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China and its Regional Role

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EXECUTIVE SUMMARY

- Over the next five years, China will continue to seek dominance in its region through economic power and growing military might, in line with its traditional Sino-centric view of the regional hierarchy.
- China's regional policy is not always formulated in a coherent manner according to its strategic interests, due to the many competing agencies and agendas involved in determining policy, and underlying historical perspectives. Foreign policy is also subordinate to key domestic goals of internal stability and economic growth.
- Many regional countries feel threatened by China's desire to change the status quo and have strengthened alliances within the region, and with the US and other powers, to counter-balance China's economic and military assertiveness.
- China's relationship with Japan is coloured by a strong sense of historical injustice. There is a real risk that clashes with a more nationalistic Japan will lead to military confrontation, particularly over competing claims to the Diaoyu (Chinese name) / Senkaku (Japanese name) islands in the East China Sea. These tensions are also impacting economic relations between the two countries.
- In contrast, political dynamics between China and South Korea are looking more positive following Korean President Park Geun-hye's election, mirroring robust trading relations.
- China's pursuit of its territorial claims in Southeast Asia is likely to involve continued cycles of aggressive tactics followed by a softer approach. In October 2013, China undertook a charm offensive to win back diplomatic ground lost to the US, Japan and others (pointedly excluding the Philippines). While the Association of Southeast Asian Nations (ASEAN) states continue to seek economic benefits from China, they remain wary of China's dominance and are boosting strategic alliances with other powers.
- Though their economic relationship does not reach its potential, China is likely to seek to maintain current dynamics in its relations with India. Trading relations are in China's favour, and tensions around the unresolved border and security issues are manageable.
- Key challenges in China's push to be the primary regional power include entrenched ideologies about its historical victimisation and right to reclaim its position as a global power, and the lack of an effective coordinating agency on foreign policy. While China's growing military might can intimidate its neighbours, economic dominance is its main leverage point. Maintaining economic growth, however, requires the regime to ensure stable supply chains and robust trade relations.
- The full impact of the new leadership on Chinese foreign policy is likely to take some time to play out, although Chinese President and leader of the Chinese Communist Party Xi Jinping's nationalistic 'Chinese Dream' indicates his strong Sino-centric views on China's role in the region.
- The recent announcement of a planned State Security Committee (SSC) may mean that Xi Jinping plays a greater role in foreign policy, and that China's foreign policy-making becomes more coordinated and coherent. As yet, though, it is not clear whether the SSC will cover foreign issues or only domestic security.
- Decision-makers, however, are likely to continue to focus on domestic goals of economic growth and internal stability, while asserting China's territorial claims and position as a great power. China is also looking to boost its engagement on international relations and trade talks.
- The Politburo Standing Committee is the key decision-making body on China's international relations and the source of final sanction for decisions made elsewhere in the Party State structures. The military also has significant influence through its operational autonomy, and through the Central Military Commission, chaired by Xi Jinping.

- China does not view the EU as a regional competitor, and is likely to be interested in but not concerned by its engagement with neighbouring countries such as the ROK, Japan and India.
- China generally pursues its own regional agenda independently, but may be interested in greater EU-China engagement in the region on areas where benefits to the region would also benefit China, such as regional stability and clean energy.

Background Briefing: China and its Regional Role

1. WHAT IS CHINA'S VISION OF ITS REGIONAL ROLE AND ITS RELATIONS WITH NEIGHBOURING COUNTRIES OVER THE NEXT FIVE YEARS?

China's vision of its regional role is the continued assertion and consolidation of its self-perceived rightful position as the primary regional power. Its traditional Sino-centric view of the region places China at the centre of a hierarchical order – other Asian countries are small countries that should respect China's leadership and position in exchange for economic benefits and security. To achieve this position, China is using its regional economic dominance and growing military power to boost territorial claims and political dominance.

For China, however, foreign policy is subordinate to the domestic goals of maintaining internal stability and economic growth. The challenge will be finding a balance between continuing to assert its position regionally, and serving domestic objectives. Strong-arm tactics may boost domestic support for the Chinese regime and lead to some gains in China's effective control over territory, but are likely to lead to reduced economic relations and strengthened regional blocs against China.

Finding this balance will not be easy – China's regional policy is determined by a range of competing actors and agendas, and as yet, there is no effective coordinating body. China's policy-making also remains coloured by a continuing sense of victimhood following China's loss of autonomy and territory in the 19th and 20th centuries, firstly to Western powers and then to Japan. This strong sense of historical grievance can play against rational decision-making.

China's increased focus on its interests as a great power has led to tensions in the region. While some smaller neighbours, such as Laos and Cambodia, are willing to pander to their great neighbour in return for economic benefits, many countries, particularly to the East, feel threatened by China's growing economic and military aggressiveness, and are reluctant to be cast into the role of tribute-making states.

1.1 North East Asia

1.1.1 Japan

China's vision of its relations with Japan is likely to remain fixated on a strong sense of historical injustice and bitterness, due to what China perceives as lack of remorse for wrongs committed by Japan during its invasion and occupation of large areas of China in the 1930s and 1940s. The regime has encouraged anti-Japanese sentiment in the Chinese public through government-controlled mass media.

The tensions between China and Japan are most prominently displayed in their competing claims to the Diaoyu / Senkaku Islands in the East China Sea. Controlled by Japan, and close to major shipping lanes, with rich fishing grounds and possible oil reserves nearby, China (and Taiwan) claims them as part of Taiwan's territory. The dispute over the islands escalated in September 2012 when Japan announced plans to nationalise three of the five islands, sparking widespread government-sanctioned anti-Japanese protests in China. Since then, Chinese coastguard boats and unmanned drones have regularly patrolled the area around the islands, raising tensions with Japan. In November 2013, China further inflamed tensions and the risk of an armed clash by declaring an Air Defence Identification Zone (ADIZ) covering the Diaoyu/Senkaku Islands, aimed at challenging

Japan's administrative control over the islands, and forcing the US to engage in Japan and China's long-running territorial dispute.

While China has exacerbated the situation, Japan also bears responsibility for the escalating tensions. Under Japanese Prime Minister Shinzo Abe, Japan has adopted a more nationalistic and less apologetic rhetoric about its wartime legacy (also leading to frosty relations with South Korea), and has refused to acknowledge that the Diaoyu/Senkaku Islands are disputed. Abe has also stirred nationalist sentiments in the domestic population for political benefit.

By boosting the chances of military confrontation with the ADIZ, China is playing a risky game. Conflict could happen through political miscalculation based on escalating nationalist rhetoric, or accidental military interaction around the islands, now much more likely with increased numbers of military planes flying through the area. Given Japan's military capabilities, China is not likely to be victorious in a clash, even if the US doesn't back Japan. Chinese defeat in any conflict would be very difficult for the regime to weather domestically. Abe is also likely to use conflict to push through constitutional amendments allowing more than defensive military capabilities.

The political tensions are also threatening China and Japan's healthy economic relationship, particularly since China has been willing to use its economic clout to gain leverage. For example, in September 2010, China stopped shipments to Japan of rare earth elements used in a range of manufactured goods, after a spat over the islands. While two-way trade between Japan and China is still substantial, the first half of 2013 saw a drop of 10.8 percent from the year before. Japanese investors are also starting to hedge their bets - in the same period, Japanese investment in China dropped 31% to USD 4.93 billion, while investment in Southeast Asia increased 55% to USD 10.29 billion, according to figures from the Japan External Trade Organisation.

1.1.2 The Republic of Korea (ROK)

Following the shift in political dynamics since Korean President Park Geun-hye's election in December 2012, China's vision of its relations with the ROK is likely to be more positive than it has been in the past.

While the two countries have shared a strong and growing economic relationship for a number of years, this had not been reflected in political relations. Park, a Mandarin speaker, has opened up a more productive relationship, visiting China in June 2013 with a large delegation of business leaders, on her second trip abroad. As China is the ROK's largest trading partner, ROK businesses are economically invested in China and want to be able to operate more easily in the Chinese market. Following their meeting in June 2013, Park and Xi Jinping agreed to work for an early conclusion of the ROK-China FTA and to aim for \$300 billion in trade by 2015.

The stronger political relationship is in China's interests – North Korea is a difficult ally, and the ROK provides an alternate friend on the Korean peninsula. In addition, China is keen to make inroads with a close US ally in the region, particularly important given the US's much-publicised pivot to Asia. The ROK and China also share animosity towards Japan – Japan also occupied ROK during its imperial period, and Park has not formally met with Abe since her election.

The recent improvement followed a difficult period in Chinese-ROK relations, primarily due to China's backing of North Korea following several small-scale attacks on the ROK. Building trust and maintaining the relationship will depend on China continuing to moderate its relationship with North Korea. China may also need to shift its stance on the ADIZ, as the zone includes Socotra Rock, a

submerged rock in the Yellow Sea claimed by both countries. The ROK has objected to the ADIZ and said it might extend its air defence zone to cover the area.

1.1.3 The Democratic People's Republic of Korea (DPRK)

Despite historical bonds and ideological allegiance, the DPRK is a difficult ally for China. While China's party and military leaders are unlikely to abandon their recalcitrant neighbour, China's vision is likely to involve a continuing recalibration of the relationship.

The DPRK has been a useful buffer state between China and US-ally South Korea, and can also be useful in China's regional machinations, particularly towards the US and Japan. But these benefits can have a high cost. The DPRK's provocations over the past year have resulted in stronger US–Japan–ROK cooperation, including a greater US military presence in the ROK, and have created problems for China in the UNSC.

To help ensure the DPRK's stability, China supported the regime around the leadership transition from 2010 to 2012. When Kim Jong Un had solidified his regime, China was less willing to tolerate provocations. After the DPRK's December 2012 satellite launch, February 2013 nuclear test and May 2013 missile tests, China called for the full implementation of UN sanctions against Pyongyang, indicating its frustration. China also suspended financial dealings with the Foreign Trade Bank of North Korea, the DPRK's main channel for international transactions, and reportedly reduced Chinese exports and investment to the DPRK. China has committed to bringing the DPRK back to multilateral talks, and to cooperate with the US and ROK on seeking denuclearisation.

While high level visits between the two countries in May and July 2013 indicated that tensions had somewhat dissipated, Kim Jong Un's purge and execution of his formerly powerful uncle, Jang Song-thaek, in December 2013 is likely to further antagonise China. Jang was known for his close relations with China and the accusations against him included underselling resources to China.

1.1.4 Taiwan

China's vision of its relations with Taiwan over the next five years is likely to involve continued strengthening of investment and political relations, with an eye to eventual reunification. The smoothness of this path will depend on the willingness of Taiwan's leadership and society to accept potential reunification.

China and Taiwan's previously tense relationship stabilised after Taiwanese President Ying-Jeou Ma's election in 2008 (and re-election in 2012). Ma was elected on a China-friendly platform, and supports the One China principle. Taiwan's economic dependence on China has increased - Chinese investment in Taiwan has grown significantly since the 2009 Economic Cooperation Framework Agreement opened up large sectors of Taiwan's economy to Chinese investment, and increasing numbers of Chinese students are studying in Taiwan.

A slide back to hostility, however, is still possible. Political and military relations have lagged behind improved economic and cultural relations, and neither side trusts the other. While China militarily outweighs Taiwan following its military modernisation, Taiwan continues to boost its capabilities for self-defence. Taiwan's democracy has also strengthened, and Taiwanese public opinion on reunification with China – which has become even more contested – will play an important role in future relations, particularly if China pushes too hard on reunification. At the recent Asia Pacific Economic Cooperation (APEC) Summit in Bali in October, Xi Jinping told Ma's envoy, Vincent Siew,

that talks to achieve political resolution should start to move forward under the one-China principle and not remain perpetually stuck on economics only. Taiwan did not respond enthusiastically.

1.2 Southeast Asia

China's vision of relations with its Southeast Asian neighbours is likely to involve a continued push for greater dominance in the region and with individual states, including on territorial claims. While China is currently taking a softer approach to ASEAN countries (with the exception of the Philippines due to maritime border disputes) to gain back diplomatic ground lost to the US, Japan and others, there are likely to be ongoing cycles of aggressive tactics and diplomatic outreach.

China has been using its economic dominance to expand its influence in the region and bolster its territorial claims. China is ASEAN's largest trading partner, and many key ASEAN states, such as Vietnam, Malaysia and Indonesia are economically dependent on China. While there are clear benefits of close economic ties to China, ASEAN states are reluctant to be cast into the role of tribute-making minor states.

These fears have been magnified by China's growing military might and in particular its rising naval capacity and its territorial claims in the South China Sea. As well as including crucial maritime trade routes and significant fish stocks, the South China Sea is believed to contain large oil and gas reserves. China claims over 80 per cent of the area in a 'nine-dashed lines' map. Parts are also claimed by Brunei, Malaysia, the Philippines, Taiwan and Vietnam. When China announced its East China Sea ADIZ, it said it expected to set up other air defence zones, feared by neighbouring countries to refer to the South China Sea.

Over the past few years, China has shifted through cycles of aggressive tactics on the South China Sea, such as sending regular patrols into disputed water and harassing the boats and fishermen of neighbouring countries, followed by more conciliatory actions, such as signing up to the non-binding ASEAN Guidelines on the South China Sea in 2011. In 2012, China again escalated its claims in the South China Sea, particularly on areas disputed by the Philippines. For example, it claimed territory around Scarborough Shoal through what Chinese officials have referred to as a 'cabbage strategy' – surrounding the area with fishing boats and surveillance ships to assert de facto control.

While ASEAN countries are still largely tied to China economically, China's aggressive actions have pushed them to counter-balance China's sway by strengthening political and security alliances with each other and with other regional powers - particularly the US, but also Japan, Australia, India and Russia. Japan and India have been eager to exploit this opportunity. Abe visited all ten ASEAN members during his first year in office, and as noted above, Japanese investment in ASEAN nations sharply increased this year. Japan has also provided ships to the Philippines to patrol disputed waters. India spoke out in support of multilateral negotiations on the South China Sea most recently at the East Asia Summit in October 2013, and carried out joint oil and gas exploration with Vietnam in disputed parts of the South China Sea in 2012.

In response to growing anxieties within the region and to regain political leverage with ASEAN states, China embarked on a high-level diplomatic charm offensive in October 2013, distributing largesse to ASEAN states through a host of strategic and economic agreements. Xi Jinping visited Indonesia and Malaysia, and attended the APEC forum, while Chinese Premier Li Keqiang visited Vietnam, the ASEAN Summit in Brunei, and Thailand. China's outreach pointedly excluded the Philippines, an outspoken advocate for its own territorial claims and for regional efforts to combat China's claims.

China's diplomatic efforts were facilitated by Barack Obama's last-minute absence from this year's APEC and ASEAN summits, due to the budget stand-off in Washington.

At the ASEAN summit, China promoted the economic benefits that China could bring to the region, proposing an upgrade of the China-ASEAN free trade area to boost trade volume, and an increase in Chinese infrastructure investment. China also slightly softened its position on ASEAN forum negotiations on the South China Sea, although it continues to push for bilateral negotiations to gain maximum benefits from its dominant position.

While the visits may have strengthened China's economic relationships with ASEAN states, building political trust with its neighbouring countries will take longer. Key ASEAN states are likely to continue to take advantage of the economic benefits that China offers, while deepening their political and security relations with the US and Japan, among others.

1.3 South Asia

While China is likely to seek to maintain current dynamics with both India and Pakistan, its key South Asian neighbours, this could play out in starkly different ways. India can be a difficult relationship for China; Pakistan is one of its only real allies in the region.

1.3.1 India

As regional rivals, China and India's political relations have never been robust. China, however, may be satisfied with the current status of the relationship. The economic relationship is in its favour, and tensions around the unresolved border and security issues are manageable, even if the current potential of the relationship is not being utilised.

Political tension escalated in April 2013, when Chinese troops crossed the Line of Actual Control (the undefined border between the two countries) and set up camp in Depsang Valley, Ladakh, well inside Indian territory. The incursion overshadowed a subsequent visit by Li Keqiang to Delhi in May 2013, his first overseas visit, intended to demonstrate the importance of relations with India. The reasoning behind China's entry into Indian territory is unclear. China may have sought a stronger negotiating position on border arrangements, or it could have been a rogue action by the PLA rather than part of a coherent strategy. The incident was resolved diplomatically, but reinforced India's mistrust of China and set back dynamics in the relationship. While Indian Prime Minister Manmohan Singh's visit to China in October 2013 led to the signing of the Border Defense Cooperation Agreement - an agreement aimed at maintaining peace along the border through initiatives such as exchanging information on military exercises - both sides continue to boost military and civil infrastructure along the border.

While China appears unwilling to consider India as an equal partner worthy of mutual trust and collaboration, Indian officials, academics and public intellectuals spend significant attention on analysing China and its intentions. In addition to border issues, India is concerned about encirclement - China provides substantial nuclear and missile assistance to Pakistan, and is looking to expand operations in the Indian Ocean. The potential change of government in India following national elections in 2014 may lead to more combative relations with China. The BJP's prime ministerial candidate, Narendra Modi, has said that China should not dominate India in foreign policy matters.

Political tensions have impacted on economic relations. Two-way trade declined last year, and trade and investment are far from realising potential levels between the two regional giants. As noted above, India has also been taking advantage of China's difficult relationships with its Eastern neighbours to strengthen its ties with ASEAN governments, particularly Indonesia, Singapore, Thailand and Vietnam, as well as Japan.

1.3.2 Pakistan

Pakistani Prime Minister Nawaz Sharif characterised Chinese-Pakistani relations as sweeter than honey during his visit to Beijing in July this year, his first overseas visit since his election in May. Political relations have been close for many decades, and China is Pakistan's largest supplier of arms. The relationship is likely to strengthen further as US reduces its military and political activities in Afghanistan and Pakistan. For Pakistan, China is an 'all-weather' friend, in contrast to its sometimes bumpy relationship with the US.

Economic cooperation is also robust, assisted by a free trade agreement and Chinese investment in infrastructure, including Pakistan's civil nuclear power. In addition, China has been able to increase operations in the Indian Ocean through investing in Pakistan's deep-water port at Gwardar.

1.4 Central Asia

China is strengthening relations with its energy-rich **Central Asian** neighbours to boost energy supplies, provide alternate transport links to European markets, and maintain stable political neighbours on its western flank. China is building influence in the region through low interest loans and investment in massive infrastructure projects.

China is keen to establish new 'Silk Roads' - overland transport supply routes through Central Asia, such as the newly-inaugurated China-Europe railway – as a way to reduce its exposure to the security risks and supply disruptions associated with its reliance on maritime trade, particularly given current heightened tensions with its Eastern neighbours.

In September 2013, Xi Jinping did a ten day tour of Central Asia, visiting Kazakhstan, Kyrgyzstan, Turkmenistan and Uzbekistan. The visit strengthened diplomatic, security and economic (particularly energy) cooperation. Outcomes included an agreement to invest \$30 billion in energy and transportation projects in Kazakhstan, and the opening of a natural gas field in Turkmenistan which will boost China's gas imports by over 60%.

1.5 Northern neighbours

1.5.1 Russia

China's vision of relations with Russia is likely to involve boosting economic ties, particularly access to energy resources, and continued strategic collaboration around areas of common interest, such as countering the US's influence regionally and globally, and promoting non-interference in international affairs. While relations between the two regional powers have long been difficult, including a brief border war in 1969, recent engagement has demonstrated a certain pragmatism.

Xi Jinping's first foreign visit since officially becoming president in March 2013 was to meet Russian President Vladimir Putin. Russian Prime Minister Dmitry Medvedev also met with Li Keqiang in Beijing in October 2013. The two countries held their largest joint military exercise in July 2013.

Trade relations have expanded over the past decade, in China's favour – China is now Russia's single largest trading partner, while China's trade with Russia is dwarfed by its trade with the EU, US and Japan. Russia has long been expected to become an important source of energy supplies for China, but past agreements have not always come to fruition, partly due to lack of political will, but also difficulties in accessing resources, given vast distances and bad Russian infrastructure.

Despite the improved relations, historical suspicions and mutual mistrust run deep. Russia is concerned by China's intense relationship-building in Central Asia, given that the region has been its natural domain, but is not in a position to compete with China's economic power. Russia is also strengthening its strategic relationships with Japan, ROK, India and Vietnam to counter-balance growing Chinese influence in the region.

1.5.2 Mongolia

China looks to **Mongolia** as a potential source of energy supplies, particularly coal, although again historical mistrust and difficulties with accessing resources have constrained relations. Mongolia is economically dependent on China but, wary of China's dominance and of again becoming a vassal state after shaking off its dependence on Russia, has restricted the growth of Chinese investment. Mongolian Prime Minister Norov Altankhuyag met Li Keqiang in Beijing in October 2013, with no new breakthroughs in the relationship.

2. WHAT ARE THE KEY CHALLENGES AND KEY POINTS OF LEVERAGE THAT CHINA HAS?

China's path in asserting itself as the primary regional power has not been smooth, and this trend is likely to continue. While China's economic power gives it impressive leverage, a range of challenges need to be managed better.

A fundamental challenge impeding China's progress is the beliefs about historical victimisation and right to reclaim its position as a global power that still underpin its regional policy-making. These entrenched ideologies hinder manoeuvrability and the rational analysis of China's interests in high level decision-making. This can be clearly seen in China's relations with Japan. In Southeast Asia, China has tended to assert its dominance too aggressively, expecting its neighbours to readily acknowledge its superior position. Instead, most ASEAN states are wary of China's rise and have sought to counter-balance its influence through other regional powers.

Another challenge is the many competing Chinese agencies and agendas involved in formulating regional policy, and the lack of an effective coordinating agency. This can lead to disjointed and potentially counter-productive decisions, such as the incursion into Indian territory earlier this year. Ineffective coordination is exacerbated by the relatively little high-level attention given to foreign policy compared to internal issues. Coherent mandated positions are less likely to be generated and pushed through from the top levels.

Effectively managing domestic opinion on foreign policy also presents a challenge. While China is quite willing to repress dissenting domestic opinions, most Chinese expect a rising China that strongly defends its territory, largely due to nationalist sentiments generated to strengthen support for the Chinese Communist Party (CCP). While pushing hard on territorial claims or other regional issues may be counter-productive and strengthen opposing alliances, it can be difficult for China to back down without losing internal credibility and causing discontent. For example, when China

increased its aid to the Philippines following Typhoon Haiyan (from an initial USD 100,000 to 1.6 million), Chinese netizens criticised the government for giving aid to an undeserving, combative neighbour.

China's key point of leverage is its economic dominance in the region. Many neighbouring countries are economically dependent on China – while they may have concerns about China's rise, they still need to manage the relationship carefully, particularly since China is willing to use its economic might to coerce or cajole its neighbours. For example, China's blocking of rare earth elements to Japan in 2010, or its recent promises of greater investment and economic integration to ASEAN states. To some extent, though, China's huge economy is also a challenge. The regime needs to maintain economic growth to ensure social stability, which requires expanding trade relations and stable supply chains. Its vulnerability to blockages can constrain how it deals with its neighbours - China treads carefully with Mongolia, and has had to offer generous economic incentives for closer energy cooperation with Central Asia.

Another lever is China's growing military might, particularly its naval capabilities. While it is still not capable of facing down the US or Japan, it can easily intimidate its smaller neighbours.

3. HOW DO ARTICULATIONS OF CHINESE FOREIGN POLICY UNDER THE NEW LEADERSHIP DIFFER FROM THAT OF THE FORMER LEADERSHIP?

While the full effect of Xi Jinping and other senior leaders' influence on regional policy is likely to take some time to become apparent, Xi Jinping's strong Sino-centric views on China's role in the region have already had some impact, reinforced by his fairly rapid consolidation of power. These views are epitomised by Xi Jinping's nationalistic 'Chinese Dream', the rejuvenation of the Chinese nation.

Although his views on China's regional role may be more patriarchal than Hu Jintao's, the extent of Xi Jinping's active involvement in foreign policy-making is not yet known. There is, however, potential for China's foreign policy-making to become more coordinated and coherent, possibly directly under Xi Jinping's leadership. Among the reforms announced after the CCP's third plenum of the 18th Central Committee in November 2013 was the establishment of a State Security Committee (SSC), presumed to be chaired by Xi Jinping. Not much detail was provided, and the SSC may end up focused on domestic security. Xi Jinping is also likely to be preoccupied with economic and other domestic reforms following the plenum, and may not be able to provide much oversight on foreign policy, although he did chair a recent (and rare) high-level meeting on 'periphery diplomacy' in October 2013. If the SSC does cover foreign policy and operates in a similar manner to the US's National Security Council (which China is known to have studied), then it will advise the leadership, and help to coordinate key government agencies on foreign policy and national security.

Despite the potential for greater coordination and high-level leadership on regional policy, the main parameters for policy-making are likely to remain the same. Decision-makers will focus on the key domestic goals of economic growth and internal stability, while continuing to assert China's territorial claims and its rightful position as a great power, even if these goals can be inconsistent. In the October high-level meeting on peripheral relations, Xi Jinping emphasised China's need for a stable external environment that enables domestic development, stability and economic reform, but also stated that China would safeguard its sovereignty.

There are some signs, however, that China's increasing desire to promote itself as a global power may lead to greater engagement on international issues. While still supporting the principles of sovereignty and non-intervention, China is starting to recognise that it needs to play a more constructive role in areas such as international relations and trade talks, even if only to maintain stable access to markets and supply chains, and to counter-balance US dominance. For example, domestic media highlighted China's role in facilitating the recent deal on Iran's nuclear programme, and as discussed above, China has recalibrated its relations with North Korea, bringing it more in line with the US and others. China's engagement has been assisted by the personalities of the new leadership. Xi Jinping and the Chinese Foreign Minister, Wang Yi, are smoother and more diplomatic on the world stage than their predecessors, Hu Jintao and Yang Jiechi.

4. WHO ARE THE MAIN PLAYERS IN THIS AREA IN CHINA, AND WHAT ARE THEIR KEY OBJECTIVES?

As noted above, a range of individuals and agencies play a role in formulating China's regional policy, often with contradictory or competing agendas. As well as those within the CCP and government structures, foreign policy is also influenced by business and other actors.

The key objectives of most players (particularly in the CCP and government) are to maintain social and regime stability, as well as to gain power, recognition and resources for their agency and themselves. For example, the military will generally justify the need for further military build-up. Differing perspectives also play a role - on North Korea, the International Department might focus on party ties, while the MFA will focus more on regional stability.

Given the opacity of Chinese internal policy-making processes, it is difficult to clearly identify who determines foreign policy, particularly with changes in key personnel following the leadership transition. Key players include:

4.1 CCP players on foreign policy

The CCP is the key political body in China, governing state and society. Xi Jinping's most important role is General Secretary of the Communist Party of China, followed by Chairman of the CPC Central Military Commission. The CCP's primary decision-making body is the 7-member **Politburo Standing Committee (PSC)**, chaired by Xi Jinping. The PSC directly controls strategically important foreign policy issues, such as relations with the US and Japan. While Xi Jinping manages the foreign and military affairs portfolios on the PSC, sensitive issues generally require time-consuming debates, given a desire to reach consensus.

State Security Committee (SSC): As discussed above, the establishment of the SSC was announced following the recent third plenum. It is not yet known whether the SSC will cover foreign policy, and if it will replace the current leading small groups on national security and foreign affairs.

Leading small groups on foreign affairs and national security: PSC members head 'Leading Small Groups' (LSGs) for their policy areas. Hu Jintao headed the LSGs on foreign affairs and national security, and Xi Jinping is believed to do the same, although the extent to which he is actively involved is not known. LSG members are not permanent or publicly disclosed, but include representatives from relevant CCP and government agencies, such as the military, Ministry of Foreign Affairs, and CCP International Department. The LSGs' role is to advise the PSC and Politburo on policy, and to coordinate and build consensus between agencies on policy and implementing PSC

decisions. Their ability to do this, however, is limited by a lack of resources and authority. The LSGs function as a reactive ad hoc committee with no regular meeting schedule or membership and despite the General Secretary's nominal leadership, the effective heads are normally out-ranked by key players (such as the military).

People's Liberation Army (PLA): The military is the armed wing of the CCP, and is controlled by the **CPC Central Military Commission (CMC)**, which is chaired by Xi Jinping and includes senior generals and senior CCP leaders. While the military isn't represented on the PSC and has limited Politburo representation, it reports directly to Xi Jinping through the CMC, and also sits on the foreign affairs and national security LSGs. The military's primary influence on foreign policy is through its operational autonomy. While generally not subject to CCP or state oversight, military actions can significantly impact the foreign policy environment. Military opinion is believed to be more hawkish than civilian opinion.

CCP International Department: The International Department, headed by Dr Wang Jiarui for the last decade, deals with foreign political parties. It plays an influential role in China's relationships with fellow communist countries, such as North Korea.

4.2 Government players on foreign policy

The CCP sets policy at all levels, but delegates daily implementation to the **State Council** – headed by Premier Li Keqiang – which leads the State ministries and commissions. Senior State officials concurrently hold senior CCP positions to ensure CCP control.

Yang Jiechi, State Councillor: Yang Jiechi, former foreign minister, joined the State Council in 2013 and is now the state councillor responsible for foreign affairs. He is not a member of the Politburo, and is likely to have relatively limited influence.

Ministry of Foreign Affairs (MFA) / Foreign Minister Wang Yi: While the MFA has some prestige within the Chinese political system, it is not very powerful. It implements policy, handles routine bilateral relations, and is the main liaison point with foreign governments, but has little influence on formulating foreign policy, and no jurisdiction on security policy. It is, however, an important source of information collection and analysis for decision-making on foreign affairs. It also upholds China's international image and core interests, and will act to prevent or mitigate any incidents that might embarrass senior party and state leaders.

Ministry of Commerce: One of the more powerful ministries, it can significantly influence foreign relations. It covers domestic and international commerce and much of foreign investment policies and development assistance.

4.3 Other players on foreign policy

State-Owned Enterprises (SOEs): SOE heads can be key players on foreign policy, due to their bureaucratic rank, knowledge of global and regional markets and the economic influence of their organisations. They are appointed by the CCP, and can move between party, government and business positions.

Think tanks and university academics: Government-affiliated think tanks and academics feed into foreign policy decision-making by providing information and analysis, either through commissioned

or self-generated reports. Experts may also act as informal or formal advisors to officials, and influence policy debates through publications and media work.

GONGOS: Government-organised non-governmental organisations can play a role in foreign policy, particularly those affiliated with relevant ministries (such as Foreign Affairs), and those headed by retired senior officials with status and networks.

5. DOES CHINA HAVE A COHERENT REGIONAL POLICY?

China's regional policy does not appear coherent, unsurprising given the many competing agencies involved in determining policy, the lack of effective coordination, and entrenched historical grievances. If the to-be-established State Security Council covers foreign policy, this may lead to more coherent, or at least better coordinated, regional policy that is also better integrated with domestic security. Examples of lack of coherency include China's relations with the ROK - the recently announced ADIZ covers disputed territory, jeopardising improving relations – and Myanmar, where China was marginalised quite quickly following the regime's reforms without developing a coherent response.

6. IS CHINA'S FOREIGN POLICY BECOMING MORE RELEVANT TO ITS INTERNAL POLICY?

Given that China's foreign policy has always been subordinate to the domestic goals of economic growth and social stability, it is as relevant now as it ever was. Due to greater access to information by the Chinese public, however, domestic public opinion on the foreign policy environment and developments now needs to be managed more carefully to maintain social stability. Because of competing and potentially inconsistent goals, Chinese foreign policy that is shaped to serve one domestic outcome may adversely impact on other priorities. For example, an aggressive military response may boost internal support for the regime, but lead to decreased economic relations.

7. WHICH COUNTRIES ARE LIKELY TO EMERGE AS CHINA'S LONG-TERM ALLIES IN THE REGION?

While China offers different levels of strategic partnerships to further develop economic relations or neutralise potential threats, it does not prioritise forming strong alliances with other countries. In its hierarchical view of the region, China's rightful position is at the apex as a great power. In this view, other countries are generally either competitors, or not worthy of a trust-based, genuine alliance. Pakistan and North Korea would be China's closest friends in the region, although as discussed above, relations with the DPRK have been downgraded over the past year. Cambodia and Laos could be considered client states.

8. HOW DOES CHINA VIEW THE EU'S ENGAGEMENT WITH ITS NEIGHBOURS (ROK, JAPAN, INDIA)?

Despite the EU's substantial economic presence in Asia and its alliance with the US, China generally does not view the EU as a regional competitor. China is well aware of the political divides between EU states, and the EU institutions' limited mandate to implement foreign and security policy on behalf of members. In its relations with EU states, China has been able to implement a fairly

effective 'divide and conquer' strategy, facilitated by the desire of many individual EU states to boost bilateral economic relations with China. It views Germany as the top of the EU hierarchy and prioritises this relationship.

China is therefore likely to be interested in, but not concerned by, the EU's engagement in the region, unless it feels that the EU is playing a support role to the US, or that particular initiatives may impinge on its core interests, such as territorial claims, Taiwan or Tibet. For example, China is not likely to feel threatened by the EU's healthy political and trade relations with ROK, or the EU's good, albeit relatively shallow, strategic relations and ongoing trade negotiations with India.

Given current tensions between the two countries, China may be keeping a closer eye on the EU's relations with Japan, particularly negotiations around the Strategic Partnership Agreement. It is probably not, however, much concerned as the agreement is unlikely to cover cooperation on security issues that would threaten China's interests.

9. HOW WOULD CHINA VIEW CLOSER EU-CHINA ENGAGEMENT IN THE REGION, AND WHICH AREAS COULD BE PURSUED?

China generally pursues its own regional agenda independently and is wary of attempts to collaborate. It could, however, be interested in greater EU-China engagement in the region if it felt it would advance its interests. It may also view cooperation as recognition of China's rise, and the non-alignment of the EU. While China may have discounted the benefits of cooperation with the EU during the Eurozone crisis, there may be potential opportunities now that the worst is over.

In seeking closer engagement, the EU should look to areas of shared interest where benefits to the region would also benefit China, these could include regional stability and clean energy. Cooperation will not be based on a shared underpinning of common values and beliefs such as democracy, human rights and the rule of law, and will also need to consider Chinese respect for sovereignty and non-interference in internal affairs. Initiatives should be presented as an opportunity to take lessons learned from China into the region, or as a mutual learning opportunity for China and the EU, rather than China learning best practices from the EU. In any area, people to people links will be crucial.

Possible areas for closer regional engagement include:

- *Clean energy and boosting energy efficiency*: This could build on China's development of wind and solar power. China is likely to welcome access to new technologies, although intellectual property issues would need to be considered.
- *Nuclear energy and safety*: Cooperation could extend the EU-China partnership on the ITER (International Thermonuclear Experimental Reactor) project.
- *Non-traditional security issues*: China has given more attention to areas such as food, water and energy security over the past year.
- *'Soft' security issues*: Possible areas include disaster relief operation, natural disaster preparedness, combating pandemics and cyber-security. Counter-piracy initiatives in Southeast Asia could build on EU-China cooperation on piracy in the Gulf of Aden. Joint work on 'harder' security issues or issues such as North Korea may be viewed as too sensitive, or not of value given the limited military cooperation between the EU and China, and the EU's lack of regional leverage and capabilities on security issues.
- *International aid*: This could learn lessons from the UK and Australian agreements with China on development cooperation. Any request for assistance should come from the third country, not the EU.

- *Urbanisation*: This could take China's learning on the economic, social and environmental challenges of the urbanisation process to the region, and build on the existing EU-China Partnership on Urbanisation.

10. CONCLUSION

China's push to become the primary power in its region will continue to impact its role and relationships with neighbouring countries over the next five years. Regional states are likely to feel only more threatened by China's dominance and willingness to use aggressive tactics to achieve its objectives.

To make its rise more sustainable, China needs to find a balance between asserting its self-perceived rightful position as a great power, and using regional policy more strategically to further its interests, including key domestic goals. China is adept at using its economic power to coerce and cajole its neighbours, but its objectives may be assisted by a greater focus on building political relations. Cycles of aggressive tactics followed by diplomatic outreach, as seen in its relations with Southeast Asian states, may be effective in achieving short-term goals and avoiding conflict, but are not conducive to building trust.

The extent to which this balance will be possible under the new leadership, however, is questionable. While China's regional policy-making may become more coordinated if the SSC is established and covers foreign policy, decision-makers are unlikely to shift far from current parameters based on achieving domestic goals, reinforcing historical perspectives and asserting territorial claims.

11. POLICY RECOMMENDATIONS

- When engaging China on foreign policy issues, the EU should seek to expand engagement beyond the Ministry of Foreign Affairs, due to its limited influence on policy-making. Given the difficulties in accessing members of the PSC and the PLA, links should be fostered with think tanks, academics and GONGOs associated with senior officials.
- The EU should encourage China's interest in greater constructive engagement on international relations and trade talks, a positive outcome of its desire to promote itself as a global power. One possibility might be through discussions on a free trade agreement (FTA) or liberalising aspects of the current economic relationship. While a FTA may not be feasible in the near future, initial talks could build on the November 2013 agreement to start negotiations on an investment treaty, which is to include market access. Despite the series of trade rows between the EU and China over the past year, the EU has some economic influence with China, given that Europe is China's largest trading partner.
- If looking to boost regional engagement with China, the EU should focus on areas which would advance both the EU's and China's interests, as well as being beneficial to the region, such as clean energy and regional stability.
- The EU could present greater engagement as recognition of China's rise as a global power, as a way to take China's learning into the region. For example, joint projects could draw on China's growing expertise in wind and solar power.

- Possible areas for cooperation include clean energy and boosting energy efficiency; nuclear energy and safety; non-traditional security issues; 'soft' security issues; international aid; and urbanisation.