikely to be able to obtain many land bases abroad anytime soon.

China therefore is committed to deepening its strategic reach in East Asia – and a deep sea port project at Gwadar (Belochistan) in Western Pakistan promises to do just that. Already in March the first berth has been opened at Gwadar, giving China a strategic foothold in the Indian Ocean and at the Arabian Gulf. While for the moment, trade and resource flows through the Karakorum highway into China will be the priority business of Gwadar's port, the strategic importance it possesses in Chinese planning is underlined by the fact that they obtained sovereign rights over the parts to be used by the Chinese Navy and will be complemented with a modern air defense unit, a garrison, and a first-rate international airport.

The port is intended to serve China's threefold economic objective: First, to integrate Pakistan into the Chinese; Second, to seek access to Central Asian markets for energy imports and Chinese exports by developing road networks and rail links through Afghanistan and Pakistan into Central Asia; Third, to appease restive parts of western China, especially the Muslim-majority autonomous region of Xinjiang, through a massive infusion of development funds and increased economic links with the Central Asian Islamic nations of Pakistan, Afghanistan, Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan. The port brings China to the Arabian Sea and the Indian Ocean, although to the alarm of India and the unease of the US. Sitting opposite the Strait of Hurmoz, through which 80 per cent of the world's energy exports flow, the Gwadar port will enable China to monitor its energy shipments from the Persian Gulf, and offer it, in the case of any hostile interruption in such shipments, a safer alternative passage for its energy imports from Central Asia.

Not only economic but also closer military ties with Pakistan are on Beijing's agenda. Having enjoyed relatively positive relations for quite some time, they now speak of strategic cooperation. And the rhetoric of strategic alignment is duly matched by reality. Last year, China and Pakistan conducted their first-ever joint naval exercises near the Shanghai coast. China's ability to obtain "sovereign guarantees" to use the Port facilities from Pakistan, despite US unease over it also illustrates the influence it already has gained in South Asia. This regional expansion of China's strategic reach has had consequences. In particular, the port project set off alarm bells in India, which already feels encircled by China from three sides: Myanmar, Tibet, and Pakistan. To counter Sino-Pak collaboration, India has brought Afghanistan and Iran into an economic and strategic alliance.

More generally, observers are anxiously looking at developments in China's military. A paramount question there is how the strategic balance in Northeast Asia should be assessed – a question rendered more difficult by the secrecy and deceit that usually surrounds information on China's force posture, military structure and expenditure. While China is clearly a nuclear power, it is not entirely clear what to think of the People's Liberation Army's capabilities. The March 15 approval by China's parliament of a 12.6 percent increase in military spending this year to 244.65 billion yuan (29.5 billion dollars) has made analysts and statesmen throughout the region nervous. For while it is clear that modernization and transformation of its armed forces will be a costly and long-term project that China is taking on, worries about military balance will not subside anytime soon in Japan, South Korea and Taiwan – and Washington, DC for that matter.

And it is Taiwan, considered the renegade province by Beijing that countries in the region and beyond worry most about when they think of Chinese armed forces modernization. The continuous stream of proclamations notices by China's leadership on what it considers to do about the island is also the gravest problem in projecting a peaceful image abroad.

Image-spoiler: the Taiwan issue and Chinese strategic thought

Taiwan is Beijing's obsession, and not in a good way. One would think that the heads of the Communist Party were continuing the well-known rhetoric about reunification as a national priority merely out of tradition and to avoid losing face, turning to more pressing domestic problems first and trusting in the slowly building momentum of attraction. And yet, Taiwan appears to stir up so much emotion in Beijing that considerations about its neatly-crafted strategic plan endearing itself

to the world as the coming great power take a back-seat.

The impact of the March 15 “Anti-Secession Law” passed by parliament has been devastating abroad. Criticism on the international stage has been immediate and unequivocal, and Taiwan has just climbed a few steps in the ladder of caring and sympathy by the international community. The uncertainty about China's leadership that the passing of this law evokes is considerable: how could it have not understood how clearly offensive this act must appear and what negative consequences it will have for China's image abroad. For the need for it had been relatively clearly removed once President Bush had reigned in Taiwanese separatist hopes by admonishing Taipei – on his state visit to mainland China. It is this errant policy-making and the apparent impenetrability of Chinese strategic thought on this issue, that irritates friends, unnerves those sitting on the fences and waiting to see which way Beijing will turn and arousing new fears among those who distrust it. Beijing has just successfully raised its costs of doing business in Europe, the United States and throughout Asia. Governments will now face closer scrutiny and more public criticism for every friendly action China asks of them.

The “anti-secession”-affair throws up an important and troubling question. Do we have to conclude that China has a myopic notion of strategic relations? Was this just a short-circuiting of its strategic thinking due to the hot-headed nature of the issue? Or, is China potentially unable to correctly assess its counterparts in international relations if they are democratic states?

Given what we have seen in mid-March, maybe analysts and decision-makers in Beijing did not include “public opinion” in their calculations. While “civil society”, etc.pp. are often presented in a fuzzy and misleadingly normative way, public opinion in democratic societies is a fact of life. One with policy-implications. It may come as a surprise to Beijing, accustomed to thinking of masses as disposable units in economic planning and controllable in an orchestrated way for the purposes of national posturing, but sentiment of voters that take to the streets is a reality that conditions and limits the leeway for decision-makers. A supposedly deterring effect of sending messages of strengths and threats may have a contrary effect if they are transmitting in public. Power posturing by the dragon how shows his teeth may not have the desired result. Beijing needs to do some quick learning about how refined power politics may still be effective in the modern age.

Such concerns about Chinese strategic myopia do not bode too well for the future of regional stability. Especially if this future holds a more competitive environment, in which the current charm-offensive may be discarded on more than just the “one-China” policy. On the other hand, we have to see if such a blunder will be repeated or whether Beijing seizes this opportunity to learn an important lesson.

In any case, tension across the Taiwan straight and beyond have been heightened and the international environment is – momentarily - less benign for China.

Troubles at the horizon: internal and external challenges

Despite the never-ending stream of incredible success stories that hail China as the new Eldorado, all is not well. While it is reassuring to see that – for the moment - the current leadership of the Chinese Communist Party is anxious to tread softly on its way to great power status, the blessing for the region and the world may be merely temporary. Tumultuous times may still be ahead. And they may come from within.

Glowing tales of tremendous treasure, rapid riches, and bustling boomtowns aside – on its path of growth China walks a narrow red line. The financial sector, the heart of any economy, is in dire straits. Under heavy political control, and without foreign actors until 2006, it is fraught with non-performing loans handed out as a substitute of social policies to laid-off workers and quasi-subsidies to slowly transforming state-owned firms. Estimates of the need to unearth these loans and straighten out the banks' capital-to-risk ratios range to up to 400 billion or about 40% of GDP. Putting China's banks on a more sustainable footing and repairing their balance sheets, is an endeavor that will take years. Japan serves as a gloomy example of how an unhealthy banking sector can depress economic growth – even if it is being reformed in a relatively orderly way without system-wide collapse.

Inequality in China is much more acute than in India. A recent study by the Chinese Academy of Social Sciences (CAAS) says it is actually the worst on the planet, barring the odd sub-Saharan African country. China's "peasant question" is an economic, social and political crisis of gargantuan proportions. Scholars at CAAS estimate that since the start of Deng's reforms, 270 million Chinese have escaped poverty. That's not enough in a nation of 1.3 billion people. The crucial question is how "one system, two countries", where 400 million people advance while 900 million are left behind, can possibly co-exist. The coastal regions are already disconnecting from the interior, economically and socially. Internal trade is increasingly weakening relative to the trade that binds the Special Economic Zones of the East to the rest of the world. One billion members of peasant households- 80% of the total population - can not be fully assimilated anytime soon, no matter the rhythm of the economic miracle.

First upheavals and challenges to internal control have already arise: a seven week-long strike of

6,000 workers in a textile factory in Xianyang in autumn of 2004 unpleasantly surprised local and national authorities who reacted strongly. The event was unprecedented in length, commitment and unity of the workers, and only police intervention brought it to an end. In Beijing fears are no longer about students in the Eastern metropolises: economic opportunities may keep them quiet for some more time, as they had done in South Korea and Indonesia before. Another specter is haunting the Politburo – the specter of a “peasant Tiananmen”.

Hu Jintao, head of state and the Communist Party of China, was banned to the poor provinces during the Cultural Revolution and spent large parts of his party career in there. He has shown a higher sensitivity to these challenges, rather than merely joining in the over-indulgence in growth stories from the coastal provinces. Hu and Prime Minister Wen Jiabao, who had earlier held the portfolio for Agriculture, have taken first measures and shifted the objectives of national economic growth towards a stimulating and integrating rural areas. But whether they will be able to act rapidly and effectively enough while maintaining a growth rate that creates jobs for 10 million each year who will migrate from the interior to the cities. In this process a lot will depend on export demand, as China has not yet grown a large enough middle class to create a robust domestic source of demand. China's fate is therefore linked with that of industrialized economies – the largest single economy of which just appears dangerously close to exhaustion and financial turmoil. Should economic imbalances not be smoothed out anytime soon, a major recession in the United States is likely to severely darken growth prospects for China, too. Delaying its dream of great power status.

A more structural and harder to come by issue is a rapidly aging society that waits just around the corner. China is bound to experience a demographic challenge: average age will rise more suddenly than anywhere else in the coming years. As a consequence of increased life expectancy (extended by more than 30 additional years over the last 50 years) and the success of the one-child-policy that brought the birth rate down to just 1.8 children per woman, China runs head on into a crisis of senior citizens. Already by 2020 there will only be two employees for each pensioner, the Chinese Ministry for Work and Social Policies predicts; by 2030 25% of the population are expected to be above 65 years of age. A development that will be aggravated by the poor state the pension system is in already today: it is estimated to run a chronic deficit of about 8 billion Euros in the relatively “comfortable” current demographic environment. The domestic capital market appears not to provide too many stable and profitable investments for pension-schemes just yet, and a secular tendency of the Renminbi to reevaluate as China continues to grow faster than Europe or the US will diminish returns of savings invested overseas. So even private old age savings will probably not be able to fill the growing gap.

Beyond these domestic economic risks, and the challenge of political transformation that looms on the horizon, the foreign policy environment is also far from trouble-free. We have already mentioned the provocation of North Korean nuclear arms, regional instability in neighboring Islamic countries that may spark civil strife between ethnic Han-Chinese and Muslim Uighurs, spreading suspicions and a new arms-race in Northeast Asia as well as the stand-off across the Taiwan street and rivalries in the South China Sea.

But in the power trajectory of a rising China that for the moment seems bound to eventually carry it to superpower status grave risks are inherent: from “above” and from “below”. The United States bears the chief responsibility for smoothening China's passage to world power status. As the current “top dog”, it is the state that is likely to feel most threatened and affected by this shift in relative weights that will come at its expense. Other countries can and certainly must help in “socializing” China in this new reality in a manner that is conducive to regional stability and world order. Yet, it is the United States that will see China as the direct rising challenger and has to emotionally and politically cope with this imminent reality. The grave danger here rests in an escalating circle of distrust and fear where the US is unsettled by the contender and China is frustrated by the incumbent – such a situation is ripe with potential for misperception that may lead to conflict. The United States (and to a lesser extent also the European Union) will have to come to terms with the fact that the momentum of relative growth will bring first China, and eventually countries like India, Brazil, Mexico or Indonesia into a circle of great powers. It will be crucial, then to understand that what is at stake is a reasonable accommodation to imminent realities, and do not fall into the trap of the “Munich 1938 analogy” and cry “no appeasement!” The policy currently chartered by the National Security Strategy 2002 to defend American (solitary?!) superpower status at all cost does not give too much hope in this respect. The fact that the “multi-polar world” has been touted so prominently in Paris, won't enamor Washington to the concept either.

The second source of trouble for China on its power trajectory is India. As India will eventually rise “from below” among the great powers, and will (probably in combination with China's demographic problem) reach and surpass Chinese growth rates, the future will look less bright for China that now is so confidently focused on its achieving world power status. India's entry onto the stage of great powers will reduce China's *relative* growth rate, and probably frustrate its hopes of continuing on the path of continuously extending status that Beijing projects now. Once China starts to fall short of its ever more optimistic assumption, risks mount that its foreign policy will become less benign, less willing to let momentum do its work and more aggressively competitive. Geographical vicinity between the two contenders for a place at the table of world powers and a long-standing unease in

their relationship will render this situation particular dramatic. And it is far from clear whether we should pit our hopes on political transformation in China and the promise of “democratic peace”. For two countries with decisively nationalistic populations may put this theory to a tough test.

The Ming dynasty's Admiral Zheng He (Cheng Ho) set sail with his huge armada of 70 ships and 30.000 men for the first time in 1405, and explored far into the Indian and Pacific Ocean overwhelming those it encounter with its might. Some rumors even claim – and Chinese national pride hopes – that his fleet discovered and explored the “New World”. Zheng He's voyages are an event that has gained renewed attention lately, and is hailed as the “what if...”-moment that foreshadowed Chinese potential world power status. It is not insignificant that the Chinese popular media and scholars are rediscovering this portentous event just now. The 600th anniversary promises to bring history full circle.

A self-confident China that takes inspiration from the promise Zheng He's deeds may be a reasonable partner to deal with in the international sphere. Should the tension over China's stance towards Taiwan subside quickly, we may hope that Chinese foreign policy will go back to focusing on its “charm-offensive”. While it is still in the position of a coveted market, desirable supporter for diplomatic projects and one more counterweight to a United States repeatedly perceived as overbearing, momentum does work in China's favor and there should not be too many obstacles to regional stability from its side. But we should not count on Beijing to be in “friendly-mode” all the time. Its rise does bear challenges for the United States and the European Union that require some hard thinking about policy options at their disposal and a concept for a sustainable and stable world order that is able to accommodate the rising contenders.

So, while in the Year of the Monkey, China actually made some intelligent moves, was generally well-liked, and seemed to have success in any field, the benign environment from which it profited and the blunders it nonetheless ran into should use be cautious in relying on Chinese state-craft. China may have avidly studied the errors of Japan and Germany as they grew into boots that were too big for their politicians in the early 20th century in order to avoid them, as foreign policy expert Jia Qingguo claims. This is reassuring but far from being a guarantee that China will steer clear of the dangers and temptations that may lie ahead as it leaves the current, relatively calm waters of domestic confidence and foreign friendliness.

About the Author:

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¹ A shorter version of this paper was published as a chapter in: Arthur Rachwald (ed.), *The Future of Transatlantic Relations: A View from Europe*, McGraw-Hill, New York 2004