

In search of China's foreign policy

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FOR FOREIGN POLICY makers around the globe, how to deal with the rise of China is one of the great and urgent issues of the age. But even as they continue to hunt for an answer, an equally complex and perplexing question is confronting Beijing: how should China deal with the rest of the world?

Until recently, this has been a relatively straightforward matter. For most of the past three decades, Chinese diplomacy has been overwhelmingly shaped by and responded to internal pressures and economic need. Preoccupied with pressing challenges at home, above all with maintaining the high growth rates on which their political legitimacy ultimately hinged, successive Chinese leaders have focused on sustaining stable international relations and observed Deng Xiaoping's instructions to keep a low profile and bide their time on the global stage.

Economic priorities continue to loom large on China's foreign policy radar screen. But since late 2008, its emphasis on the pragmatic has been punctuated increasingly by troubling displays of the erratic. These have manifested themselves most strikingly in forceful and often confrontational pursuit of expansionary territorial and maritime claims in its region. The result has been a sharp increase in tensions with east Asian neighbours, above all with Japan.

China's recent "assertiveness" has undermined the – never very high – levels of trust elsewhere in Beijing's intentions and the credibility of its leaders' repeated insistence that they are committed to a "peaceful rise". It has also proved spectacularly counter-productive by antagonising other east Asian governments and encouraging the US to renew its commitment to a strong military presence in the region in response to pleas

SUMMARY

This Policy Brief takes stock of recent developments and future trends in China's foreign policy. It questions China's progress in shaping its diplomacy and international relations in a way that reflects its global economic size and strength. Preoccupied with domestic priorities and challenges, successive Chinese leaders have clung to the country's policy of non-interference in other countries' affairs. China has given little idea of what it wants from the world beyond meeting its own vast economic needs, commanding respect and expanding its regional influence. Though complaining regularly about continuing western dominance

of existing multilateral institutions, it has made no proposals for re-designing them.

From a global perspective China's growing interactions with the rest of the world are a positive development, yet from Beijing's perspective, they create potential vulnerability. Not only are its international relations shaped to a remarkable degree by priorities, problems and pressures at home, but its domestic affairs are directly affected by external events.

China may be an emerging superpower, but it is still far from a fully-fledged one. Its economic scale and

strength are impressive but, in a number of ways, quite fragile. Yet China's preference for a "hands off" stance in international relations also has drawbacks and disadvantages, above all for China itself. However, taking co-operation much further faces some obvious hurdles and updating China's foreign policy will take more than simply streamlining the bureaucratic machinery. It needs to involve making some fundamental choices about strategic priorities and old dogma and doctrines, and how they relate to Beijing's domestic agendas.

from Tokyo and other Asian capitals. If Beijing hoped its tactics would procure it regional leadership and encourage other nations to pay it “tribute”, it has been seriously disappointed.

The exact reasons for the abrupt shift in China’s behaviour, and whether it is born of its leaders’ over-confidence or of weakness and insecurity, are unclear and are still debated by analysts and scholars abroad. However, the “dualism” it has created in the country’s foreign policy, causing it to veer disconcertingly between cool rationalism and strident, hectoring, nationalism, is probably best viewed as a symptom of stresses and upheavals within China as it struggles to work out what its place in the world should be.

A PARADOXICAL RISE

AT THE HEART of that struggle lies a paradox. China’s dazzlingly rapid economic development has inspired the belief, widely held by its people as well as by its rulers, that it has now achieved the status of a great power and deserves to be treated and respected as such by other nations. That conviction is all the stronger because of a lingering sense of victimhood and the belief that the country was entitled to that status all along but was deprived of it because others, chiefly in the west, conspired to keep it down. China’s recent “assertiveness” appears to reflect its view that it is now in a position to redress the balance by extending its sphere of influence and making its authority felt abroad.

Yet China’s rise has not occurred in a vacuum or only as a result of its own labours. On the contrary, it has been powered by rapid, broad and increasingly deep integration with the global economy. That process cuts two ways.

Many foreign observers, marvelling at the speed and scale of China’s ascent, tend to focus on its huge impact on the rest of the world. As a source of growth, a producer of exports, a market for imports, a voracious consumer of resources and a deep-pocketed investor in a steadily growing portfolio of offshore financial assets, ranging from oil fields to copper mines to property and to US government debt. All those attributes both testify to China’s economic

importance and command considerable influence and attention abroad.

Less often remarked upon is that the same attributes have also greatly increased China’s dependence on and stakes in the rest of the world. It is one of the economies most open to trade, to an astonishing degree for a country of its size and level of average incomes. Exports and imports amount to almost half of its Gross Domestic Product, many times more than the US when it was at a comparable stage of development and, indeed, twice as much as the US today.

China’s ability to keep its factories turning and living standards rising relies critically on access to foreign, particularly western, markets; to foreign technology and knowhow; to foreign components and sub-assemblies, to foreign capital and to foreign energy and raw materials extracted in regions overseas that are often physically remote and in some cases politically precarious or unstable.

Furthermore, China’s almost \$4,000 billion of foreign exchange reserves – sometimes portrayed, wrongly, as a source of global power – must, by definition, be invested abroad. There are few markets large, deep or liquid enough to absorb such vast sums easily, and they are almost all in the west. Though China is a big player in them, many of the factors affecting their value necessarily lie beyond its control, while it is bound to act cautiously as an investor because abrupt redeployment of such substantial assets could have severe financial repercussions that would seriously damage its national wealth.

From the standpoint of global geopolitical stability, China’s growing inter-actions with the rest of the world are a positive development, since they provide an incentive to act responsibly in its dealings with other countries. From Beijing’s perspective, however, they create potential vulnerability by exposing China to a growing range of external forces and pressure points, over many of which it has limited influence and is, in a number of respects, ill-equipped to manage.

That is not a comfortable position for a regime that is accustomed to – indeed, whose *raison d’être* is – the exercise of absolute control and whose foreign policy is tightly

enmeshed with national politics. Not only are China's international relations shaped to a remarkable degree by priorities, problems and pressures at home, sometimes of a very short-term nature. But its domestic affairs are directly affected by external events, all the more so because it is prey to strongly nationalistic impulses and because its leaders are concerned, above all else, with neutralising any perceived threats to internal "stability" – a codeword for continued Communist party rule.

Until now, China has squared the circle through a combination of skillful fence-sitting, chequebook diplomacy and the deployment of commercial sticks and carrots. It has steered clear of foreign entanglements by shunning international alliances and espousing a doctrine of "non-intervention" in other countries' affairs. Like so much else in its foreign policy, that stance is dictated by a domestic concern – fending off any intrusions from outside that could call into question Beijing's authority or jeopardise the Communist party's rule.

China's attitude to multilateral organisations has been similarly semi-detached. It has not acted disruptively, often choosing to abstain rather than veto contentious UN Security Council resolutions that do not directly affect its interests. But neither has it taken any notable initiatives to challenge or reform the mandates or operating methods of institutions such as the World Bank, the IMF or the WTO, despite complaining regularly that such bodies primarily serve the interests and needs of the west.

In part, its approach reflects a strong preference for bilateral over multilateral diplomacy, which of course maximises its leverage over other, smaller, countries. Its most powerful instruments are its ability to grant or deny access to its fast-growing domestic market and its ample financial resources, which have earned it influence, if not always friends, abroad.

That has been most obviously true in resource-producing developing countries, where China's appetite for raw materials and willingness to build and bankroll much-needed local infrastructure have enhanced its diplomatic clout. But it is also China's trump card in its dealings with members of the European Union, whose members' eagerness to compete with each other for exports and inward invest-

ment has been an open invitation to Beijing to pursue divide-and-rule tactics that have undermined EU cohesion.

HEADING FOR A WATERSHED

Western critics often accuse China of having it both ways – of enjoying the fruits of an open world economy and rules-based trading system without being prepared to shoulder the responsibility and costs of managing and maintaining them. However, two important changes have occurred that will make it much harder for China to avoid deeper international involvement. Together, they are shaping up as something of a watershed.

Historically, China has been able to avoid troublesome foreign entanglements and concentrate on satisfying its own economic needs because it has been able to free-ride on America's role as guarantor of global security. While Beijing could count on Washington and its allies to take the lead in dealing with the world's trouble spots, it has not needed to dirty its own hands and has been able to sit on the sidelines carping periodically at US "hegemony".

However, both the will and the capacity of the US to continue acting as the world's policeman are now in question. Bitter experiences in Iraq and Afghanistan have blunted American popular appetite for military adventures abroad, while the violent upheavals in Libya, Syria, Egypt and the Ukraine have all demonstrated in various ways the limits of US power.

The second big change is that the maintenance of stability and security beyond – often very far beyond – China's own borders is now of vital importance to its national prosperity and well-being. As its domestic demand has surged and its natural resources dwindled, it has had to look increasingly to imports to meet its needs for energy, raw materials and food. Domestic production today supplies only 40 per cent of its oil consumption, while the government has been obliged to abandon its goal of self-sufficiency in grain, long regarded as a strategic imperative. Twist the lens slightly, and China's policy of achieving "resources security" by pouring money into far-flung offshore sources of supply looks more like a formula for potential insecurity.

The risks were brought home with a shock in 2011 by the Libya crisis, to which Beijing responded by hastily evacuating thousands of Chinese citizens from the country and abandoning contracts worth billions of dollars. The panicky retreat earned the government stinging criticism at home.

In Beijing last year, a senior Chinese foreign policy maker pressed me on how likely it was that US achievement of energy self-sufficiency and continuing political instability in the Middle East would cause Washington to reduce its presence in or even withdraw from the region. It was clear that the question was posed out of fear of the consequences for China and its oil supplies – a third of which come from the Middle East - not because Beijing was eyeing an opportunity to extend its global reach by moving into a geopolitical vacuum.

For all China's outward swagger, its more thoughtful foreign policy analysts acknowledge privately that these mounting external challenges demand a re-think of its traditional approach. They are all the more formidable because urgent domestic ones are also crowding in: the need radically to re-engineer China's obsolete economic model, in the face of strong opposition to change by powerful vested interests; governing a better-educated and informed, more prosperous and vastly more interconnected populace that is showing increasing readiness to question the status quo; and tackling chronic pollution, water shortages and other severe environmental problems.

A STUNTED SUPERPOWER

CHINA MAY BE an emerging superpower, but it is still far from a fully-fledged one. Its economic scale and strength are impressive but, in a number of ways, quite fragile. It controls vast financial assets, both at home and abroad, but its national financial system is primitive, rigid and vulnerable to sudden shocks, while its debt has risen at alarming speed since 2008.

Furthermore, despite recent self-serving hype from some western commercial banks about the “internationalization” of the renminbi, it is uncertain when China will liberalise its closed capital account, a prerequisite of cur-

rency convertibility, while heavy management of its exchange rate means that its monetary policy continues to operate in the shadow of decisions by the Federal Reserve Board in Washington.

China has rapidly increased defence spending, by 12.2 per cent in the current year. It now outguns all its neighbours except, possibly, Japan and is probably strong enough to repel any conventional coastal attacks. However, it in turn is still heavily outgunned, even in its own immediate neighbourhood, by the US and will need many years to build the overseas military infrastructure and capability to project hard power globally. Its combat readiness is unknown, having last been tested 35 years ago, when a smaller enemy force repelled an ill-judged incursion into Vietnam. But abundant evidence of rampant corruption in the People's Liberation Army, especially in its higher ranks, scarcely suggests stringent standards of discipline and professionalism.

For all those reasons, China still lacks the full panoply of skills and assets associated with genuine superpower status. In the words of David Shambaugh, an American China scholar, it is a “partial power”, a striking case of unbalanced development that is a muscular giant in some respects but stunted and backward in others.

In time, China may overcome some or all of those disadvantages. However, it will almost certainly take longer to shed other – self-inflicted – handicaps. These stem partly from the legacy of its lengthy isolation from the rest of the world and partly from the defensiveness bred by its regime's constant preoccupation with suppressing any possible threat to its authority. They are also attributable to a condition that Edward Luttwak, an American military strategy analyst, has called “great state autism”.

That is a national tendency to self-absorption that blunts sensitivity to and concern for other nations' interests and wishes and how they perceive and to react to its own behaviour. All big powers exhibit those characteristics to some extent; but China does so to an exceptional degree. A recent case is its failure to foresee how sabre-rattling intended to establish its sway over the South China Sea would prompt other countries in the region to respond by imploring the US to reaffirm its military presence there.

Realising belatedly that its aggressiveness was proving counter-productive, Beijing has launched charm offensives and opened its chequebook in an attempt to repair relations with southeast Asia. But the sincerity of such gestures is cast into doubt by China's continued baring of its teeth towards other countries in the region and, sometimes, crass insensitivity towards their most basic human needs.

A particularly glaring instance was its offer of a mere \$100,000 in relief aid to the Philippines after last year's devastating tsunami, which even some Chinese commentators condemned as embarrassingly niggardly. Shamed by international criticism, Beijing hurriedly increased the amount to \$1.6m. But that was still far less than the \$10m from Japan, \$20m from the US and \$28m from Australia. Even Indonesia gave more than China.

The damage done to China's international and regional image by that incident is symptomatic of a bigger gap in its diplomatic arsenal: a lack of soft power. Though its leaders have spoken repeatedly about the importance of increasing the country's soft power abroad, they seem to have serious difficulty comprehending what it consists of or how to wield it effectively.

The US, of course, is no stranger to heavy-handed, myopic and introverted behaviour that has appalled friends and adversaries alike: the invasion of Iraq and mass snooping by the National Security Agency are just two recent examples. Yet, blundering and misguided as US foreign policy can be, at its best (and sometimes at its worst) it is inspired by an idealistic ambition to make the world a better place. China's international conduct is largely or entirely conditioned by what its government judges to serve the interests of China and its ruling party.

THE LIMITS TO A HANDS-OFF APPROACH

SOME, NOT ONLY in Beijing, may consider that approach preferable to Washington's habitual over-eagerness to rush in, guns blazing, to set the world to rights, often with unfortunate results. Yet China's preference for a "hands off" stance in international relations also has decided drawbacks and disadvantages, above all for China itself.

One is the apparent lack of any clear or compelling broader vision of what kind of world it wants, beyond one that simply enables China to pursue its national interests free from outside interference. Beijing is vocal in international forums in stating what it opposes. It appears far less sure what, if anything, it is actually in favour of. That is a strange and somewhat disturbing lacuna in an aspiring global superpower.

Another problem is the constraints and increasingly evident contradictions imposed by the systematic subordination of foreign policy to the dictates of domestic politics. The crisis in the Ukraine, a country in which China has a growing strategic economic interest, has shown how awkward the consequences can be.

As well as relying on the Ukraine as an important source of armaments, China has been counting on the country to supply much of its future demand for food. It has undertaken to lease as much as 3 million hectares of farmland there, making it the country's largest foreign landlord, and has been planning further large investments in roads, ports and other infrastructure needed to transport Ukrainian grain and livestock to China.

The fate of those plans is now uncertain, while China's own foreign policy strictures have left it with a diplomatic quandary. Its abomination of popular uprisings that overthrow governments prevents it from siding with Kiev; its abhorrence of breakaway states stops it siding with the Crimea; and its declared policy of non-intervention and condemnations of military intervention make it hard, overtly at any rate, to side with Moscow, which it in any case does not entirely trust.

Such dilemmas are likely to recur in the future, as China's economic linkages with the rest of the world continue to grow in number and complexity. How should Beijing – bereft of trusted allies, suspicious of many other governments and possessing limited experience and understanding of other societies – seek to resolve them in a world where it can no longer sit back and leave the west to do all the geopolitical heavy lifting?

Among progressive foreign policy thinkers in Beijing, the most common answer is closer, albeit selective, in-

ternational co-operation, particularly with the US. There are certainly areas where co-operation appears not only desirable but, more importantly, feasible. One is in maintaining an open world trading system and the stability of the global financial system, even if Beijing's contribution to date has consisted more often of pragmatically exercising restraint than of actively promoting initiatives to strengthen their foundations and improve their architecture.

Common ground also emerged in the aftermath of the 9/11 attacks, when China's fear of Islamic insurgency and terrorism on its western borders and in the Uighur region of Xinjiang gave it a clear incentive to work with the US to contain or prevent it. For similar reasons, Washington and Beijing, especially the latter, have a shared interest in seeking to maintain security and stability in Afghanistan after US military withdrawal, about which they are already in discussion. Combating maritime piracy is another international endeavour to which China is contributing. And recently, it and the US raised new hopes for the success of climate change negotiations by seeking to agree co-ordinated cuts in carbon dioxide emissions. Meanwhile, it is quietly shedding some old taboos: last year, for the first time, it committed troops to frontline UN peacekeeping operations, in Mali.

CO-OPERATION VERSUS CONFLICT

HOWEVER, TAKING CO-OPERATION much further faces some obvious hurdles. The first is that it is a lot easier to think of instances where China's interests and goals diverge from or conflict with those of other countries, and particularly of the US, than of ones where they converge or overlap. The most striking of all concerns the balance of power and military superiority in east Asia. China's determination to roll back the US presence and establish its unquestioned superiority there is at odds with its efforts to keep bilateral relations with Washington stable.

Secondly, while its appetite for foreign military adventures may be dwindling, the US remains committed to vigorous diplomacy and to supporting allies around the world, by no means all of which have friendly relations with China. Co-operating with the US and with more ac-

tivist European nations, such as Britain and France, means being ready to take sides – something that China's foreign policy has long fought against.

Third, if China is going to seek help from other nations in dealing with situations in which they do not have compelling reasons to act, they are likely to seek favours in return. These are likely to be things that Beijing has been reluctant to offer in the past. Would it be more prepared to offer them in the future, when doing so would risk being seen at home to be acceding to foreign pressure?

Finally, there is the all-important question of mutual trust, essential to any form of sustained and effective co-operative relationship. Yet trust is a commodity that has been in singularly short supply in China's relations with the rest of the world. It remains suspicious and fearful of many of its neighbours and, above all, of the designs of the US, which many in Beijing believe to be scheming to encircle and contain it. Meanwhile, other governments are unsettled and bewildered by the opacity of China's decision-making, by uncertainty about its true intentions and by its recurrent unpredictability.

This is a wide gulf. Spanning it is bound to require a degree of willingness by other governments to offer accommodations to China. But in the US, resistance would be strong to making concessions to an emerging superpower that many regard as a rival and some as a threat.

European governments have exhibited a greater willingness to trade policy principles, in exchange for economic favours from China. However, while that may have won their companies export orders, it – like Europe's inability to project hard power – has done nothing to earn influence or respect. The EU is unlikely to achieve either so long as it continues to behave like a pantomime horse in its dealings with Beijing.

However, both the need and the responsibility for creating a new model for China's foreign relations lie primarily with China itself. Their management has long been complicated by a messy and unwieldy policy-making apparatus, in which the politically weak Foreign Ministry has been powerless to stop other parts of the government and the political establishment repeatedly trampling on its

turf. Beijing recently created a national security council, chaired by President Xi Jinping, in an effort to improve co-ordination, though it is too early to judge what its impact will be.

In any event, updating China's foreign policy will take more than simply streamlining the bureaucratic machinery. It needs to involve making some fundamental choices about strategic priorities and old dogma and doctrines, and how they relate to Beijing's domestic agendas. Greater readiness to open up to and consult more closely with the rest of the world will also be key to building international trust and communicating China's intentions more clearly.

None of this will be easy. It may well not be possible at all, given the limits imposed by the Communist Party's visceral determination to retain extensive control and perpetuate itself in power. However, the logic of China's own core economic and political interests is making it increasingly necessary to adapt to a rapidly changing global order. Failure to do so would have wide repercussions both within China and beyond its borders. How, or whether, this growing tension will be resolved is unclear.

It has been said that good foreign policies begin at home. As China struggles to cope with new challenges and to redefine its place in the world, it needs to be borne in mind that bad ones also do.

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