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Andreas Spies

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Table of Contents

INTRODUCTION.....	4
CHAPTER 1 - NEOREALISM.....	5
WHY A THEORY?	5
STRUCTURAL NEOREALISM	6
<i>System Theory</i>	6
<i>Structure of the System</i>	7
<i>Balance of Power</i>	9
<i>Different Systems</i>	11
<i>Cooperation and Distribution of Gains</i>	14
<i>Capabilities and the character of units</i>	20
<i>The character of the units</i>	22
SUMMARY	25
CHAPTER 2 – CHINA’S EMERGENCE	30
DURING THE PLANNING ERA (1949 – 1978).....	34
REFORM ERA AND BEYOND (1978 – 2008)	39
<i>Economic Capabilities</i>	40
<i>Political Capabilities</i>	47
<i>Military Capabilities (since 1990)</i>	51
ASSESSMENT OF CHINA’S POSITION	53
<i>China’s position in the world</i>	66
<i>China’s Position in Southeast Asia</i>	68
ISSUES.....	69
<i>Is China’s economy really that strong?</i>	69
<i>Data are inaccurate</i>	71
SUMMARY	72

CHAPTER 3 – CHINA AND SOUTHEAST ASIA	75
CHINA AND ASEAN.....	77
<i>Trade</i>	79
<i>Cooperation</i>	80
<i>South China Sea</i>	81
CHINA AND VIETNAM.....	82
<i>Balancing China?</i>	85
SUMMARY	95
CHAPTER 4 – CONCLUSION AND OUTLOOK.....	96
CONCLUSION	96
OUTLOOK	99
BIBLIOGRAPHY	102
ABSTRACTS.....	112
RESUME.....	115

Introduction

The rise and fall of nations is nothing new in world history. Throughout our past we find empires that have attained unprecedented might. With technological advances, powerful empires (and nations) started to project their power even outside their region. The emergence of powerful states or tribes that tried to spread their power throughout the world can be found throughout history. From a European perspective, the modern era started with the emergence of Portugal and Spain in the 15th century and would reach its climax before World War II with the British Empire. After the war, two new powerful blocks formed: the Soviet Union and the United States (and its allies).

In general, a similar pattern emerges with both, nations and individuals. Like people, governments want to ascend the power rankings to gain influence and might. However, as one person or country moves up, others have to fall. The basis of everyone's success is the respective person's or country's capabilities. In the case of countries, these consist of economic, military, and political variables, which, when combined, amount to a country's overall ability and strength. Put in relation to other countries, we can create a ranking. Naturally, those nations which possess the greatest capabilities are ranked on top, and those lacking are at the bottom. It is also natural to assume that all nations want to improve their standing or remain on top. This, in turn, inevitably leads to a conflict between the have and the have-not nations, that will, in the worst case, be resolved through military action. In the end, all great powers are vanquished as new challengers rise and overpower them.

The rise of China as a power is an event that will have significant global implications. In this paper I explore the extent to which China's geopolitical emergence has had an impact on Southeast Asia - and Vietnam in particular - between 1990 and 2008. As Beijing moves up the power ranking, other nations will be challenged and become dependent on China, if they are too weak to balance Chinese actions, for example in the South China Sea which the Chinese claims as a whole. The government in Beijing has set the goal to make China the center of the world again in a time when the country was relatively weak compared to many powers in the world system. In the long run, it seems that even the United States, being considered the world's strongest country in terms of economic and military power, will have to deal with the matter at some point as the possibility of China becoming a super-power grows more likely every year. However, so far, it has mostly been China's neighbors that had experienced a more confident and aggressive People's Republic.

CHAPTER 1 - Neorealism

In this chapter I will lay out the theoretical framework for this paper. First, I will introduce Neorealism. I believe this theory best explains the actions of the Chinese government in the world system since 1990 as we witness the emergence of another potential superpower – if it has not already reached that status - which poses a serious threat to the status quo of the United States as the hegemon. Next, I will highlight the advantages of Kenneth Waltz’s theory of Neorealism as well as the opposition it faces throughout academia.

The paper will then review the most common variations and developments of Neorealism (or Structural Neorealism), such as Defensive and Offensive Realism, respectively. The third part of this chapter will provide a short summary of Waltz’s system (system, or theory?). I will then explain relevant factors in my analysis of China, as I believe there are some aspects that neorealism does not cover that still merit attention in order to understand the interaction between states.

WHY A THEORY?

Establishing a theory means to create a framework within which we can operate. Also, we need to be aware that a theory is an abstraction of reality. This means that we look only at things that we want to explain and assume everything else as given. Waltz points out that we have to distinguish between laws and theories. A theory stating that a good has become more expensive because prices have changed is of little to no help. And it is no theory, but a law. Here we can see why Waltz writes that “*Theories explain laws.*”¹ It is a law that if the price goes up, the good becomes more expensive. But the theory behind it is that if, for example, supply or demand changes, we see a change in the price as well. Waltz states, “*Because a law does not say why a particular association holds, it cannot tell us whether we can exercise control and how we might go about doing so, we need a theory.*”² A theory helps us to explain events and even make predictions for the future under the same circumstances. And by scaling down, we develop a simplified version of reality, where the emphasis lies with “simple.”³

¹ Kenneth *Waltz*, *Theory of International Politics* (Reading Mass., USA, 1979), p.6

² *Waltz*, *Theory*, p.6

³ Hal R. *Varian*, *Intermediate Microeconomics. A Modern Approach* (New York, USA, 2003), p.1

As we shall see in a short example now, every theory has its limitations. If we tell our children they need to have good grades in school (and later in college too) if they want to have a well-paid job someday, we do not do that because a law says that good grades open the doors to a good job. We do it because we make the assumption that if our child performs better in class than the rest, this opens doors to better jobs. And here we have our theory where we assume that good grades *in general* lead to a good job. Our theory holds since we can observe that good grades indeed enable students to pursue the job of their dreams.

However, we can also see the limitations of a theory in this example. Good grades alone are no guarantee that one gets the position he or she seeks as there are also other things that are important. For many companies it is not only important that an applicant has finished his or her degree in the shortest period of time possible, but also that he or she possesses distinct soft skills. Furthermore, to many companies the field of study and the university at which you studied are of importance too. Then there is the requirement of most companies that the applicant has done some significant extracurricular work during his studies. We can now see that every theory has its limitations. Even though the theory states that good grades lower the entrance barrier to the more prestigious jobs, it does not reflect reality on a one-to-one scale, as the additional points, such as internships and the personal situation of the applicant, are not being considered. Nevertheless, the theory about good grades at least lets us know “...*what to expect and why to expect it. [Thus] within a system, a theory explains recurrences and repetitions, not change.*”⁴

STRUCTURAL NEOREALISM

System Theory

Neorealism was introduced by Kenneth Waltz in his book “Theory of International Theory” in 1979. In his book, one of Waltz’s goals was to “*construct a theory of international politics that remedies the defects of present theories.*”⁵ For Waltz, some traditional realists reason that an international system’s stability depends primarily on the relative military power of the states. However, he urges the need to introduce a so-called “systems theory” which

⁴ Waltz, Theory, p.69

⁵ Waltz, Theory, p.1

*“deals with the forces that are in play at the international, and not at the national, level.”*⁶ In order to achieve his goal, Waltz builds his model of international politics on microeconomic theory because it *“describes how an order is spontaneously formed from the self-interested acts and interactions of individual units – in this case, persons and firms.”*⁷

Another reason why Waltz focuses his theory on states is the fact that, even though states, like companies in a market, are not the only actors in an international system, they are – again, like companies - the major players. And like the market, where the big players have the greatest say, *“International structures are defined in terms of the primary political units of an era, be they city states, empires, or nations. Structures emerge from the coexistence of states. No state intends to participate in the formation of a structure by which it and others will be constrained.”*⁸ In addition, like in the markets, where firms die and new ones are created, states in an international system are conquered or fall apart and new ones are proclaimed– for example, Yugoslavia, the Soviet Union, or (and?) the Habsburg Monarchy were succeeded by a number of countries. Therefore, Waltz makes it very easy for himself and argues that, *“Just as economists define markets in terms of firms, so I define international-political structure in terms of states.”*⁹

Structure of the System

In the following section I will focus on the three most important features of a (neo-) realist system. The most distinctive feature of the system is referred to as “anarchy,” which *“entails relations of coordination among a system’s units, and that implies their sameness.”*¹⁰ In contrast to domestic systems, which are hierarchically ordered and centrally controlled, there is no government in the international system where each unit is equal, and no one has control over another. Waltz points out that, *“To say that a state is sovereign means that it decides for itself how it will cope with its internal and external problems, including whether or not to seek assistance from others and in doing so to limit its freedom by making commitments to them”*¹¹ but they cannot behave as they please since their potential future actions are (pre-) determined by their relative strength in the system.

⁶ Waltz, Theory, p.1

⁷ Waltz, Theory, p.89

⁸ Waltz, Theory, p.91

⁹ Waltz, Theory, p.94

¹⁰ Waltz, Theory, p.93

¹¹ Waltz, Theory, p.96

However, in an anarchic system a world government would not exist for two reasons. First, if there was a world government, the system would not be anarchic anymore, but hierarchical. And second, if there was indeed a world government, states would strive to control it and in this wrangling over control, the nations with better capabilities would use their (military) power in order prevail over the weaker ones. This in turn means that the world would end up in what Waltz calls a “*world civil war*.”¹² Therefore, the principle holds: No one commands, and no one has to obey.

The second major feature Waltz claims to justify his system is that, due to the similarity between economic markets and international-political systems, “*International politics is structurally similar to a market economy insofar as the self-help principle is allowed to operate in the latter*.”¹³ For example, if being threatened, a country turns to military action. In the territorial disputes, China, for example, has sent its navy to the South China Sea to protect its interests against other nations such as the Philippines and Vietnam because it feels threatened.¹⁴ Iran, too, tries to protect its interests with military action. In the never-ending “*war of words*”, as CNN put it, Tehran, even though not directly addressing them, claims that U.S. military presence in the Strait of Hormuz and the Persian Gulf creates nothing but mayhem for the region. As a result, it threatens to block the strait. This would have serious repercussions for the world economy, as it “*is the only outlet from the Persian Gulf with 17 million barrels of oil per day passing through in 2011*.”¹⁵

The third distinct virtue Waltz attributes to the structure of his system is what he calls flexibility. Thus, nations can transform from, say, a democracy to a dictatorship. Waltz found a way to maintain his political system, as the “*structure defines the arrangement, or the ordering, of the parts of a system*.”¹⁶ This is important to him because now it does not matter whether there are five, seven, or only two great powers – which possess the largest capabilities - that form the structure; the anarchic system where each state works for itself is maintained. And just as “*societies establish norms of behaviors*,”¹⁷ the leading nations set the framework.

¹² Waltz, Theory, p.112

¹³ Waltz, Theory, p.91

¹⁴ Daniel Ten Kate, China Proposes Maritime 'Network' Fund to Help Resolve Shipping Disputes, Bloomberg News (20.11.2011). Online: <http://www.bloomberg.com/news/2011-11-19/china-says-sea-navigation-not-a-factor-as-wen-talks-with-obama-in-bali.html> (accessed: 03.01.2012)

¹⁵ CNN Wire Staff, Iran says U.S. warships in Persian Gulf spawn 'mayhem'; CNN online (04.01.2012). Online: <http://edition.cnn.com/2012/01/04/world/meast/iran-strait/index.html?iref=allsearch> (accessed: 05.01.2012)

¹⁶ Waltz, Theory, p.81

¹⁷ Waltz, Theory, p.75

Gilpin supports this by arguing that

*“the distribution of power among states constitutes the principal form of control in every International system. The dominant states and empires in every international system organize and maintain the network of political, economic, and other relationships within the system and especially in their respective spheres of influence.”*¹⁸

But can a change in the structure take place at all? Unlike others, such as Robert Gilpin who considers himself to be a “state-centric realist”¹⁹, a change in the structure of the system does, for Waltz, not only depend on the military capabilities of states, but on their economic and political capabilities as well: “The structure of a system changes with changes in the distribution of capabilities across the system’s units.”²⁰ A change in the relative capabilities of states means that “anarchic systems are transformed only by changes in organizing principle and by consequential changes in the number of their principal parties.”²¹ If a nation manages to increase its capabilities relative to others, it moves up the power ladder. If that nation becomes equal among the great powers, this is not a problem for Waltz. Rather, even though it changes the structure, it does not change the system.

Balance of Power

In an international system, as we shall see later, a balance of power can be achieved, depending on the number of great powers, either externally or internally. Because states seek at least their own survival and at the maximum “universal domination,”²² the balancing process is a recurring event, as

*“the conclusion of one hegemonic war is the beginning of another cycle of growth, expansion, and eventual decline. The law of uneven growth continues to redistribute power, thus undermining the status quo established by the last hegemonic struggle. Disequilibrium replaces equilibrium, and the world moves toward a new round of hegemonic conflict.”*²³

This means that if state A aspires to hegemony, other states will, at some point form a coalition to balance A’s ambitions.

¹⁸ Robert Gilpin, *War and Change in World Politics* (Cambridge, UK, 1981), p.29f

¹⁹ Robert Gilpin, Profile. In: Department of Politics, Princeton University. Online: http://www.princeton.edu/politics/people/display_person.xml?netid=rggilpin&display=faculty (accessed: 07.06.2012)

²⁰ Waltz, *Theory*, p.97

²¹ Waltz, *Theory*, p.161

²² Waltz, *Theory*, p.118

²³ Gilpin, *War and Change*, p.210

However, before that point is reached, states bandwagon with state A as long as they benefit from it to improve their position in the system as well. But when states start to oppose the hegemon-to-be, they do so, to use Machiavelli's words, "...in the belief that they will better themselves by the change. It is this belief that makes them take up arms against the reigning prince [state]."²⁴ This process does not take place peacefully, though. Gilpin argues that in this process, on one side,

*"The once dominant state is decreasingly able to impose its will on others and/or to protect its interests. [And on the other side,] the rising state or states in the system increasingly demand changes in the system that will reflect their newly gained power and their unmet interests. Finally, the stalemate and issue of who will run the system are resolved through armed conflict."*²⁵

While for Waltz, states' ambitions to better their position in whatever way are driven by first, the fear that the stronger state will harm them. And second, that they are seeking to gain power. Owen, for example, argues that *"if a balance of power entails states' acting, intentionally or not, so as to form that balance, then it follows that a theory predicting that balance must predict that states will act so as to bring it about."*²⁶ Owen appears to think that states do not act in a "Waltzian way" and seek to maximize their power, but that they rather pursue a course of action that places a constant balance of power above each state's preferences and gains. This, however, would mean that all states are willing to cooperate and coordinate their actions on a mutual basis.

Keohane opposes Waltz on the power maximizing issue for a different reason than Owen. He claims that states

*"concerned with self-preservation do not seek to maximize their power when they are not in danger. ...they realize that a relentless search for universal domination may jeopardize their own autonomy. Thus they moderate their efforts when their positions are secure. Conversely, they intensify their efforts when danger arises, which assumes that they are not maximizing them under more benign conditions."*²⁷

But why would states not try to maximize their power?

²⁴ Niccolo Machiavelli, *The Prince*. In: Christian E. Detmold, *Historical, Political, and Diplomatic Writings of Niccolo Machiavelli*, Vol. II (Boston, 1882), pp.1-92, p.6

²⁵ Gilpin, *War and Change*, p.33

²⁶ John M. Owen, *Domestically driven Deviations. Internal Regimes, Leaders, and Realism's Power Line*. In: Ernest R. May, Richard Rosecrance, and Zara Steiner (eds.), *History and Neorealism* (Cambridge, UK, 2010), pp.29-48, p.29

²⁷ Robert Keohane, *Theory of World Politics. Structural Realism and Beyond*. In: Robert O. Keohane (ed.), *Neorealism and its Critics* (New York, 1986), pp.158-203, p.174

After all, are firms not constantly trying to improve their position in the market by reducing costs, introducing new, better products to lure customers away from their competition in order to gain market share? Plus, anarchy makes sure that states can never be sure of their security. If it is part of a coalition it has to be concerned that it might get betrayed by its partners. And if a state is the strongest, anarchy makes sure that the other nations, in fear of their autonomy and survival, put up resistance. The goal is to lower the relative strength of the hegemon (or the strongest nation) and form a new “balance-equilibrium.”

Different Systems

A multipolar system is characterized by the fact that “*three or more states control one another's actions through diplomatic maneuver, shifting alliances, and open conflict.*”²⁸ To find out which powers join forces depends on which of the three have most in common. Namely, formations will arise when different states identify the same aggressor(s). However, an alignment of three powers has “*unfortunate characteristics. Two powers can easily gang up on the third, divide the spoils, and drive the system back to bipolarity.*”²⁹ Therefore, Waltz claims that in a multipolar system the number of states should be either four or five.

A formation of five great powers, which we have experienced in Europe until World War I, and where the composition of alliances changed regularly, has one nation that makes sure that neither side become too strong. In Europe, this this nation was the United Kingdom which sided with the weaker coalition to ensure a military balance and stability. This is because a system with four states “*permits external alignment and promises considerable stability.*”³⁰ While this may be an ideal arrangement, Waltz forgets that even in a system of four nations, three can still gang up on the fourth, which would leave us, again, in a system of three. Such an alignment also provides the opportunity for two nations ganging up on the third state, leading to a system where there are only two great powers. In the end, the multipolar system is not stable enough because “*there are too many powers to permit any of them to draw clear and fixed lines between allies and adversaries....*”³¹

²⁸ Gilpin, War and Change, p.29

²⁹ Waltz, Theory, p.163

³⁰ Waltz, Theory, p.163

³¹ Waltz, Theory, p.168

Väyrynen argues that, in a multi-polar system, the difference between the countries' ideologies may not be as obvious as in a duo-polistic system, where "*political systems [are] polarized into two camps.*"³² Several examples support his view. The United States and the Soviet Union have had strikingly different ideologies and goals. On the other side, the great powers in the European Union (France, Germany, United Kingdom, and Italy) have similar approaches and goals to how Europe should like in the future. The EU furthermore offers more possibilities for states to interact with each other, which, again, lowers risks of confrontation, even though states constantly oppose each other on various issues. However, European institutions and regulated processes often offer a solution to a problem.

In his analysis, Waltz sees the world in a bipolar system divided between the United States and the Soviet Union. This is the most stable system as there is only one possible arrangement and the absence of any possible alliances. Also, interdependence is low in this system, meaning that both great powers do not depend on each other economically and militarily, as Waltz notes that "*countries that are highly dependent, countries that get much of what they badly need from a few possibly unreliable suppliers, must do all they can to increase the chances that they will keep getting it.*"³³ Therefore, with the potential that others might gang up on a country eliminated and the independence from the other power is high and the potential of a country's miscalculation of the other country's potential actions is not an issue as states can only do so in a multi-polar system.

In a bipolar system, on the other side,

*"only two powers [are] capable of acting on a world scale [and] anything that happens anywhere is potentially of concern to both of them. Bipolarity extends the geographic scope of both powers' concern. It also broadens the range of factors included in the competition between them. Because allies add relatively little to the superpowers' capabilities, they concentrate their attention on their own dispositions."*³⁴

Therefore, in a bipolar world, war can only break out due to an overreaction by either state and the relative strength is determined by internal efforts and not by the combined strength of allies.

³² Raimo Väyrynen, Bipolarity, Multipolarity, and Domestic Political Systems. In: Journal of Peace Research, Vol.32, No.3 (August 1995), pp. 361-371, p. 363

³³ Waltz, Theory, p.153

³⁴ Waltz, Theory, p.171

Väyrynen suggests that *"in a bipolar conflict, the state with the strongest capabilities and its allies have a structural opportunity to give more freedom to their civil societies."*³⁵ Looking at the Cold War again, we find that the people of the "western nations" enjoyed much more personal freedom and prosperity between 1945 and 1990 than did their counterparts behind the iron curtain. This also explains why people fled to the west and not to the east. However, Väyrynen's suggestion that this is only true for a conflict between two great nations is not entirely correct. After all, people from Cuba are fleeing to the United States and Mexicans try to cross the border to its northern neighbor illegally as well. But neither is a great power in the international system, nor at war with the United States.

Another alignment of states would be a hegemonic one, where there is only one "great power" that controls everything based on its (military) power. Here, again, Gilpin supports Waltz's views on history:

*"A single powerful state controls or dominates the lesser states in the system. This type of system has, in fact, been most prevalent, at least until modern times, and scholars of international relations have detected a propensity for every international system to evolve in the direction of a universal empire."*³⁶

There are also plenty of examples to be found in world history. For example, the Roman Empire, in its pursuit of world domination, spread as far as it could through the application of military force. The same holds true for Napoleon's empire. Based on military action, Napoleon expanded the French empire and endowed it with vast political powers so that it could be seen temporarily as Europe's hegemon. However, as already mentioned above, at some point the other states managed (through a coalition) to overthrow Napoleon.

According to Gilpin's theory, when France was put back in place within the international system, a new struggle for leadership within the system began. In this respect, John Mearsheimer argues that there cannot be a global hegemon whatsoever. He agrees with Waltz that being the hegemon would be any country's best case scenario because *"its survival then would almost be guaranteed."*³⁷ However, no hegemon can cover the entire globe with its military and political forces. Therefore, regional hegemony is the best a state can achieve. But why is it then that states fear the emergence of other states?

³⁵ Väyrynen, Bipolarity, p.364

³⁶ Gilpin, War and Change, p.29

³⁷ John Mearsheimer, The Gathering Storm. China's Challenge to US Power in Asia. In: The Chinese Journal of International Politics, Vol.3 (2010), p.381-396, p.387

Mearsheimer argues that a regional hegemon “*check[s] aspiring hegemons in other regions, because they fear that a rival great power that dominates its own region will be an especially powerful foe that is essentially free to roam around the globe and cause trouble in their backyard.*”³⁸ This statement explains why President Obama has shifted the United States military focus on Asia because the United States fear the emergence of China which can cause troubles in some other parts of the world for Washington. From China’s point of view, the United States’ military presence in Asia – from troops stationed in Japan and South Korea, to the regular military exercises with Taiwan and South Korea – are a thorn in China’s side because it interferes with China’s intentions.

Cooperation and Distribution of Gains

Survival tactics and security dilemma

After having introduced the framework and basic characteristics of Waltz’s system theory, I will now take focus on some of the major points of criticism of the theory: Later on, I will also look at the distribution of capabilities and the character of the units. Cooperation and the distribution of gains are the two issues that I will focus on first, as these have to be looked at together since we know that it is the anarchic environment that causes countries to pursue a self-interest, and survival-first strategy. This also means that states are averse to cooperate because there is no one they can trust.

The “lack of trust” among nations stems from each nation’s state of mind: nations are constantly in fear of being taken advantage of. Therefore, instead of using their full capabilities to increase their economic well-being, states rather use some of their resources to build up military capabilities in order to maintain their autonomy. If nations really distrust each other, and if survival is not guaranteed at any point, why should a country focus on, say, economic development and prosperity. After all, in case it gets betrayed and conquered by its former partner everything it has built up will be lost instantly. Therefore, the only “logical” goal a state can have is to do whatever is necessary to ensure its own survival.

If cooperation happens to take place between two states, each starts to specialize economically in what it does best, which in turn means that its dependency on the other nation increases significantly since it relies more on the provision of goods it needs. Therefore, countries that have a negative trade balance are even more dependent on others because they

³⁸ Mearsheimer, *The Gathering Storm*, p.388

have to finance their trade deficit by for example, the use of their central banks reserves or by borrowing money from abroad. This means that they will depend even more on other states. Waltz says that, if “*states that are heavily dependent, or closely interdependent, worry about securing that which they depend on.*”³⁹ This means that each country tries to assure that its most valuable capabilities remain uncontested by others.

Furthermore, Waltz argues that “*the larger the state’s imports and exports, the more it depends on others.*”⁴⁰ That means that if a country’s total trade has a large share of GDP it is more dependent on others compared to when its share is relatively small. In 2008, trade as a share of GDP was 31% in the United States and 35% in Japan, respectively.⁴¹ But it was 90% in Germany and 171 % in Vietnam.⁴² Considering that trade is also affected by geography (which isolates Japan and other island nations to some extent), we can see that the United States is in both, absolute and relative terms less dependent on foreign cooperation than other states. Germany, on the other side, will, according to Waltz, suffer even more if one of its major trading partners stops buying goods.

This has to be the case because “*if domestic substitutions for foreign imports cannot be made, or can be made only at high cost, trade becomes of higher value to a country and of first importance to those who conduct its foreign policy.*”⁴³ With that, Waltz means that if a country that has a high level of trade as a share of GDP it depends more on the partners’ good will to keep supplying the goods needed. If that stops to happen, the country affected will not be able to supply its economy and will therefore lose power relative to others. As a result, larger countries have an advantage over smaller ones since they can produce more things at home and, by doing so, reduce their dependency.⁴⁴

Another problem concerns the number of great powers in a system. The greater the number of states involved, the greater the distrust and interdependence among each other since each country has to be afraid that one of its partners might join the other coalition or stop abiding by the agreements made. This, in turn, increases insecurity within the coalition

³⁹ Waltz, Theory, p.106

⁴⁰ Waltz, Theory, p.106

⁴¹ World Bank Data, Trade as % of GDP, (accessed: 24.01.2012), online:
http://data.worldbank.org/indicator/NE.TRD.GNFS.ZS?order=wbapi_data_value_2010+wbapi_data_value+wbapi_data_value-last&sort=asc

⁴² World Bank Data, Trade as % of GDP, (accessed: 24.01.2012), online:
http://data.worldbank.org/indicator/NE.TRD.GNFS.ZS?order=wbapi_data_value_2010+wbapi_data_value+wbapi_data_value-last&sort=asc

⁴³ Waltz, Theory, p.142

⁴⁴ Waltz, Theory, p.147

significantly because subsequently, a nation cannot trust its partner in a conflict situation, such as a war, if it already gets deceived in arguably less important matters.

As an example we might consider Poland in 1939, which was guaranteed by the British and the French that each would come to her rescue in case of a German invasion. As we know, despite their respective declarations of war neither state went on to attack Germany militarily, but Nazi-Germany occupied Poland. This is a typical case where politicians should have distrusted their alleged partner. One might argue that Poland did not have another choice but to hope for support, but in the end, it turns out that just because nations (or politicians) commit to something does not mean that will stick to their commitment after all. After all, it is one thing to commit to something on a piece of paper, but an entirely other things to act.

Robert Jervis indicates that one of the reasons why countries get betrayed are different values, beliefs, and goals of the other's leadership. Changes in the goals and values have, in Jervis' opinion, "*always been involved in the most far-reaching changes in international politics.*"⁴⁵ Thus, it seems to me that the British and French leadership (and probably the rest of the world too) had the "wrong beliefs" about what Germany was going to do, and were therefore caught by surprise when Germany invaded Poland. A question that arises – even though I will not elaborate on it - is whether Poland could have saved itself by pursuing a different approach towards Germany? To answer this, Waltz would tell us to look at the respective military capabilities.

Lack of knowledge

Another reason states do not like to cooperate is that they know too little or nothing about each other's intentions. This lack of information obviously causes distrust among states. It is similar to buying a car. If the seller does not provide all the details about the car, one will be very reluctant to even consider buying it. However, if the information needed is available though, one will at least think about it. If one does not buy the car in the end, it is because the buyer does not like it and not because he or she did not receive critical information. Therefore, why should nations collaborate if people will not even buy a car without sufficient information?

⁴⁵ Robert Jervis, Realism, Theory, and Cooperation. In: World Politics, Vol.40. No.3 (Apr. 1998). pp. 317-349, p.343

According to neoliberals, international institutions can help to solve these problems. Institutionalists, such as Robert Keohane, believe this to be possible for various reasons. However, it has to be mentioned first that “modern” liberals also accept the four core assumptions of Neorealism.⁴⁶ However, they still consider anarchy to differ from the (neo-) realist version as *“institutional theorists are careful to distinguish anarchy in this sense from chaos, and do not accept neorealist assertions that the fact of anarchy has far-reaching negative implications for cooperation.”*⁴⁷ Instead, Institutionalists assume the absence of a world government. Here, (neo-) realists would argue that a world government only leads to a fight among nations to control it. Ultimately, in this confrontation only the strongest country will prevail.

While realists argue that cooperation between states can only be based on a “shallow” short-term, ad-hoc basis⁴⁸, institutional theorists try to show the opposite. Especially Keohane emphasizes that international institutions support nations to move closer together as they *“create the capability for states to cooperate in mutually beneficial ways by reducing the costs of making and enforcing agreements.”*⁴⁹ With the creation of these institutions, which can take on the form of formal intergovernmental, non-governmental organizations, international regimes, and informal conventions⁵⁰, they see a chance for states to achieve things through tough bargaining within a framework of *“common rules and practices.”*⁵¹ Naturally, the more nations get involved in bargaining talks, the more complicated it will be to reach an agreement that satisfies all parties involved. In bilateral talks, only two sides have to agree, while the 25-states-formation of the European Union makes it much more difficult to please all nations.

⁴⁶ states are the main actors in the system; they act rationally and in a self-interest manner, anarchy prevails in the system

⁴⁷ Robert O. Keohane, Lisa Martin, How International Institutions affect Outcomes. In: Ernest R. May, Richard Rosecrance, and Zara Steiner (eds.), History and Neorealism (Cambridge, UK, 2010), p.52

⁴⁸ Keohane, Martin, How International Institutions, p.53

⁴⁹ Robert O. Keohane, International Institutions. Can Interdependence work? In: Foreign Policy, No. 110, Special Edition: Frontiers of Knowledge (Spring, 1998), pp.82-96+194, p.86

⁵⁰ Keohane, Martin, How International Institutions, p.55

⁵¹ Keohane, International Institutions, p.92

Distribution of Gains

Rosecrance points out, that countries can have different perceptions about the distribution of wealth and power. Some states might believe that the pie cannot become larger and that “*one’s gain would be another’s loss*”⁵². In the case of the EU, smaller states constantly complain that policies are tailored towards larger countries’ needs. The main players, however, insist that these policies are passed for the greater good. As Jervis lays it out; “*for decision makers, the question is never cooperation or defection, but rather what goals to seek and the tactics that will be most apt to reach them.*”⁵³ In the end, the question is whether cooperation is actually worth giving up autonomy and how much one can gain from it (compared to the partner(s)). If both states are equally strong at the beginning of their collaboration and the gains created favor state A more than B, then B will be worried.

Whether states only care about maximizing their gains or whether they aim at maximizing their gains relative to their partner is one of the big attacks on Neorealism theorists argue about. Neorealists argue “*that a state’s ends and means alike will be dictated by its relative power ranking*”⁵⁴ and that it will decide between either to bandwagon with or to balance against the other nation according to its relative military strength.⁵⁵ However, weaker states will bandwagon with their stronger partner only until a certain point and then start to take on a balancing attitude.

A stronger nation, on the other side, will automatically balance a potential threat to prevent its emergence. Suppose that due to a trade agreement country A is about to become a hegemon in the near future because the agreement is in its favor and will help to increase its capabilities significantly more than the other nations. At one point the partners, that are all about to become relatively weaker, will form a new coalition to balance the potential super power. The point at which states start to resist will depend on the gains they receive from bandwagoning compared to the price they have to pay. After all, at this particular point, states start to balance because they realize that their partners’ gains are highly unfavorable for them and that their autonomy is in jeopardy.

⁵² Richard Rosecrance, Transformations of Power. In: Ernest R. May, Richard Rosecrance, and Zara Steiner (eds.), History and Neorealism (Cambridge, UK, 2010), pp.8-28, p.19f

⁵³ Jervis, Realism, p.331

⁵⁴ Owen, Domestically driven Deviations, p.36

⁵⁵ Owen, Domestically driven Deviations, p.36

In this calculation states do not only consider what they gain or have to give up now, but also what might happen in the future. As Grieco argues, states also have to consider “*that suffering gaps in gains today might result in an erosion of their independence and autonomy tomorrow.*”⁵⁶ The advanced partner might use the increased economic (and military) strength to impose more and more less-favorable terms on the weaker state, which, in turn, would widen the gains gap even more.⁵⁷ Grieco adds to this that nations also fear cooperating because once one nation has

*“become powerful enough to restrict (again through the application of nonmilitary forms of influence) the capacity of the disadvantaged partner for independent choice and action in the domain in which cooperation is occurring and other domains to which that domain is related.”*⁵⁸

Liberal Institutionalists would say that states do not care about other state’s incentives to cooperate because they only seek “*to achieve the greatest possible individual gains. They do not care whether partners achieve or do not achieve gains, or whether those gains are large or small, or whether such gains are greater or less than gain they themselves achieve.*”⁵⁹ Keohane argues that in a fight between two states, international institutions disarm, or solve, the relative-gains problem because

*“most issues of potential cooperation ... involve multilateral negotiations that make relative gains hard to calculate and entail little risk of decisive power shifts for one side over another. Therefore, states can be expected most of the time to seek to enhance their own welfare without being worried that other will also make advances.”*⁶⁰

Therefore, if states know more about each other, the system will be more stable and military conflicts become less likely because the probability of miscalculation is reduced. Second, if states trust each other, they see an incentive to seek cooperation (in the long run) instead of short-term cooperation.

⁵⁶ Joseph Grieco, Robert Powell, Duncan Snidal, The Relative-Gains Problem for International Cooperation. In: The American Political Science Review, Vol.87, No.3 (Sep., 1993), pp.727-743, p.734

⁵⁷ Grieco, Powell, Snidal, Relative-Gains, p.734

⁵⁸ Grieco, Powell, Snidal, Relative-Gains, p.734

⁵⁹ Joseph Grieco, Anarchy and the Limits of Cooperation. A Realist Critique of the Newest Liberal Institutionalism. In: International Organization, Vol.42, No.3 (Summer, 1988), pp.485-507, pp.495-497

⁶⁰ Keohane, International Institutions, p.88

Capabilities and the character of units

Even though Waltz keeps telling us that we only have to look at the international level, and that the characteristics of units do not matter, he “admits” that like in the market economy, where a large number of firms operate, the world is made of a large number of states. Waltz points out that

*“when the total number of firms in a sector is large, their interactions can be understood, though not fully predicted, through theories about oligopoly of the number of consequential firms reduces to a small number by virtue of the preeminence of a few of them. International politics can be viewed in the same way.”*⁶¹

But, in order to figure out who the major companies are, we need to establish certain criteria that will help to filter out the weaker and less significant states. And the stricter the criteria, the smaller the number of states that possess these characteristics will be. Therefore, in addition to anarchy, the distribution of capabilities helps define the structure of a system as well.

Applying his filters, Waltz points out that in a system nations have to develop all their capabilities to be a great power. A nation is never ranked on top because it is an economic powerhouse while militarily weak and politically instable. Nor is it a superpower if it has the world’s largest army despite a weak economy that leaves its population starving. This point of view explains the fall of the Soviet Union. In the end and despite having immense military forces, Moscow was not able to keep up economically with the United States which led to its breakdown and the loss of the superpower status. For Waltz, a nation has to be strong in all of the following categories:⁶²

- Size of population and territory
- Resource endowment
- Economic capability
- Military strength
- Political stability and competence

⁶¹ Waltz, Theory, p.131

⁶² Waltz, Theory, p.131

A country small in size and population will not be able to exercise vast political influence as it lacks the economic and military power to enforce it. It will rather depend on a larger (and stronger) partner to protect it. For this “service” the small country will be willing to give up some of its autonomy. An example would be the European Union which (among other things) protects and advocates the interests of its member states. In turn, the EU-members give up some political autonomy. For example, if Brussels passes a law each state has to implement it. But if one nation gets attacked, the EU-in theory-will defend it. The United States, on the other side, do not need a protector as it has all, the size, the economic strength and the military power to enforce their political goals.

Furthermore, states also seek to secure as much of the most important resources as possible for them. This is for several reasons. First, apart from political prowess, strategic resources such as oil and certain raw materials provide, together with the labor force, the backbone of a country’s economy. China is amassing important resources such as coal and oil. China’s coal production increased roughly 277 % between 2000 and 2010 and its consumption increased some 298% in the same period of time.⁶³ In 2010, China still needed to import around 170,000 short tons of coal in order to satisfy demand. The situation is even more striking with oil. In 2010 China’s oil production was short of 4 million barrels per day. However, the economy’s demand was around 8.5 million barrels per day.⁶⁴

In order to keep its economic (and therefore political) emergence going, China has to find ways and partners to satisfy its needs. As we shall see later, China sticks, at least in this point, to Waltz’s theory and offers political and military support. But, it has also enforced its policies more stringent in recent years than ever in the past 150 years on the international level. These actions can be bilateral, for example by issuing a warning (in-) directly towards the United States to stay out of East Asia⁶⁵, or in the United Nations, where Beijing regularly opposes UN resolutions submitted by Western countries.

⁶³ *U.S. Energy Information Agency (USEIA)*, Country Analysis Brief China. Online: <http://www.eia.gov/countries/country-data.cfm?fips=CH#coal> (accessed: 23.02.2012)

⁶⁴ *U.S. Energy Information Agency (USEIA)*, Country Analysis Brief China. Online: <http://www.eia.gov/countries/country-data.cfm?fips=CH#coal> (accessed: 23.02.2012)

⁶⁵ Edward Wong, Beijing Warns U.S. about South China Sea Disputes. In: New York Times Online Edition (22.06.2011). Online: <http://www.nytimes.com/2011/06/23/world/asia/23china.html> (accessed: 02.03.2012); Jason Dean, China Warns U.S. to Stay Out of Regional Disputes, Wall Street Journal Online (23.06.2011). Online: <http://online.wsj.com/article/SB10001424052702303970604576401260613634844.html> (accessed: 02.03.2012)

The character of the units

Preferences

Domestic systems are hierarchically structured and units fulfill their predetermined functions. After all, each state has institutions that set or execute laws. Each state has a police force to ensure public order and usually they also educate their people. However, Waltz points out that many students and scholars of international politics get this point wrong when analyzing the system. He insists that

“concern for tradition and culture, analysis of the character and personality of political actors, consideration of the conflictive and accommodative processes of politics, description of the making and execution of policy – all such matters are left aside. Their omission does not imply their unimportance. They are omitted because we want to figure out the expected effects of structure on process and of process on structure. That can be done only if structure and process are distinctly defined.”⁶⁶

Therefore, the units in Waltz’ international system only have two characteristics. First, they are sovereign and decide freely what to do. And second, the internal structure of the units does not matter because they are all similar, as they fulfill the same tasks. What matters is how they respond to other units’ behavior. This all sounds nice, but since Waltz is comparing his system to the market, where agents pursue the bundle of goods that gives them the highest utility, which in turn means that states pursue the policies that give them the highest utility, we have to ask “the question”: How do differences between states’ goals and actions arise? After all, since it is a country’s political leaders that set the course of action, a change in their preferences leads to states having more (or less) in common.

Waltz does not explain how the units in his system determine their behavior and he tells us that it does not matter whether a country is a short-term maximizer who seeks to overpower the opponent immediately, or whether it underuses its power now in order to be in a stronger position in the future. States are alike in deciding their response to other state’s actions. They will act according to their relative strengths. And, however their actions look like, he would add, the most basic principle is always the same: Stay in the game and survive.

⁶⁶ Waltz, Theory, p.82

Therefore, the biggest challenge thrown at Waltz and Neorealism is aimed at the negligence of the importance of the character of the units as Owen argues that the most common change in preferences happens through a governmental change.⁶⁷ Did Hitler's rise not alter Germany's foreign policy? And while one president might favor military action to make his points clear, the other might prefer talks over bombs. Therefore, it has to be true that "*ideologies shape state response.*"⁶⁸

Ideas & values

But how is a state's course of action determined? How come two leaders of nations that are perceived to be equally strong decide differently on the same issue when (neo-) realist theory tells us that states would behave only according to their relative strengths? While Grieco states that international anarchy shapes states actions and motives,⁶⁹ Rosecrance and Owen, show that the character of the units matters if we want to figure out why states do what they do since "*one cannot predict a country's course of action by [only] knowing the amount of power it possesses*".⁷⁰ Rosecrance points out, that it is not only the structure of a unit that shapes its preferences, but that states also have natural limitations such as their geographical position and their size that influence their preferences. An island state, he argues, has different (maybe additional) security concerns than a land state.⁷¹

A country, such as Switzerland, has, due to its mountainous geography, vastly different security concerns compared to, for example, Hungary. Furthermore, demographics and the size of a country also play a role in her considerations. Switzerland will never be able to out-produce Germany. But Germany will most likely never attack Switzerland despite being militarily stronger. At some point, given its path of growth and the current political stability, China has to become the country that produces the most. Besides the United States the only challenger one can think of is India. And even then, the race would be decided by who can reach a higher productivity level and maintain stronger military forces.

⁶⁷ Owen, Domestically driven Deviations, p.36

⁶⁸ Rosecrance, Transformations of Power, p.10

⁶⁹ Grieco, Anarchy, p.488

⁷⁰ Rosecrance, Transformations of Power, p.8

⁷¹ Rosecrance, Transformations of Power, p.11

Owen argues that “*under some conditions a change in domestic constitution is followed closely by a change in external alignment*”⁷² as this transformation can alter the goals and actions of a state. A state might transform from a monarchy to a democracy or a dictatorship. It might also switch from a communist state to a capitalist one like Russia did. When Austria was established as the successor of the Habsburg monarchy, it had different political goals than its predecessor. The formation of the United States (of America) had a significant impact on world politics as well. Before that London told the American provinces what they had to do. With the creation of the U.S., the British Empire faced a new competitor, which has become the world’s strongest nation about 150 years later.

A change in leadership can lead to changes in foreign policy as well because leaders tend to have their own opinion about what to do to and who to side with. Furthermore, political leaders advocate different ideologies that they impose on their country. This can mean that even though two countries were allies for a significant period of time, face political tensions now because the leader of country A has a different approach than his predecessor. Owen writes that “*if variations in leadership were inconsequential to foreign policy, then governments would not need to pay much attention to who led other countries, at least as far as security was concerned.*”⁷³ While the rise of Hitler and National Socialism is a special case – its emergence did not only cause a change in the domestic constitution, but also a change in leadership - preferred external expansion, the Chamberlain sought to expand his country through internal efforts.

Another example is the death of Kim Jong-Il which caused much concern about who will be the successor. As we know, the world was alerted when Kim died. Mark E. Manyin, a Specialist in Asian Affairs of the U.S. Congressional Research Service encapsulated the world’s concerns when he wrote that

*“The effect of Kim Jong-Il’s death on North Korea’s stability is uncertain. Many experts doubt that his anointed successor, his third son Kim Jong-Un, will over the course of time be able to maintain effective control over his country due to his relative inexperience and the mounting internal and external pressures confronting North Korea.”*⁷⁴

Hence, we can see that it matters who runs a country.

⁷² Owen, Domestically driven Deviations, p.33

⁷³ Owen, Domestically driven Deviations, p.35

⁷⁴ Mark E. Manyin, Kim Jong-Il’s Death: Implications for North Korea’s Stability and U.S. Policy. In: CRS Report for Congress (Washington D.C., 11.01.2012). Online: <http://www.fas.org/sgp/crs/row/R42126.pdf> (accessed: 23.01.2012), p 1

Even though leaders (officially) decide a country's actions, Hellen Milner shows that social groups such as labor organizations, ethnic groups or multi-national corporations put *"pressure on policymakers to orient their policies in this [their] direction"*.⁷⁵ In this sense, the national unity of a state is therefore also of concern to rulers both at home and abroad. If cohesion is low in a country, the government will find it more difficult to pursue its goals. Therefore, as Owen states, *"the rule would apply most in constitutional democracies, where dissent against the government, if not the regime, is tolerated and allowed to spread."*⁷⁶

For example, the Chinese government is battling the spread of information and personal freedom in order to prevent riots in provinces such as Tibet, where its approval rates are very low. If public opinion could be expressed more freely, the government would possibly have to alter its political approach and focus on other things such as human rights as well – or at least more than it has done so far. On the other side, foreign governments do care about stability as well because a military coup or a civil war can alter the situation completely.

SUMMARY

States operate within a closed system. Waltz considers the world to be the systems' framework within which the states (=units) interact with each other. He prefers a systems theory because it *"explain(s) why different units (nations) behave similarly and, despite their variations, produce outcomes that fall within expected ranges."*⁷⁷ Being in a closed system means that no one can enter and no one can leave the system. States may reduce their diplomatic ties with others to a minimum (or stop talking to them at all), but that does not mean that they are not participating in the system anymore.

The only way a state can leave the system is if it does not exist anymore. As a consequence, the power alignment in the system can change. Either one or more states inhabit the territory or one or more states are created. Cases can be found in the Habsburg Monarchy, the Soviet Union, and Yugoslavia out of which new states have arisen. And these nations act according to the same principles as their predecessors did. Each of them looks after itself and they seek to remain independent and play an important role (if not worldwide, at least regionally).

⁷⁵ Helen Milner, International Political Economy: Beyond Hegemonic Stability. In: Foreign Policy. No. 110, Special Edition: Frontiers of Knowledge (Spring, 1998), pp.112-123, p.118

⁷⁶ Owen, Domestically driven Deviations, p.41

⁷⁷ Waltz, Theory, p.72

Not anarchy itself structures the system but the capabilities of the states do. The former, in neorealist terms, merely means that there is no “agent” that tells each state what to do and thereby order the system hierarchically. And since there is no one to watch states, trust between them is usually very low to non-existent. This in turn leads Waltz to the conclusion that states prefer to look after themselves first before helping anyone else. As a result of this environment of uncertainty, states pursue a survival-first strategy before focusing on other goals – leaving aside that some states prefer something else more than survival. It is namely that only the great powers of a system determine the structure because state behavior is explained through their capabilities. According to the theory, if leaders are not insane, states are better in doing things the more resources they are able to amass. Consequently, states who do so, will be ranked higher in the long run.

For example, the United States have economic and military strength second to none. Their capabilities are their source of power and allow them to influence politics in other parts of the world through military and political power. In turn, the weaker – and therefore less important – states have no voice. They set their goals according to how the great powers in the system let them. And unless they are in fear of losing their autonomy, weaker states will do so. This is why Waltz claims that the internal composition of state does not matter because states have the same needs. A weaker state does not want to be conquered and a stronger state does not want any other state to take its rank. In this sense, great powers seek to maintain a balance that favors their needs. As Waltz notes, if that system is being threatened either by a nation attempting to rise or by a great nation trying to become the hegemon, other nations will fight a war to prevent this imbalance.⁷⁸

But how do we know whether a system is stable or not? Waltz argues that a smaller number of great powers is rather preferred because then, states are limited in their actions to gang up against each other. Waltz denies the general assumption that a balance-of-power theory “requires [at least] *three or more players...for in a two—power system the politics of balance continue, but the way to compensate for an incipient external disequilibrium is primarily by intensifying one’s internal efforts.*”⁷⁹ Therefore, his optimal number of great powers is two which means that once we have reached a duopolistic structure balancing between the two powers takes place internally and that their interdependence very low because neither depends militarily, economically nor politically on the other.

⁷⁸ Waltz, Theory, p.204

⁷⁹ Waltz, Theory, p.118

Waltz also argues that the internal balancing is more “*reliable and precise than external balancing*”⁸⁰ because states cannot misjudge other powers actions, but only overreact. However, full stability is never guaranteed in any system because states (or better, there decision makers) still can mess things up. Waltz explains this through a flexibility of the system which means that “*where one or more states threaten others, some states will join one side or defect from the other in order to tilt the balance against the would-be aggressors.*”⁸¹ In the end, no matter how large the number of great states, the system will tend towards equilibrium. But, if in an alliance (or cooperation), a nation questions the willingness of the others to fulfill the commitments.

Waltz further argues that the reason lies with the fact that within an alliance the stronger nation enjoys more privileges than weaker. This can be observed regularly in the European Union, where large and more powerful nations such as Germany, France or Great Britain negotiate deals that might meet their goals and needs more than that of the EU. While for realists failed cooperation results in a war (nuclear war in the worst case), the worst case scenario for neoliberal “*is a lost opportunity*”.⁸²

Interestingly, Keohane criticizes that Waltz misses to show under what conditions change in the coalitions take place and only “*forecasts that balances of power will periodically recur.*”⁸³ However, as I have shown above, Waltz does not want to do more than forecast what happens under certain conditions. He does not try to explain why it happens. He simply claims that all states, because of their similar (basic) needs, will respond in the same way to threats no matter how their internal structure looks like. If states are in fear of losing their autonomy or of becoming extinct, they will turn to military force to prevent this scenario. And states can only act according to their relative strength.

If in a war, a state with limited economic abilities will be constrained in its military operations. Therefore, larger nations have the advantage over smaller ones that their economic resources are larger, which in turn means that they are less dependent (or not at all) on their partners whom they distrust anyway. However, even the greatest nations have their limits. Once a nation becomes too dominant, the rest of the world – or at least those who would benefit most from it – will (try to) counterbalance the strongest.

⁸⁰ Waltz, Theory, p.168

⁸¹ Waltz, Theory, p.164

⁸² Grieco, Anarchy, p.502

⁸³ Keohane, Theory of World Politics, p.172

Because of this, Gilpin, who, like Waltz, considers nations to strive for hegemony, concludes that

*“the conclusion of one hegemonic war is the beginning of another cycle of growth, expansion, and eventual decline. The law of uneven growth continues to redistribute power, thus undermining the status quo established by the last hegemonic struggle. Disequilibrium replaces equilibrium, and the world moves toward a new round of hegemonic conflict.”*⁸⁴

Table 1 below shows the factors that are of importance to a country if it wants to be counted as a great power in the Waltzian system. For Waltz, a great power has to have developed all the areas in the table. It has to be economically strong, be able to protect its turf and also, if needed, enforce its political will with military means. Furthermore, this nation has to have the capabilities to bind others to itself in order to protect itself from its main competitors. Therefore, it will be the task of the next chapter to find out where China stands in Waltz’s system. Is the People’s Republic already a great nation, or is it on the way to become a great nation? This will be important as we want to find out the system’s structure.

Furthermore, I will look at the unit level and investigate the three aspects Waltz has defined as important for any country to be a great power. The question that arises is about the “real” strength of the Chinese economy. Where does China’s strength come from and why are people all over the world, and especially in the United States, concerned with its emergence? Also of interest will be whether the Chinese economy is really as strong as it looks like, or whether statistics blur the picture.

⁸⁴ Gilpin, War and Change, p.210

Table 1: Capabilities

<u>External factors</u>	<u>Internal factors</u>
Strengthen and enlarge own alliances to weaken the opposition -> make weaker neighbors dependent (e.g. Warsaw Pact)	Economic development -> GDP growth* -> increase productivity* -> maximize labor supply* -> develop domestic market* -> attract FDI* Expand military strength -> Nuclear weapons* -> expand army* -> build offensive and defensive tactical weapon systems* Develop strategies -> how to promote economic growth -> to keep population “happy”
major points in bold are from Waltz⁸⁵, examples with * are my own examples	

⁸⁵ Waltz, Theory, p.118

CHAPTER 2 – CHINA’S EMERGENCE

This chapter assesses China’s position in the neorealist system. In order to do so, we have to look at how her economic and military capabilities relative to those of other nations have developed since 1990. Lucky for this paper, the fall of the Soviet Union has left the United States as the only great power in the world which means that any analysis starting right after the fall of the iron curtain will be in a hegemonic world system. At the end of this chapter I will try to give an answer to the most important question: What type of system have we been in since 1990 and how has the alignment changed since?

It is of paramount importance for any (neo-) realist analysis to know whether the system has stayed in a hegemonic alignment for the past twenty-some years or whether there has been a change towards a duopolistic, or even a multipolar system. This is because, as already laid out in the first chapter, we need to know who runs things. As Waltz and other have shown, it is the great powers that dictate the course of action. And the higher a country is ranked relative to others, the more influence it will have. However, it is of importance for this paper to assess the “East-Asian system” as well as I will focus on parts of this region later on.

The first part on China’s rise will deal with the economic and political development of the People’s Republic of China (PRC) since its foundation by Mao Zedong in 1949. It will be a mix of historical review and an overview of the most important policies that characterized China’s development and, at the same time, allowed the Communist Party to remain in power. It is important to start with the analysis in 1949 as it helps to show two things. First, contrary to Waltz’s claim, domestic characteristics actually seem to matter. After all, China’s rise from a poor and politically isolated country to an influential power in the world has its roots in the ability of the Communist Party to run it.

Second, in the 1970s policy makers have moved away from Soviet government style and later from the Maoist approach as well. They have realized that only an intraparty drift towards a market economy can assure domestic political stability in both, the short and long run. Consequently, the assumed political framework has helped China to develop its economic capabilities and subsequently political strategies on the international level at well.⁸⁶ I will divide the period since 1949 into two sections, the Planning Era (1949-1978) and into

⁸⁶ Joseph Nye, Has Economic Power Replaced Military Might?, In: CNN Online (06.06.2011). Online: <http://globalpublicsquare.blogs.cnn.com/2011/06/06/has-economic-power-replaced-military-might/?iref=allsearch> (accessed: 22.04.2012)

what I call the Reform Era (1978-2008). While I will rather give a historical overview of the first, I will focus on China's capabilities during the latter and lay the foundation for the assessment of China's position at the end of this chapter. Concerning China's economic capabilities I will limit my analysis to the most important policies the central government implemented to get China's transition started. I will also elaborate on China's commitments made to be granted accession to the WTO. In the section on the political capabilities I will briefly focus on three things.

First, I will return to China's WTO accession and dwell on how the Chinese commitments can be seen in terms of political power relative to other countries, especially the United States. Then, I will take a short detour and spend some time on the return of Hong Kong because I think this to be a good example to show that while China's political strength did not suffice in the WTO matter, it did to convince the British to return Hong Kong peacefully. The topic also illustrates China's increasing self-confidence that has undergone significant change during the past thirty years. Today, China more regularly expresses its demands more openly towards others, including the United States, than ever before. In the military section I will focus on China's modernization programs and operational goals and how these relate to China's perception of a world order.

The second part of this chapter will focus on determining China's position in the system. Here, I will employ a macro-to-micro level approach, by first determining China's position in the world and then in (South-) East Asia where Japan quickly became the most important player after World War II again - but this time as a democracy. Therefore, we need to compare her economic and military capabilities with those of the United States in order to determine her position in the world. I will do so because economic and military strength gives a country a considerable bargaining advantage and makes its demands (or orders?) very convincing for others. Furthermore, an economically strong⁸⁷ nation can afford to uphold relative large military forces and also equip them with modern weapon systems.

⁸⁷ I assume, that economically strong implies that the country also has a certain size because small countries such as Singapore and Taiwan might be economic powerhouses but they lack the population to maintain a significant number of military personnel, which means that they depend on their allies to protect them if need be.

This in turn allows it to carry out its political operations by other means.⁸⁸ Nevertheless, it shall be noted shortly at this point that, considering the vast resources available, India might one day become a member of the “great power society” as well if it keeps developing its capabilities. However, as Nye has pointed out, India still has a long way to go before I will close the gap to China. Nevertheless, India has what Nye calls “hard-power resources” with significant financial assets focused on military investment. On the other side, India lags behind in many economic aspects and education, which will take India at least the next decade or two to be able to challenge China.⁸⁹

For the regional assessment I will use the same data as in the world section. However, I will add Japan and Vietnam so that the relative power relations of all four countries can be determined. The reason the United States is being considered is that it is considered to be the hegemon in the world system and therefore has an influence everywhere. A second reason, besides assessing relative strength, I am performing this inquiry is also in order to test John Mearsheimer’s statement about hegemony who claims, in contrast to Waltz, that there will never be a global hegemon because no country – not even the United States – has the resources to unfold its power everywhere in world at the same time. Rather we should consider the world to have regional hegemons instead of global ones as, in his opinion,

“the United States, which dominates the Western Hemisphere, is the only regional hegemon in modern history. Five other great powers have tried to dominate their region—Napoleonic France, Imperial Germany, Imperial Japan, Nazi Germany, and the Soviet Union—but none have succeeded.”⁹⁰

Assuming that Mearsheimer is right, his concept of the United States being the “Western Hemisphere hegemon” might be fragile.

After all, U.S. power, like the power of all other countries, is ultimately based on military strength. Even though the U.S. cannot unfold its power everywhere at the same time, and even though in 2012 the President announced that there is no need for the military to be capable of fighting two wars at the same time⁹¹, the U.S. can still shift its military power quicker and more comprehensively than any other country. This means if the U.S. move their major capabilities to a conflict zone outside the Western Hemisphere, it will not be the

⁸⁸ Karl von Clausewitz, On War. In: Sun Tzu, Karl von Clausewitz, The Book of War. Sun-Tzu's "The Art of War" & Karl von Clausewitz's "On War" (New York, 2000), p.280

⁸⁹ Joseph Nye, Asia in the Balance. In: The Korea Times online (12.01.2011). Online: http://www.koreatimes.co.kr/www/news/opinion/2011/01/137_79557.html (accessed: 24.04.2012)

⁹⁰ Mearsheimer, The Gathering Storm, p.387f

⁹¹ BBC News, Obama unveils new strategy for 'leaner' US military (05.01.2012). Online: <http://www.bbc.co.uk/news/world-us-canada-16430405> (accessed: 14.05.2012)

regional hegemon in that region anymore but somewhere else – at least if Mearsheimer’s opinion mentioned above was correct. But this, in turn, would not make any sense.

I would rather suggest that we consider the country a global hegemon that possesses the capabilities to concentrate its forces within a relatively short period of time to create an overbalance in its favor. After all, the United States possesses exactly this capability with its global network of military bases and its carrier groups that can be at any place in the world within days. On the other side, a regional hegemon should be a country that is the most powerful within its geographical region. For example, if Germany was the most powerful country among the EU member states, I would suggest calling it the regional hegemon. This would also be true for France or Great Britain, for example. However, the United States would still be the global hegemon because its power outside its geographical region is so significant, that it could overpower Germany in Europe if it wanted. The same would be true for Japan or China in Asia, of course.

The last part of this chapter focuses on the main issues one should always keep in mind when analyzing China. One is about how to assess economic strength. Today, GDP indicators are the most commonly used economic indicators to assess a country’s performance. But there is sound disagreement about which indicator to use. Furthermore, there is a dispute among business leaders and economists whether or not China’s economy is a threat to the American economy by attracting more and more technologically advanced goods. The third issue that I will raise is about official data released by the government. It seems that the Chinese twist their own data in their favor whenever they deem it advantageous.

In my opinion, all these efforts are necessary in order to answer the question I have stated above: What kind of (world) system are we in? Is the United States still the only super power in the world, or has China already assumed the position of a second “great power”, similar to the Soviet Union before its collapse? If so, this would mean that that we are living in a duopolistic world system. The second option, as already laid out in Chapter 1, would be that nothing has changed in terms of the alignment of the states among each other and that Washington has successfully managed to maintain its hegemonic position in the world. The third possibility, of course, would be that we reached a multipolar stage with many main actors shaping the environment and limiting other countries actions.

Based on Layne's assessment of the situation that after "*the Soviet Union's disappearance, no other great power has emerged to challenge U.S. preponderance*"⁹², I assume that the last array of the states did not evolve and that we have not, at any point since 1990, lived in a multipolar world. This assumption seems plausible because there has been no other country that has managed to perform international operations (military and political) as the United States did (without the support of others). Washington has resolved wars, such as the one in Yugoslavia, and has performed numerous military operations around the world. Furthermore, the U.S. has been a political heavy weight and influences politics in many countries through, for example, foreign aid or trade agreements. Arm sales to Taiwan and many countries around the globe also ensure the respective country's "loyalty" when asked upon.

During the Planning Era (1949 – 1978)

From 1949 on, when the Communist Party imbibed political power after the successful revolution, Mao, who called the CCP victory "*the culmination of a 100-year struggle against imperialism (dating from the Opium War)*"⁹³, gradually abandoned his strategy about the "new democratic society", which he had proclaimed in 1940, to borrow the theory of proletarian dictatorship from Lenin to rule the country.⁹⁴ With the success of the Communist Party decision making was, much like in the Soviet Union based on ideology. However, China's transition from capitalism to socialism was marked by sharp turns in politics since then. The socialist experiments imposed on the Chinese economy, and much more on the Chinese people themselves, show that during what Naughton calls the "Socialist Era" "*successive periods of rapid investment growth, followed by slower growth or even decline.*"⁹⁵

In 1953, the first 5-year plan was implemented with significant Soviet support. The goal was not only to transform China's society from a capitalist and imperialistic one into a socialist society, but also to figure out how fast this can be achieved and how much central power could be borne by the economy. Private enterprises that were protected until then fell

⁹² Christopher Layne, The Unipolar Illusion Revisited. The Coming End of the United States' Unipolar Moment. In: International Security, Vol. 31, No. 2 (Fall 2006), pp.7–41, p.12

⁹³ Bailey, China, p.144

⁹⁴ Yu Guangyuan, China's reform in the past twenty-three years. In: Tian Yu Cao (ed.), The Chinese Model of Modern Development (London, New York 2005), p.24

⁹⁵ Barry Naughton, The Chinese Economy. Transitions and Growth (Cambridge, MA, USA 2007), p.63

victim to a process of nationalization and heavy industry was promoted with help from Moscow. Furthermore, the Soviets provided financial support as well as technicians to train their Chinese colleagues.⁹⁶

While the 1950s were characterized by Soviet influence and radicalism, the first started to vanish from Chinese politics when Mao announced the Great Leap Forward (GLF), which “*was dominated by a highly politicized intoxication with growth that envisaged a bold leap toward a fully communistic society with a few years.*”⁹⁷ The GLF led to the collectivization of rural Chinese into communes, the closure of the free market, and the introduction of material incentives (while monetary rewards were abolished). Furthermore, economic decision-making was decentralized and numbers were now reported “*by the cadres in the field according to their "enthusiasm in socialist revolution" rather than on the basis of fact.*”⁹⁸ In addition, Mao initiated an “Anti-Rightist Campaign” that targeted intellectuals and others not associated with the party was initiated.⁹⁹ In the end, the GLF was, mildly spoken, an economic and human disaster. The reassignment of roughly 30 million workers to the industrial sector led to their missing in agriculture. It should be no surprise that this focus on the heavy industry caused shortages in the food supply which in turn triggered a three year famine that peaked between 1961 and 1962.

These developments were mostly caused by the “*arbitrary directions given by the central authorities...[who set targets] without any considerations given to their sources of raw materials and their technological requirements*”¹⁰⁰ to impress higher ranked officials. In the end, the GLF is said to have claimed between 18 and 45 million lives.¹⁰¹ As a result of the famine and the economic contraction of 27% (of GDP) in 1961 compared to 1960, and another 6% between 1961 and 1962¹⁰², the Central Government quickly sent many workers back to the countryside, where they were needed the most, to solve the food supply problem. Looking at data, the inefficiency becomes obvious as the value added (% of GDP) of the industrial sector fell below that of agriculture and the service sector, despite the above

⁹⁶ Bailey, China, p.160

⁹⁷ Naughton, The Chinese Economy, p.69

⁹⁸ Choh-Ming Li, China's Industrial Development 1958-63. In: The China Quarterly No. 17 (Jan. - Mar., 1964), pp.3-38, p.8

⁹⁹ Naughton, The Chinese Economy, p.69f

¹⁰⁰ Rongxing Guo, How the Chinese Economy works. A Multiregional Overview (New York, 1999), p.94

¹⁰¹ Naughton (The Chinese Economy) estimates 25-30 million deaths, while Dikötter (Frank Dikötter, Mao's Great Famine. The History of China's Most Devastating Catastrophe, 1958-1962 (New York 2010)) estimates 45 millions

¹⁰² World Bank Country Data, China. Online: <http://data.worldbank.org/country/china> (accessed: 24.01.2012)

mentioned focus on the industry at the expense of the other two sectors¹⁰³, but little incentives, a backward technology, and poor planning led to high inefficiencies and costs.

With the restructuring of the economy - the government freed markets a little so that people could buy (more) food again and focused on improving efficiency, leading to a significant shutdown of smaller, inefficient factories. GDP picked up again and the “Third Front Initiative”(TFI) could be initiated in 1963 “*to create an entire industrial base that would provide China with strategic independence*”¹⁰⁴ in the Southwest and other inland provinces that would be sheltered in the event of an attack on China. The TFI did not only aim to support the economy to recover from the GLF, but was also an initiative based on the assumption that World War III was around the corner.¹⁰⁵ The deterioration of the relationship with Soviet Russia did not only cause a significant loss of intellectual capabilities when Russian technicians suddenly returned home, and cut off China’s planners from the only exterior source of information and knowledge, but also resulted in the loss of military protection – including Soviet nuclear weapons – against other threats. Therefore, Beijing had to pay twice for the fallout with Moscow when it chose a different (economic) path.

With the promotion of the Third Front Initiative, the government hoped to at least ensure Chinese self-sufficiency in an increasingly “*dangerous international environment after the split with the Soviet Union*”, and the increasing military presence of U.S. troops in South Asia in general and Vietnam in particular.¹⁰⁶ Furthermore, the creation of a heavy steel industry in remote areas that were deemed safe allowed factories to produce armored vehicles and missiles as well, which was a contrast Mao’s official approach to fight a “people’s war” with infantrymen and guerillas.¹⁰⁷ However, the entire plan turned out to be too costly as building factories far away from the economic centers on the coast in hard-to-reach areas did not only increase construction costs, but also transportation costs of the respective output.

The launch of the Cultural Revolution Era in 1966 overlapped with the Third Front Initiative. Even though the Cultural Revolution itself lasted only for three years (1966-1969), its impact was felt until after Mao’s death in 1976. The Cultural Revolution differed in two points from the GLF. First, its focus was on turning the Communist Party upside down and rebuild it from scratch. In an attempt to restore his own power and to revive the socialist spirit

¹⁰³ *World Bank Country Data*, China

¹⁰⁴ *Naughton*, *The Chinese Economy*, p.73

¹⁰⁵ *Guo*, *Chinese Economy*, p.95

¹⁰⁶ *Barry Naughton*, *The Third Front. Defence Industrialization in the Chinese Interior*. In: *The China Quarterly*, No.115 (Sep., 1988), pp.351-386, p.352f

¹⁰⁷ *Naughton*, *The Third Front*, p.372

in the country Mao launched cultural campaign that were carried out mostly with the help of Red Guard units which had formed throughout the country after Mao publicly endorsed them at a rally in Tiananmen Square.¹⁰⁸

In order to get rid of many prominent adversaries (among them Deng Xiaoping) within the Communist Party, as well as intellectuals and others that criticized the party, these organization were given the order to

*“travel around the country (often being given free rail passes) exchanging revolutionary experiences and to ‘bombard the headquarters’ of local and regional party organizations... [which meant that] ...anarchy and violence became the order of the day”*¹⁰⁹

and that everyone deemed anti-socialist was in jeopardy. Furthermore, China’s political isolation climaxed during the Cultural Revolution as political bonds with many countries were broken off and cooperation with both, the Soviet Union and the United States was declared impossible as the first was too revisionist and the latter (too) imperialist to be a worthy partner.

Second, the focus of economic development remained on the third front. This is because of the isolated political situation Mao maneuvered China into. With China standing alone, as already mentioned above, it tried to build up an industry that would make it self-sufficient. Investment in the TFI - regions remained very high as the third FYP (Five Year Plan) assigned a 52.7% and the fourth FYP still 41.1% of National Investment to TFI areas¹¹⁰. This would not change until 1978, when political leaders realized that efficiency was to be placed above regional equality.¹¹¹ And even though Naughton states that the Cultural Revolution per se was *“from an economic standpoint,..., not a particularly important event”*¹¹², the impact of relatively highly inefficient projects and the repercussions of the Cultural Revolution caused economic growth to turn from 10.7% (1966) to -5.7% (1967) and -4.1% (1968) with per capita income declining even faster.¹¹³

¹⁰⁸ Bailey, China, p.181

¹⁰⁹ Bailey, China, p.181

¹¹⁰ Naughton, The Third Front, p.365

¹¹¹ Guo, Chinese Economy, p.61

¹¹² Naughton, The Chinese Economy, p.75

¹¹³ World Bank Country Data, China. Online: <http://data.worldbank.org/country/china> (accessed: 24.01.2012)

Nevertheless, the central planners seemed to have used their knowledge accumulated during the Great Leap Forward as at least food supply could be maintained for the next couple of years. While planners stuck to the most basic principles of economic planning towards a socialist society - namely first, planned labor allocation among the economy's sectors and that second, investment priority is given to the heavy industry at the expense of the light industry and consumption¹¹⁴ - it was the "cultural disruptions" this time, caused by the Red Guards and other revolutionary associations, that disrupted economic growth.

While the Cultural Revolution did not starve anyone to death, it militarized China's society when Mao called the PLA to suppress the Red Guard movement. Subsequently, PLA leaders managed to take on important positions within the party and spread their influence into the factories and villages. Mao saw this as an opportunity to lay out his next plan in 1970, when he wanted some GLF efforts to be revived. However, the plan of limited cooperation with the world, a focus on further developing the third front under PLA supervision, complete absence of material incentive and further government-directed labor allocation already caused serious problems in the following year as the industrial sector grew faster than the agricultural. As a result, the assumption that more labor means more output in connection with the emphasis on industrial development caused food supply problems again.

After the Red Guards threat was eliminated by the PLA, Mao was in fear that his army leaders might become his biggest concern. To counterbalance this development, he rehabilitated many of the cadre people that were ousted during the Cultural Revolution and eliminated some of Lin Biao's comrades from military posts. Lin Biao turned out to be Mao's main opponent in the struggle for power, as he took the opposite in many matters. Concerning foreign policy, for example, he argued contrary to Mao that "*opposition to U.S. imperialism should be the cornerstone of China's foreign policy.*"¹¹⁵ Mao also initiated China's participation in the world to some extent when it was admitted into the United Nations in 1971. Here, again, Lin opposed the move as he opted for an isolationist policy. In the end Lin Biao died in a plane crash the following year after being totally isolated from Chinese politics.

¹¹⁴ Chung Ch'i-fu, Lectures on National Economic Planning. Lecture 3: Methods in Formulating National Economic Plans. In: Nicholas R. Lardy (Ed.), Chinese Economic Planning. Translations From Chi-Hua Ching-Chi (New York 1977, 1978), pp.5 and 12

¹¹⁵ Bailey, China, p.192

On the other side, Mao's swing towards the imperialist United States China did not only increase China's trade with world markets - the value of trade as share of GDP increased from 5.3% in 1970 to over 10% in 1974 and above 9% in 1976¹¹⁶ - but also triggered a new fierce struggle between radicals (Gang of Four) and pragmatists for power when his deteriorating health took him out of the political game until his death. In the end the pragmatists around Premier Zhou Enlai prevailed, when the "Great Leap Outward" (GLO) under Hua Guofeng failed. The GLO was first based on faulty calculations, which, for example, resulted in oil production being insufficiently small in order to pay for the equipment that the government needed¹¹⁷, and second too ambitious for the economy, which was never able to meet the quotas. With the help of Zhou Enlai Deng Xiaoping was rehabilitated while the Gang of Four was expelled in 1976.

Summary 1949-1978

The period from 1949 until 1978 was marked on the one side by trench warfare between the rivaling groups within the CCP. During this time Mao had to transform his power basis regularly in order to remain at the top. On the other side, from an economic point of view, this era proved to be one of trial and error under the condition to stay within "socialist premises" when planning. The focus lay on industrializing the country. And in order to achieve that, virtually all resources were used for the heavy industry. This, in turn, caused significant shortcomings in agriculture and barely an improvement in income and living standards. At the eve of the reforms, China was still a poor and underdeveloped country that was mainly isolated from the rest of the world. Despite several efforts, the government was not able to develop China's capabilities. The People's Republic was economically weak, politically torn apart and militarily no match for neither, the Soviet Union or the United States.

Reform Era and beyond (1978 – 2008)

While every decision was based on political principles during Mao's reign, this changed after his death. The reform era is thus important as it opened China to, and integrated it into the world. Since 1978 China, and especially since China's accession to the WTO, the country has experienced growth in many areas that most other countries could only dream of.

¹¹⁶ *World Bank Country Data, China*

¹¹⁷ *Naughton, The Chinese Economy, p.78*

It was the combination of politicians realizing that opening the economy and increasing people's living standards would lay the foundation to secure the CCP's long term survival. Even though political and military leaders had to give up some of their goals, it would also allow China to upgrade its military capabilities in the future and give the country a chance to assume its entitled position: to be the center of the world –again.

Economic Capabilities

With Mao dead and the old cadres, which were sacrificed during the Cultural Revolution to establish the socialist state, back in charge, China entered a phase of reform in 1978. Long story short, Deng Xiaoping became the new strong man in China and he and the other leaders realized that if China wanted to assume its righteous place in the world it would have to undergo significant reforms in almost every aspect of the economy. They also understood that if they wanted to secure the party's power position the transition process had to be gradual, decentralized and liberalizing. Lin makes the point that Chinese leaders did not follow a worked out plan now but rather followed logic to transform the highly inefficient economic structure that had arisen from "*structural imbalances and incentive problems*."¹¹⁸

New Patronage System

Naughton argues that the regime had to create a new political patronage system that would tie new groups, which were interested in the rewards that the transformation would bring them in turn for their allegiance, to the apparatus.¹¹⁹ Loyalists would receive patronage in multiple ways from their leaders as these try to fill influential positions in SOEs and the political apparatus with their followers.¹²⁰ The first bold reforms were initiated in rural areas, where the agricultural sector was the target of change. This was first, because incomes in rural areas were much lower than in urban areas. Consequently, rural areas had only limited influence in the political system.

¹¹⁸ Justin Yifu Lin, Economic Reform and development strategy in China. Strategic issues and quantitative assessments. In: Peter Drysdale, Ligang Song (eds.), China's Entry to the WTO. Strategic issues and quantitative assessments (London, 2000), pp.30-52, p.37

¹¹⁹ Barry Naughton, A Political Economy of China's Economic Transition. In: Loren Brandt, Thomas G. Rawski (Eds.), China's Great Economic Transformation (New York, 2008), pp.91-135, p.91

¹²⁰ Naughton, A Political Economy, p.93

Furthermore, Naughton also points out, “*there were no powerful agricultural interest groups in the government, so central leaders were free to recast agricultural policy pragmatically.*”¹²¹ And second, because the government feared that the poor state of the sector might cause another famine, as Maoist policies squeezed farmers into a very disadvantageous deal – they had to meet high targets while prices were kept low. Therefore, the government started to implement changes of the economic environment without the intention of institutional change. It took pressure off them by relaxing the quotas, raising prices – especially those prices for “*deliveries above the procurement target were raised dramatically*” and the return of family farming.¹²² The government liberalized the agricultural sector at the expense of technology imports targeted in the “leap outward”.¹²³

Reforms

In addition to that, the government allowed enterprises to become more independent. This relaxation favored especially TVEs, which were given the freedom to experiment with the allocation of land among its farmers, but also put additional pressure on the planning system.¹²⁴ In the end and despite not being intended by central planners, these reforms would lead to a spread of the household responsibility system. Naughton points out that not only the prospect of administering one’s own land, but enterprise autonomy and profit retention as well made it very popular among the population.¹²⁵ Lin shows that participation in the household responsibility system picked up relatively slowly the beginning, but spread very fast once people were assured that the system was granted political support from the top. Consequently, 45% of production units had adopted the household responsibility system in 1981 and in 1983 the share was 99%.¹²⁶ Labor supply increased due to the reforms in the organizational structure of TVE.

Subsequently, the government had to find a way to create jobs for the millions that were not needed in the agricultural sector anymore. The answer lay in the labor intensive manufacturing industry. In 1978, over 70% of the people were employed in the primary sector. Ten years later, the number was down to 59% while at the same time the industrial sector gained about 6% to account for 22.4% in 1988. Consequently, a significant amount of

¹²¹ Naughton, A Political Economy, p.99

¹²² Barry Naughton, Growing out of the Plan. Chinese Economic Reform 1978 – 1993 (New York, 1995), p.138

¹²³ Naughton, The Chinese Economy, p.89

¹²⁴ Lin, Economic Reform, p.39f

¹²⁵ Naughton, Growing out of the Plan, p.99f

¹²⁶ Justin Yifu Lin, Rural Reforms and Agricultural Growth in China. In: The American Economic Review, Vol.82, No.1 (March, 1992), pp.34-51, p.38

people transferred to the service sector. By 2000, the share of people working in the agricultural sector had declined to 50% already and the service sector employed over 27%.¹²⁷ Since the WTO accession the Chinese government has increased efforts to incentivize

By continuously unleashing prices and allowing the market “*to grow out of the plan*”¹²⁸ the government created important incentives for companies and individuals alike to increase production. In 1978, 6% of farm products were sold at market prices and their shares would skyrocket to 40% in 1985 and 58% in 1991, while the share of state-fixed prices would decline from 97% to 22% during the same period of time.¹²⁹ Furthermore, while prices were set by the government for producer goods in 1978, in 1985 13%, and in 1991 46% of the goods were sold at market prices, and the share of state-fixed prices declined to 36% over the same period of time.¹³⁰

A similar development took place in retail sales. In 1978 3% of transactions were made at market prices while 97% were made at state-set prices. In 1991, already 69% of the transactions were made at market prices. These numbers continued their dramatic change; in 2003, 87.3% of producer goods, 96.1% of retail goods and 96.5% of agricultural goods were sold based on market prices.¹³¹ With the transition of prices from a planned to a market oriented determination, Foreign Trade Companies (FTC) more and more paid the world market price for imported goods. In the next step the FTC sold the good to a local company at the domestic price. The difference between revenue and cost would be transferred to the government as either profit or, in case the FTC was loss-making, as a subsidy.¹³²

Despite China’s significant resources the government faced a shortage in financial supply to fund economic modernization. The discrepancy between the financial resources available and those needed was simply too large for the government to handle it with domestic resources. Consequently, obtaining external funds was crucial to China’s modernization. Foreign borrowing became most important “*for those projects either with export potential or with the capacity to produce goods that could serve as import substitutes.*”¹³³ Most of the external resources needed came from Commercial Borrowing.

¹²⁷ China Statistical Yearbook 2003, p.124

¹²⁸ Naughton, The Chinese Economy, p.92

¹²⁹ OECD, Economic Surveys. China 2005 (Paris, 2005), p.29

¹³⁰ OECD, Economic Surveys. China 2005 (Paris, 2005), p.29

¹³¹ OECD, Economic Surveys. China 2005 (Paris, 2005), p.29

¹³² Joseph C.H. Chai, China. Transition to a market economy (Oxford, 1998), p.143

¹³³ Philip Donal Grub, Lin Hai, Foreign Direct Investment in China (New York, 1991), p.19

Institutional funding such as IMF-loans were short-term only and of relatively little volume during the 1980s.¹³⁴

In order to channel foreign investment, the government created so called Special Economic Zones (SEZs) which incentivized foreign investment by offering lower tax rates, greater ease of access to China, and duty-free imports for those who were willing to invest. Furthermore creating these SEZs was in accordance with Chinese policy making during the reform period.¹³⁵ Especially the creation of the SEZs and other investment areas helped China to attract massive foreign investment and their number was subsequently raised over the years so that by 2003 their number exceeded 100.¹³⁶

Further important reforms were made in the trade sector. While trade was only seen as a necessary evil to finance the country's self-sufficiency before 1978, Chai points out that "*it was now seen as augmenting domestic resources and as providing an additional source for rapid economic growth through the realization of static and dynamic gains of trade. Hence, trade was to be maximized whenever possible.*"¹³⁷ In addition to relaxing prices the government loosened limitations on trading rights. The number of licenses to conduct foreign trade given to Chinese companies was widened immensely from 12 in 1978 to 800 in 1985 to over 5,000 in 1988.¹³⁸

When China accessed to the WTO, the country had already roughly 35,000 companies that were allowed to engage in the import/export business¹³⁹ In order to increase trade the government realized that transferring commodities to the market.¹⁴⁰ The government also had to bring down barriers which had been established during the Maoist Era to protect domestic industries. While tariffs on imports had little to no effect during the planning era, the state introduced "*high tariffs for many products and adjusted tariffs upward on others.*"¹⁴¹ Lardy has calculated that these tariffs were around 55% on average in 1982 but were gradually reduced to 15% in 2001.¹⁴² China began reducing tariffs in two sectors that were crucial to the

¹³⁴ Grub, Hai, Foreign Direct Investment, p.20f

¹³⁵ Naughton, The Chinese Economy, p.406f

¹³⁶ Naughton, The Chinese Economy, p.410

¹³⁷ Chai, China, p.139

¹³⁸ Nicholas R. Lardy, Integrating China into the Global Economy (Washington D.C., 2002), p.40

¹³⁹ Lardy, Integrating China, p.40

¹⁴⁰ Richard M. Auty, Industrial Policy Reform in China. Structural and Regional Imbalances. In: Transactions of the Institute of British Geographers, New Series, Vol.17, No.4 (1992), pp.481-494, p.492

¹⁴¹ Lardy, Integrating China, p.33

¹⁴² Lardy, Integrating China, p.34

government's plan: Raw materials that the country was short of and intermediate goods that could be re-exported as assembled goods (e.g. cars).

On the non-tariff side import licenses, quotas and limits on trading rights were the most important barriers to trade. While the first two (introduced in the early 1980s) were usually seen as trade-averse policies, Lardy points out that in China's case their introduction were actually steps towards free trade.¹⁴³ On the export side the government reestablished the licensing and quota system again in order to control the outflow of important commodities that it thought it had market power in and to control the outflow of goods that were still underpriced on the domestic market. However, like with imports, export controls were reduced gradually until the end of the 1990s.¹⁴⁴

Furthermore, turning to trade and letting foreign and domestic prices move close together could also help to resolve another fundamental problem: in 1978 China's foreign exchange reserves were literally non-existent. This meant that the Chinese economy was unable to pay for the goods it wanted to import. This problem was rooted, as Naughton points out, in the ambitious and unrealistic plans to develop new sources of petroleum, which "*was to have been the source of hard currency to pay for technology imports.*"¹⁴⁵

However, as it turned out to the planners displeasure, neither the already explored fields contained as much oil as assumed, nor did the drillers find any suitable new sources. With the reorientation during the 3rd Plenum in December 1978, when it was already too obvious that the targets set in the Ten-Year-Plan (TYP) would never be able to be met, the government decided to increase grain imports. This was done in order to avoid a too fast increase in rural incomes now that higher prices had made it more attractive for farmers to increase production. The downside of this plan was that additional imports would put further pressure on foreign reserves.

At the onset of the reforms, the government faced two problems: First, despite sending workers to the labor intensive industries, the government knew that it would take some time for the manufactories to produce any goods that could be used for generating new foreign reserves, which in turn could be used to purchase imports. Second, the only way to keep the entire process under control was to cut back investment for plant imports radically, which in

¹⁴³ Lardy, Integrating China, p.39

¹⁴⁴ Lardy, Integrating China, p.47f

¹⁴⁵ Naughton, Growing out of the Plan, p.71

turn would delay the industrial development. Despite the reallocation of investment, China's foreign reserves turned negative in 1980.

Nevertheless, as Table 2 shows, China's foreign exchange reserve grew steadily from a plus of 2.7 billion US dollars in 1981 to 165.6 billion at the end of 2000¹⁴⁶, the year China was granted access to the WTO. This was made possible first, by the effects of the government's reallocation of excess labor away from agriculture to the labor-intensive manufacturing industries where they were of more use. And second, farmers had more incentives to raise productivity and in combination with newer equipment, that this amount of labor was not needed anymore. Finally, the central government's plan actually worked out and labor-intensive goods became an additional source of income and trade as a share of GDP grew from 13.6% to 29.1% between 1978 and 2000.¹⁴⁷ Foreign reserves grew almost five-fold between 2000 and 2005 to 818 billion US dollars.¹⁴⁸ Clearly China's entrance to the WTO has had its impact. Until 2008, trade as share of GDP has increased to over 62%, down from 70% in 2006 and 68% in 2007.¹⁴⁹

Table 2: Foreign Exchange Reserves 1978 – 2005¹⁵⁰
(in billion US dollars)

End of Year	Forex Reserves	End of Year	ForexReserves
1978	0.167	1993	21.199
1979	0.840	1994	51.620
1980	-1.296	1995	73.597
1981	2.708	1996	105.049
1982	6.986	1997	139.890
1983	8.901	1998	144.959
1984	8.220	1999	154.675
1985	2.644	2000	165.574
1986	2.072	2001	212.165
1988	3.372	2002	286.407
1989	5.550	2003	403.251
1990	11.093	2004	609.932
1991	21.712	2005	818.872
1992	19.443		

¹⁴⁶ Chinese State Administration of Foreign Exchange, Foreign Exchange Reserves, 1950-2005. Online: http://www.safe.gov.cn/model_safe_en/tjsj_en/tjsj_detail_en.jsp?ID=303030000000000000,14&id=4 (accessed: 17.04.2012)

¹⁴⁷ World Bank Country Data, China

¹⁴⁸ Chinese State Administration of Foreign Exchange, Foreign Exchange Reserves, 1950-2005

¹⁴⁹ World Bank Country Data, China

¹⁵⁰ Chinese State Administration of Foreign Exchange, Foreign Exchange Reserves, 1950-2005

China's Accession to the WTO

The Chinese leadership had realized that if it wanted continue the country's economic growth and establish a socialist market economy, it would have to rejoin the international trade community. And in 1987 China formally requested a reconsideration of its status as a GATT contracting party.¹⁵¹ On 7 December 1995 the People's Republic of China submitted its official application to change its status from a GATT contracting party to become a full member of the WTO. While the parties were confident that China would continue its progress, there were some concerns. The first was a very fundamental issue: What status should the working party give to China?

On the one hand, China had a very low per capita income, which would have entitled it to assume the status of a developing nation. This, in turn, would mean that the terms Beijing would have to accept were less stringent. On the other hand, China's rapid export growth showed that it has already reached a level where it could compete with others in some areas. In addition to that, many countries considered China become a serious competitor. As if that had not been enough, two events delayed China's application process. One was the Tiananmen incident, after which China found itself isolated by the international community.

The other was the fall of the Soviet Union two years later which suddenly created the possibility of all eastern European countries to join. Naturally, since members of the working party considered China to be model for these countries, China was not granted "*developing country status*."¹⁵² Shengming, on the other side, argues in favor of the developing country status, pointing out that China's population size is both a huge potential market and a burden for the economy and the international economy. If reforms are too demanding or implemented too quickly it may cause unrests and political instability. His second point is that despite China's exorbitant growth, per capita income is still at the level of a developing country with a significant share of the population still living in poverty.¹⁵³

¹⁵¹ *World Trade Organization (WTO)*, Report of Working Party on the Accession of China. 1 October 2001 (WT/ACC/CHN/49). p.1

¹⁵² *Lardy*, Integrating China, p.63f

¹⁵³ *Yang Shengming*, The WTO and China's Trade Strategies in the 1990s. In: Peter *Drysdale*, Ligang *Song* (eds.), China's Entry to the WTO. Strategic issues and quantitative assessments (London, 2000), pp.53-65, p.57f

In the end, China had to commit to more stringent adaptations than most other development countries. Following is a short summary of the major commitments that China guaranteed it would abide to. The first point members of the working party made was that China must implement a so called non-discrimination policy towards foreign individuals and companies.¹⁵⁴ China was also asked to further reduce its tariff and nontariff barriers for both, goods and services to provide greater access to its market.

Furthermore, Beijing was restricted to commit to not raising tariffs above the agreed (low) levels in the future and to “*eliminate all quotas, licenses, tendering requirements, and other nontariff barriers to imports no later than 2005*”.¹⁵⁵ Of importance to the international community was also that China would further adjust its price system towards market determined prices. This was demanded as many nations feared that China’s dual track system could become a trade barrier at some point.¹⁵⁶ And despite China merging the official Yuan rate with the market exchange rate on 1 January 1994¹⁵⁷, some feared that like with prices China could make “*use of forex controls to regulate the level and composition of trade in goods and services*”¹⁵⁸. In the end, the Chinese committed to all the major reforms requested by the international community. The elimination of the dual-price system, the implementation of WTO laws and regulation on both national and sub-national levels – with local authorities not having the power to overrule these laws – as well as the non-discrimination and non-intervention policies by the Chinese government were implemented or expanded.

Political Capabilities

A country’s ability to reach its goals using its diplomatic tools is of great importance. After all, containing an opponent without having to fight him is first, a lot cheaper financially than fighting a bloody war. Second, the country that can do the job without using military force, does not risk losing people on the battle field and can put them at work in the factories at home. And third, achieving goals peacefully simply erases the option that might (unexpectedly) lose the battle like, for example, Soviet Russia did in Afghanistan. Despite the financial and subsequently military support from the United States, Afghan fighters were still

¹⁵⁴ *World Trade Organization (WTO)*, Report of Working Party on the Accession of China. 1 October 2001, (WT/ACC/CHN/49) p.3

¹⁵⁵ *Lardy*, Integrating China, p.65

¹⁵⁶ *World Trade Organization (WTO)*, Report of Working Party on the Accession of China. 1 October 2001, (WT/ACC/CHN/49) p.10

¹⁵⁷ *Shengming*, The WTO and China’s Trade Strategies in the 1990s, p.56

¹⁵⁸ *World Trade Organization (WTO)*, Report of Working Party on the Accession of China. 1 October 2001, (WT/ACC/CHN/49) p.5

underequipped in the conflict. Nevertheless, they got what they wanted: a Russian retreat. Here, my point is not to challenge neorealist theory, but to show that a country also has the chance to minimize risks. For example, as much as it makes sense for companies to minimize financial risks, it makes sense for any country to make use of its capabilities at minimal risk and maximal efficiency.

WTO Accession

Despite China's emergence, its (political) power limits became evident during the accession process to the WTO. Two things about China's accession are striking. First, the majority of nations, led by the United States, already thought of China as a future threat and subsequently aimed to contain its growth of economic power by insisting on harsher criteria than they would have with other countries that wanted to join. A first step was to insist that China was not to be treated as a developing country but like a developed one due to its fast growing exports. Tariffs on imports had to be reduced to a far lower level than those of Brazil, India or Indonesia.¹⁵⁹

For example, China had to reduce average tariffs on industrial products to 8.9% until 2005, while Argentina (30.9%), India (32.4%), Indonesia (36.9%), and Brazil (27%) were granted higher tariff rates.¹⁶⁰ Second, U.S. policymakers insisted on a variety of additional points China would have to stick to. Unlike other countries, China's commitments in the trade agreements would not be intentional, but binding. They also insisted that China abided to import and agreed minimum quantity of wheat and other (agricultural) products so that the Chinese government could not increase domestic prices which would have meant that Chinese farmers had an incentive to increase their production instead of buying from countries (mostly the U.S.) that sought to export to China.

Hong Kong

With the example of Hong Kong I would like to stress China's growing political capabilities to solve delicate matters to her advantage, and, if possible, without military action. The peaceful handover of Hong Kong on July 1st 1997 added an important piece to the mainland which the Communist Party achieved through smart bargaining. When the British leased the New Territories in 1898 for 99 years, they never thought, under any circumstances,

¹⁵⁹ *General Agreement on Tariffs and Trade*, The Results of the Uruguay Round of Multilateral Trade Negotiations. Market Access for Goods and Services: Overview of the Results (Geneva, Nov. 1994). Online: <http://www.ub.edu/prometheus21/articulos/archivos/gatt.PDF> (accessed: 05.06.2012), p.65

¹⁶⁰ *Lardy, Integrating China*, p.79

that they would lose Hong Kong at any point in the future. Even after 1911, when the Republic of China announced that it “*would not be bound by any “unequal” treaties signed by the Qing government*”¹⁶¹, the British did not attempt to find a political solution for permanent settlement.¹⁶²

On the other side, the various Chinese governments knew that they were not strong enough militarily to reclaim Hong Kong. After World War II, when the People’s Liberation Army (PLA) had swept through the country in 1949, the Central Government, despite not acknowledging any previously signed contracts by any precursor state as well, assured the international community that the only solution to the matter would be a peaceful one. At the same time, it made clear to the world that it was nevertheless prepared to deal with each case separately as there was also the question of Macao to be resolved.

By skillfully delaying talks, and due to British lack of interest (it seems) in extending the lease Chinese officials made it clear to British officials that there was no way that they could retain Hong Kong beyond 1 July 1997 in the late 1970s. Furthermore, the trade-offs the Chinese leadership had to accept - namely, that Hong Kong’s political structure would not be altered for 50 years upon accession and that the Special Administrative Region’s independence would be maintained legally for the same period as well¹⁶³ - were some they were willing to accept in return for a fully developed economic zone that Hong Kong would be in 1997.

While the return of Hong Kong can be seen as a diplomatic success for China, we have to be careful putting too much meaning to it. Adding Hong Kong (and Macau) to its territories peacefully might indicate that China was indeed on the way up, while Britain’s power in the region was vanishing at the same time. However, we must not forget that in the second half of the twentieth century Britain was not a great power anymore and that its influence was declining globally. An example is the Falklands war in 1982, when Argentina challenged British ownership of the islands militarily. The British could fend Argentina off, but 15 years later there was no way it could have stopped China from taking over Hong Kong.

¹⁶¹ Cottrell, Robert, *The End of Hong Kong. The secret diplomacy of imperial retreat* (London, 1993). p.43

¹⁶² Menski, Werner, *Coping with 1997. The Reaction of the Hong Kong people to the transfer of power* (Stoke-on-Trent, 1995). p.17

¹⁶³ *Joint Declaration of the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of the People’s Republic of China on the Question of Hong Kong*. In: *The Government of the Hong Kong Special Administrative Region, The Constitutional and Mainland Affairs Bureau*. Online: <http://www.cmab.gov.hk/en/issues/jd2.htm> (accessed: 07.06.2012)

China has considered itself the center of the world ever since. The name “Zhongguo”(中国) dates back to the Zhou Dynasty (1046-256 BC) which considered itself to be the “center of the world”. Despite being used mostly in Western sources, Zhongguo became the official name for China as late as 1911.¹⁶⁵ Closely related to this is the concept of “Tianxia” (天下) which stands for “under heaven”, meaning that (in ancient times) the Chinese (emperor with the “mandate of heaven”) would be the center of the world and everyone else was subordinate. The center was “China” and in the outermost circle would be the barbarians.

To put in Callahan's words, “*Tianxia seeks to unify not only the world, but also the world of thought as well.*”¹⁶⁶ The problem with the universal concept, according to him, is that not everyone wants to be part of it and that those who do not want to become a “friend” will be branded a terrorist threat that calls for military intervention.¹⁶⁷ The real issue in the near future will be that Tianxia is becoming more and more popular among the Chinese people, scholars, and policymakers alike and that the government includes this thinking more and more into its foreign policy. Consequently, since all nations have their own philosophy and since great powers can enforce them more aggressively, the threat of a clash of civilizations will inevitable become a reality if China continues its emergence. It is not only that the United States and China will have different goals and ideas. It is also that they have different definitions, for example of what is war and what is considered a “domestic issue”.

Therefore, China's actions in the South China Sea as well as in other places such as Tibet should be of no surprise from this angle. Also the West and especially the United States should be prepared to engage with China's ever increasing self-confidence and therefore its unsaturated will to “befriend” its neighbors and repel everyone who does not conform with Tianxia. In a standoff with the United States, it seems to me that China will find it easier to argue that its interventions and military modernization are merely of defensive nature because not only China has a stake in balancing the U.S., but so do Russia, Iran, and maybe some European nations that want to loosen the grip the U.S. has laid on them.

¹⁶⁴ William A. Callahan, Chinese Visions of World Order. Post-hegemonic or a New Hegemony? In: International Studies Review No. 10 (2008), pp.749-761

¹⁶⁵ Endymion Wilkinson, Chinese History. A Manual, Revised and Enlarged, (Cambridge, USA 2000) p.132

¹⁶⁶ Callahan, Chinese Visions, p.751

¹⁶⁷ Callahan, Chinese Visions, p.756

This, however, is not likely to happen very soon as China's military capabilities are still relatively limited compared to American. And despite Mearsheimer pointing out regularly that past behavior is not a reliable indicator to predict future actions as leaders change continuously¹⁶⁸, we can say one thing for sure: If China continues its economic emergence and manages to further improve its military capabilities it will most likely strive at least for regional hegemony.

Military Capabilities (since 1990)

Modernization

China's most important project to increase its armed forces operational range is to build up a new and technologically advanced blue water navy. So far the Chinese Navy still consists of many old ships and is undergoing modernization. The backbone of this new navy will be aircraft carriers that China developing. So far, however, China has only one aircraft carrier which it bought from the Ukraine in 1998 and uses it for training purposes to prepare its forces for the new generation of 97,000 ton atomic powered carriers which are expected to be put in service by 2020 and supposed to equal U.S. carriers in fire force.¹⁶⁹

Furthermore, the PLA Navy has invested in a new class of nuclear-powered submarines, the Type 094, in order to be able to operate further away from the mainland. It is estimated that China will build at least six such submarines, which are all capable of carrying nuclear missiles, in the years to come.¹⁷⁰ The PLAN has also constantly upgraded its destroyers and frigates since the 1990s and will introduce new, more capable, ships in the near future. The Central Government also makes a serious effort to modernize its air force as well. Since half of China's fighter aircrafts were developed in the 1960s, 70s, and 80s, all connected in some way to Soviet planes from the 1960s. Even a significant number of China's new planes will either be Russian planes, such as the SU-30, or, if indigenously built, such as the Shenyang J-11, are based on a Russian model. Only the Chengdu J-10 was developed by the Chinese alone. Together with the J-11, this plan is supposed to become the new backbone of the air force.¹⁷¹ Furthermore, reports have surfaced that China is also developing a new

¹⁶⁸ Mearsheimer, *The Gathering Storm*, p.384

¹⁶⁹ *The Hankyoreh*, China to build 93,000-ton atomic-powered aircraft carrier: source, (28.03.2007; Modified on: 29.03.2007). Online: http://english.hani.co.kr/arti/english_edition/e_international/199284.html (accessed: 06.05.2012)

¹⁷⁰ *BBC News*, US fears grow over China military. The US has expressed concern over China's growing military might (25.05.2007). Online: <http://news.bbc.co.uk/2/hi/asia-pacific/6691691.stm> (accessed: 12.05.2012)

¹⁷¹ *Flightglobal Insight*, World Air Forces 2011/2012, p.12

stealth fighter, the Chengdu J-20, which is supposed to match American counterparts.¹⁷² It seems that China's intelligence has done a great job in keeping the rest of the world in the dark about this program for a long time. If it manages to get the J-20 ready for combat, which will most likely take some more years, the security situation not only for Taiwan, but also for the entire region changes significantly.¹⁷³

Operations

In the past twenty years China's military has undergone a significant transformation. Until the early 1990s the Chinese military was considered to be incapable to threaten anyone outside China and operations were limited to the coastal regions to defend the country. However, China's economic rise has given the leadership in Beijing enough resources to modernize its military forces and extend the range of its operations. For example, China is building what Christopher Pehrson referred to as a "String of Pearls"¹⁷⁴, which is series of strategic facilities from Woody Island off the coast of Viet Nam all the way to Pakistan¹⁷⁵ and the Persian Gulf.¹⁷⁶ By establishing these potential military bases, China is trying to build up a security net to protect its trade routes.

After all, in 2008 more than 80 % of China's oil imports were transported through the Strait of Malacca¹⁷⁷. In addition to protecting its own transports, China can also block supplies designated for other countries. In order to be able to do so one day, China increases its presence in the South China Sea because "*Northeast Asia relies heavily on the flow of oil and commerce through South China Sea shipping lanes, including 80 percent of the crude oil to Japan, South Korea, and Taiwan.*"¹⁷⁸

¹⁷² *Flightglobal Insight*, World Air Forces 2011/2012, p.7; Jeremy Page, A Chinese Stealth Challenge? In: WSJ Online (05.01.2011). Online: <http://online.wsj.com/article/SB10001424052748703808704576061674166905408.html> (accessed: 14.05.2012)

¹⁷³ Jens Kastner, Stealth fighter sneaks up on Taiwan. In: Asia Times Online (21.01.2011). Online: <http://www.atimes.com/atimes/China/MA21Ad02.html> (accessed: 13.05.2012); Page, A Chinese Stealth Challenge

¹⁷⁴ This term was first used by Booz-Allen-Hamilton in 2005 in a report titled "Energy Futures in Asia"

¹⁷⁵ Farhan Bokhari, Kathrin Hille, Pakistan turns to China for naval base (22.05.2011). Online: <http://www.ft.com/cms/s/0/3914bd36-8467-11e0-afcb-00144feabdc0.html#axzz1umonp2Me> (accessed: 10.05.2012); Saibal Dasgupta & Agencies, Chinese military base in Indian Ocean?, (13.12.2011). Online: http://articles.timesofindia.indiatimes.com/2011-12-13/china/30511052_1_seychelles-drone-base-china (accessed: 10.05.2012)

¹⁷⁶ Christopher J. Pehrson, String of Pearls. Meeting the challenge of China's rising power across the Asian littoral (July, 2006), p.3

¹⁷⁷ *Office of the Secretary of Defense*, Annual Report To Congress. Military and Security Developments Involving the People's Republic of China 2010. Online: http://www.defense.gov/pubs/pdfs/2010_CMPR_Final.pdf (accessed: 05.06.2012), p.20

¹⁷⁸ *Office of the Secretary of Defense*, Annual Report, p.17

In addition to controlling the world's most important sea lanes, China is also interested in the South China Sea because of the huge amount natural resources that is believed to be stored underground and that can be exploited in the future. In the light of China's every increasing energy demand these resources will become an important source of supply for China. Thus, if China manages to assume and maintain a powerful position in the region, it can put significant pressure on other states by blocking the shipping routes until it gets what it wants. China will also be able to observe (and contain) military maneuvers of other countries.¹⁷⁹

Assuming a powerful position in the South China Sea would therefore be of greatest importance to China. PLA deployment of forces along the coast opposite of Taiwan underlines China's ambitions to not only be prepared to take military action against the island-state, but also to put out its hand to control the region. Considering my previous assessment about China's views of the world, its military development and operations conducted actively and passively, namely sending its ships further away from the coast and building infrastructure that can be used for military purposes in foreign countries is in accordance with the Tianxia concept. Considering the mainland as the center, adding Taiwan and other territories such as Tibet, and gaining control over the South China Sea combined with making its influence felt by its neighbor countries is a first step to creating a world under China's reign.

Assessment Of China's Position

This section deals with the determination of China's position in both, the world and the region. My analysis will span from 1989 to 2008 for two reasons. First, data availability is very limited for the time before 1990 and mostly rough estimates. Second, the paper focuses on the time after 1990. For my analysis I will use an approach similar to Kumar's and other power circle theorists to assess the relative power of the involved nations. On the world level, I will compare China and the United States, and I will add Japan and Vietnam to derive the regional power ranking. The first assessment intends to find out whether China has already a global power position. Because if that was the case, China should not only have a similar score as the United States, but we should also find similar interdependence patterns between China and the United States as the ones between the U.S. and Soviet Russia.

¹⁷⁹ Page, A Chinese Stealth Challenge

I have chosen to compare the four countries with each other in the regional assessment for three reasons. First, since Japan has become the regional hegemon soon after it took off in the 1950s it is important to know whether or not China has taken its spot as the leading Asian nation. Second, the United States, as the only super power left after the fall of the iron curtain, has sought to project its power to foreign territories ever since the Great White Fleet circumnavigated the world in 1907/8. The U.S. has also maintained a significant military presence in Asia since the end of World War II and values the region strategically even more today as President Obama has indicated in his “State of the Union” in January 2012.¹⁸⁰ Third, I added Vietnam in order to determine its position in Asia as well.

I will use the some indicators that Kumar¹⁸¹ used to assess the power-relations over the 19 years since 1989. But I will make significant alterations to his approach as I believe that other indicators are more useful in this case. Instead of GNP (absolute and per capita), I will use GDP (absolute and per capita) and replace energy consumption and energy consumption per capita with FDI (net inflows and net outflows) to my analysis. I have also added nuclear weapons as an indicator of power as they play an important role in a neorealist power assessment. Therefore, besides the indicators just mentioned, the list is completed by population, trade, military expenditure and military expenditure as a percentage of GDP.

Like in Kumar’s analysis, the score for each country is calculated relative to the other(s). All indicators are weighted equally and their “*overall relative power score...is calculated as an average of the relative shares of that country on the individual indicators.*”¹⁸² These indicators are important to make a direct statement about two of a country’s capabilities; this combination assesses a country’s economic strength and its military strength at the same time. What makes this theory useful to support a neorealist analysis is its quantifying approach. Therefore, despite being far from complete - for example, Power Cycle theory is not able to assess variables such as political stability or soft power¹⁸³ – Kumar’s approach is still a good indicator to hint how powerful a country is, because a

¹⁸⁰ *The Guardian Online*, State of the union 2012: full transcript of President Obama's speech. The full text of President Barack Obama's third state of the union address to Congress on 24 January 2012. Online: <http://www.guardian.co.uk/world/2012/jan/25/state-of-the-union-address-full-text> (accessed: 15.05.2012)

¹⁸¹ Sushil Kumar, Power Cycle Analysis of India, China, and Pakistan in Regional and Global Policies. In: *International Political Science Review* Vol. 24, No. 1, Power Cycle Theory and Global Politics (January, 2003), pp.113-122

¹⁸² Kumar, Power Cycle Analysis, p.115

¹⁸³ Joseph Nye, Why China is weak on soft power. In: *New York Times online* (18.01.2012). Online: http://www.nytimes.com/2012/01/18/opinion/why-china-is-weak-on-soft-power.html?_r=1 (accessed: 24.04.2012)

military and economic strong nation is usually “politically strong” as well. In the following section I will first address each indicator individually before presenting the results.

Population

As Graph 1 below indicates, China has by far the largest population of all countries, account consistently for 71% of the combined population since 1989. In 1982 China’s population passed the 1 billion mark and in 1989 there lived around 1.1 billion people in China. 2008 the population was made up by roughly 1.3 billion people.¹⁸⁴ Therefore, between 1989 and 2008, China’s population has grown by some 200 million people, which is an 18.4% increase and equals Indonesia’s population in 2000.¹⁸⁵ What are the implications of this for China? On the upside, China did add potential workers roughly equal to U.S.’s population in 2008. These workers can be useful for example in the labor-intensive industries and help increasing China’s production.

On the downside, a surge in population causes strains on resources such as land and water. It also means that gains from economic growth have to be shared by more people and cause living standards to be lower than they could have been. The United States, on the other side, has experienced a population growth of about 57 million, or 23.3%, during the same period.¹⁸⁶ Japan, on the other side, has barely experienced population growth. Between 1989 and 2008 the Japanese population only increased by 3.7%, or 4.5 million people.¹⁸⁷ During the same period Vietnam’s population grew by some 20 million from 64 to 85 million people.¹⁸⁸

¹⁸⁴ *World Bank Country Data*, China

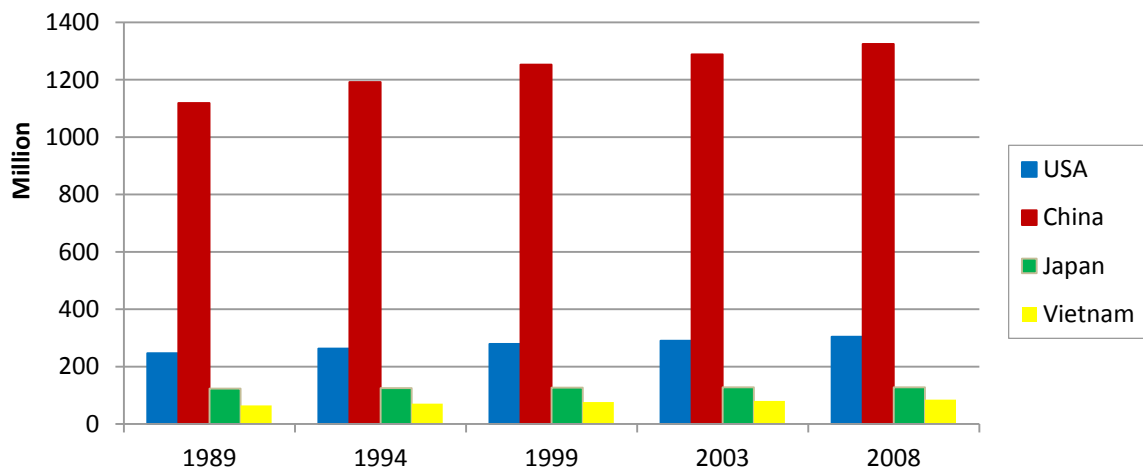
¹⁸⁵ *Badan Pusat Statistik*, Population of Indonesia by Province 1971, 1980, 1990, 1995, 2000 and 2010. Online: http://dds.bps.go.id/eng/tab_sub/view.php?tabel=1&daftar=1&id_subyek=12¬ab=1 (accessed: 16.05.2012)

¹⁸⁶ *World Bank Country Data*, United States. Online: <http://data.worldbank.org/country/united-states> (accessed: 24.01.2012)

¹⁸⁷ *World Bank Country Data*, Japan. Online: <http://data.worldbank.org/country/japan> (accessed: 24.01.2012)

¹⁸⁸ *World Bank Country Data*, Vietnam. Online: <http://data.worldbank.org/country/vietnam> (accessed: 24.01.2012)

Graph 1: Population, 1989, 1994, 1999, 2003, 2008¹⁸⁹



Trade

Trade is China's has been the main driver for its emergence. Since 1978 China has increasingly focused on trade as the main source of economic growth. But, while trade increased significantly during the Reform Era, China's accession to the WTO gave it a real boost. In fact, all parties involved have benefitted quite remarkably from China's accession to the WTO as well. Despite everyone being concerned about the American trade deficit with China, it has to be noted that China's imports of goods from the United States have increased by 370% between the accession and 2008.¹⁹⁰

However, China's exports of goods to the United States have increased by almost 500%.¹⁹¹ Trade with Japan, for example, has experienced a different development. While imports from Japan increased 355%¹⁹², exports to Japan increased by 230% only until 2008.¹⁹³ However, the most impressive results came from trade with the world. Exports of goods to the world increased 613% while imports increased.¹⁹⁴ The share of total trade of

¹⁸⁹ *World Bank Country Data*, China; *World Bank Country Data*, Japan
World Bank Country Data, United States; *World Bank Country Data*, Vietnam

¹⁹⁰ *ITC Trade Statistics*, Bilateral Trade. Online: http://www.trademap.org/tradestat/Bilateral_TS.aspx (accessed: 22.01.2012)

¹⁹¹ *ITC Trade Statistics*, Bilateral Trade

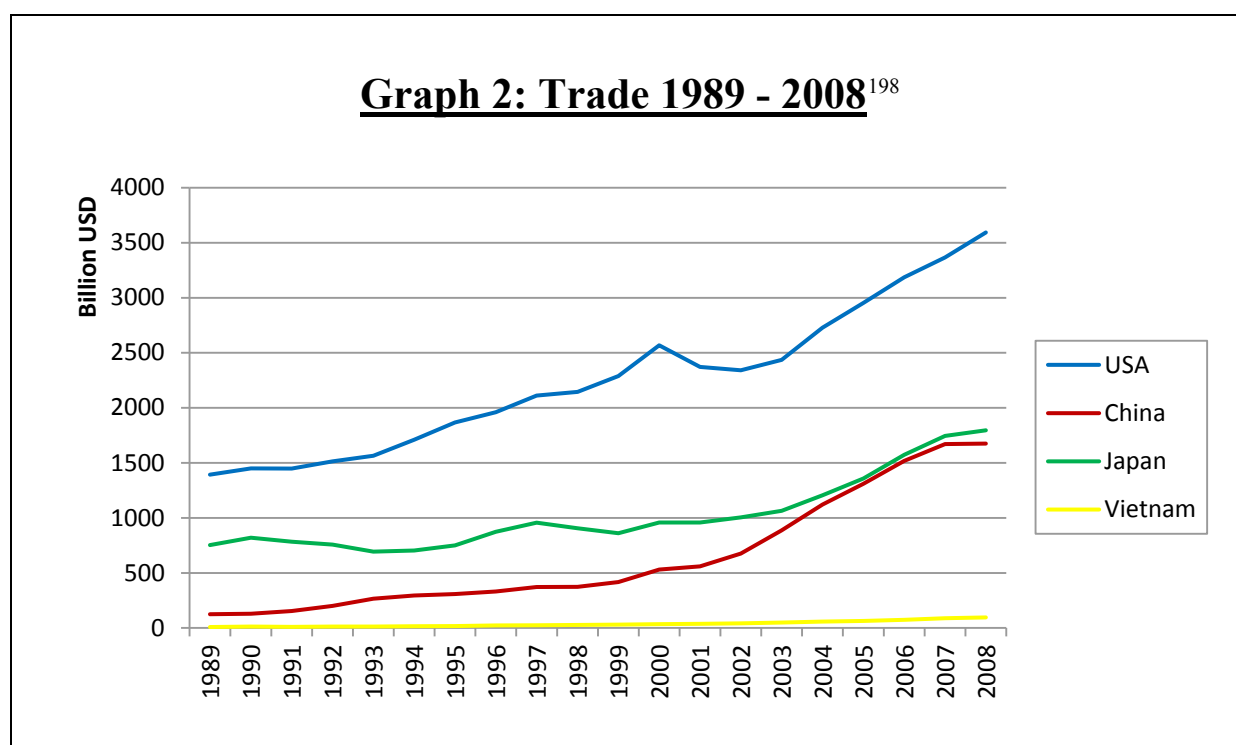
¹⁹² *ITC Trade Statistics*, Bilateral Trade

¹⁹³ *ITC Trade Statistics*, Bilateral Trade

¹⁹⁴ *ITC Trade Statistics*, Bilateral Trade

China's GDP increased from 29% in 1989 to over 62% in 2008¹⁹⁵ while the United States and Japan both have had lower shares in GDP than China. The value of trade for the first increased from 20% to 30% of GDP¹⁹⁶, while it increased from 19% to 34% for the latter during the same period.¹⁹⁷

The implications are relatively clear. The relatively high share of trade means that China's economy depends more on what's going on in the world than the American or Japanese economy. At the same time, it shows that China's domestic markets are relatively underdeveloped so far compared to the other two. With less purchasing power, the Chinese companies have only very little incentive to sell their goods at home, but rather seek to export their products. Another implication, which can be taken from Graph 2 below, is that trade generally has increased significantly. And even though Vietnam lags behind it made significant progress. But U.S. fears that China's WTO accession has caused harm to the U.S. economy, do not seem to hold true as U.S. trade exploded just like China's. Furthermore, it seems that Japan has also benefitted from China joining the WTO.



¹⁹⁵ *World Bank Country Data, China*

¹⁹⁶ *World Bank Country Data, United States*

¹⁹⁷ *World Bank Country Data, Japan*

¹⁹⁸ *World Bank Country Data, China; World Bank Country Data, Japan
World Bank Country Data, United States; World Bank Country Data, Vietnam*

GDP

Looking at GDP as an indicator of power, the situation is clear. In both categories, GDP and GDP per capita, the United States and Japan are the leading nations. While the U.S. has had the largest GDP throughout the period, Japan was the leading nation in GDP per capita due to its relatively small population size compared to the United States. Vietnam is in both categories last and shows only marginal signs of catching up. Table 3 shows that China and Vietnam have experienced a significant growth in GDP and GDP per capita. As China grew by 528% and 430%²⁰⁰ in the respective category, Vietnam's GDP grew by 290%, and its GDP per capita by 197%²⁰¹ between 1989 and 2008.

Table 3: GDP & GDP per capita growth (in %), 1989 – 2008¹⁹⁹				
	USA	China	Japan	Vietnam
GDP	68.39%	528.62%	30.30%	290.97%
GDP per capita	36.68%	430.86%	25.62%	197.51%

On the other side, while Graph 3 clearly shows that even though China has continuously caught up with the United States and Japan in GDP, we cannot find the same results in the per capita comparison despite the fact that both, the U.S. and Japan grew relatively little in GDP and GDP per capita. U.S GDP grew by 68% and per capita GDP grew by 36%²⁰², while Japan's growth was even smaller with 30% for GDP and 25% for per capita income.²⁰³ However, it has to be pointed out that both, the U.S. and Japan had already achieved high levels of GDP and GDP per capita and absolute gains are still higher than those for China. For example, while U.S. GDP per capita grew by almost 10,300 USD²⁰⁴, Japan's by 8,200 USD²⁰⁵ while China's per capita income grew only by 1649 USD²⁰⁶ between 1989 and 2008. Vietnam could increase per capita GDP only by a meager 435 USD during that time.²⁰⁷

¹⁹⁹ *World Bank Country Data, China; World Bank Country Data, Japan; World Bank Country Data, United States; World Bank Country Data, Vietnam*

²⁰⁰ *World Bank Country Data, China*

²⁰¹ *World Bank Country Data, Vietnam*

²⁰² *World Bank Country Data, United States*

²⁰³ *World Bank Country Data, Japan*

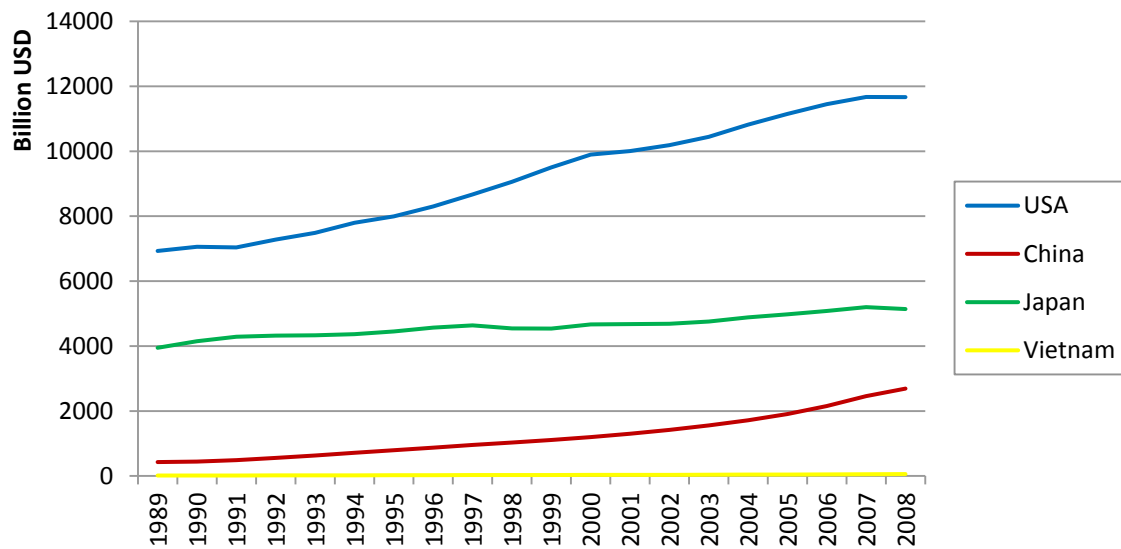
²⁰⁴ *World Bank Country Data, United States*

²⁰⁵ *World Bank Country Data, Japan*

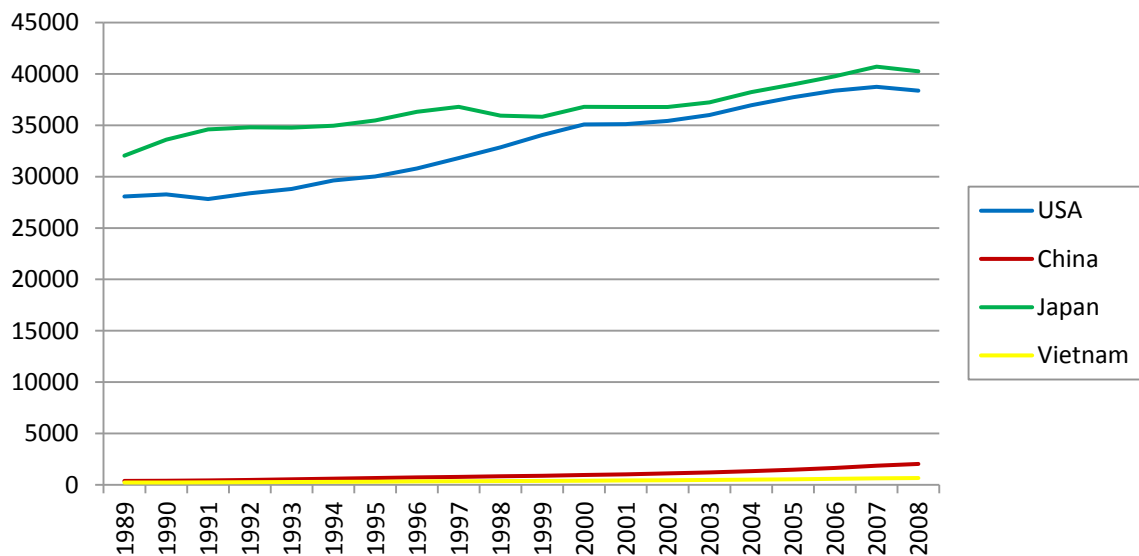
²⁰⁶ *World Bank Country Data, China*

²⁰⁷ *World Bank Country Data, Vietnam*

Graph 3: GDP 1989 - 2008²⁰⁸



Graph 4: GDP per capita, 1989-2008²⁰⁹



²⁰⁸ World Bank Country Data, China; World Bank Country Data, Japan; World Bank Country Data, United States; World Bank Country Data, Vietnam

²⁰⁹ World Bank Country Data, China; World Bank Country Data, Japan
World Bank Country Data, United States; World Bank Country Data, Vietnam

With respect to China, we can see a clear upward movement in both categories, but have to realize that China's population could not benefit from the economic gains. Comparing Japan and China, the data support my statement that Japan's smaller population helps its people to gain more from economic growth than the Chinese can. However, what seems to matter to the Chinese government is the size of GDP and not the per capita value. The question about whether to assess a country's economic strength in total values or in per capita values has been an issue for quite some time and I will address it later on. For now, it suffices to realize that China is growing faster than other countries and that it is therefore catching up.

FDI

FDI is an important indicator to assess two things. First, it helps to understand the attractiveness of a country, since steady (and rising) inflows of FDI are only guaranteed if the country is politically stable. Second, FDI gives us a hint about a country's dependency on other and its ability to make others dependent. A country that invests heavily in another country for several years sooner or later owns a considerable share of the latter's economy. This in turn means that the latter country depends more on the former and has to fear rapid disinvestment as this would mean a shortage in financial resources necessary to operate the economy. In my analysis I have used both, FDI net inflows and FDI net outflows, to assess the relative power position of the nations involved. FDI net inflows are the net values of non-residents into a country made by foreigners. Net outflows are net investments of a country's residents to other countries. If, for example, FDI net outflows were negative, it would mean that domestic residents are disinvesting more in foreign economies than they are investing during a given period.

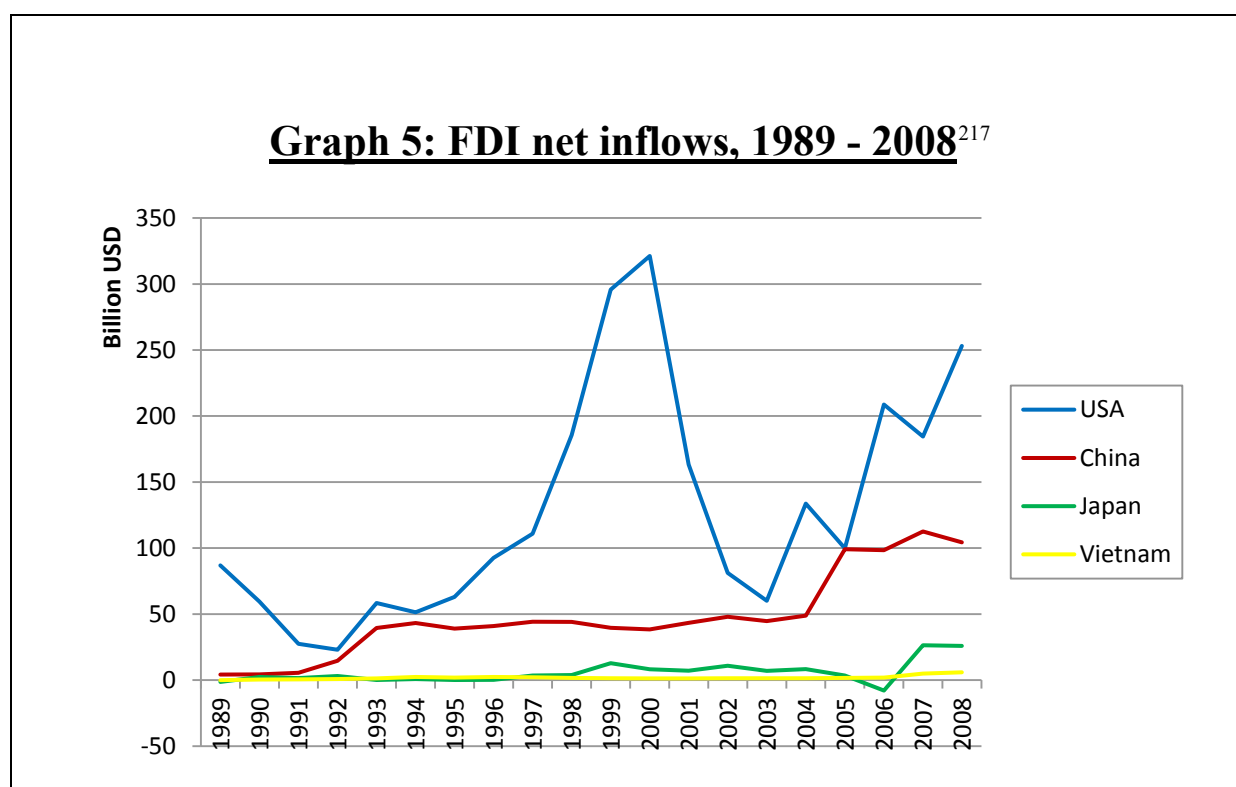
Graph 5 illustrates that, despite the shock in 2001, that caused FDI net inflows to drop from 320 billion US\$ in 2000 to 60 billion US\$ in 2003, the United States has maneuvered itself back on the way up and attracted over 250 billion US\$ again in 2008.²¹⁰ For China, the period of 1991 to 1993 has brought a significant increase in FDI net inflows. From then until 2004 the level did not change significantly. In 2005, however, net inflows increased from 48 billion US\$ to 98 billion US\$.²¹¹ This was also the year in which China's and the U.S. FDI net inflows diverged only marginally. Japan, on the other side, could keep up with neither the U.S. nor China as it experienced a rollercoaster ride. During the 1990s FDI net inflows were

²¹⁰ *World Bank Country Data, United States*

²¹¹ *World Bank Country Data, China*

relatively low (mostly below 5 billion US\$) with significant variations during the years.²¹² This would continue after the turn of the century but on a higher level.

For Japan, net inflows would evolve around 10 billion US\$ and turn negative in 2006 (-7.9 billion US\$) before they skyrocketed again in 2007 and 2008 to around 25 billion US\$.²¹³ Vietnams net inflows of FDI increased from virtually zero in 1989 to 2.4 billion US\$ in 1994.²¹⁴ However, a level around 2 billion US\$ could only be maintained until 1996 and would not be reached again until 2006 when net inflows were 1.9 billion US\$.²¹⁵ In 2007 FDI net inflows reached 4.9 billion US\$ and in 2008 they reached 5.8 billion US\$.²¹⁶



²¹² World Bank Country Data, Japan

²¹³ World Bank Country Data, Japan

²¹⁴ World Bank Country Data, Vietnam

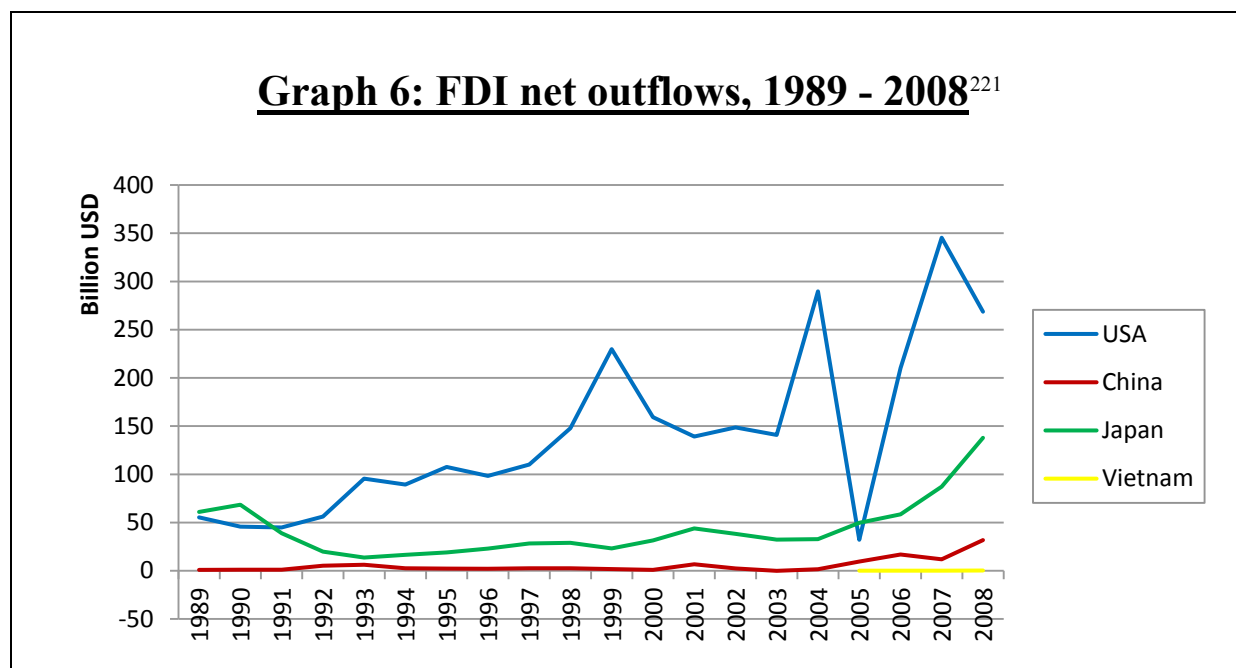
²¹⁵ World Bank Country Data, Vietnam

²¹⁶ World Bank Country Data, Vietnam

²¹⁷ World Bank Country Data, China; World Bank Country Data, Japan; World Bank Country Data, United States; World Bank Country Data, Vietnam

Concerning FDI net outflows, which are illustrated in Graph 6 below, the United States were the most important to invest in other countries. Despite major setbacks in 1999/2000 and 2004/2005, U.S. net outward FDI has reached a level that was only topped by Japan before 1992 and in 2005. U.S. net foreign FDI was around 55 billion US\$ in 1989 and peaked in 2007 when it reached 345 billion US\$.²¹⁸ The only other country that achieved a significant increase in net foreign investment was Japan, which, after falling from 68 billion US\$ to 13.7 billion US\$ (1993), increased investments to 137 billion US\$ in 2008.²¹⁹

FDI net outflows for China and Vietnam were significantly lower than those of Japan and especially the United States during the observed period. With respect to Vietnam, it has to be mentioned that there are no data available on FDI net outflows until 2005. Between 2005 and 2008 Vietnam's net outflow of FDI increased from 55 million US\$ to 183 million US\$.²²⁰ FDI, again, is an indicator that shows a country's attractiveness to foreign investors. Even though China has attracted significant net inflows between 2004 and 2008 relative to the other nations, it still lacks far behind the United States. Furthermore, outward investment from China to the world has also never reached a niveau that could challenge American levels.



²¹⁸ World Bank Country Data, United States

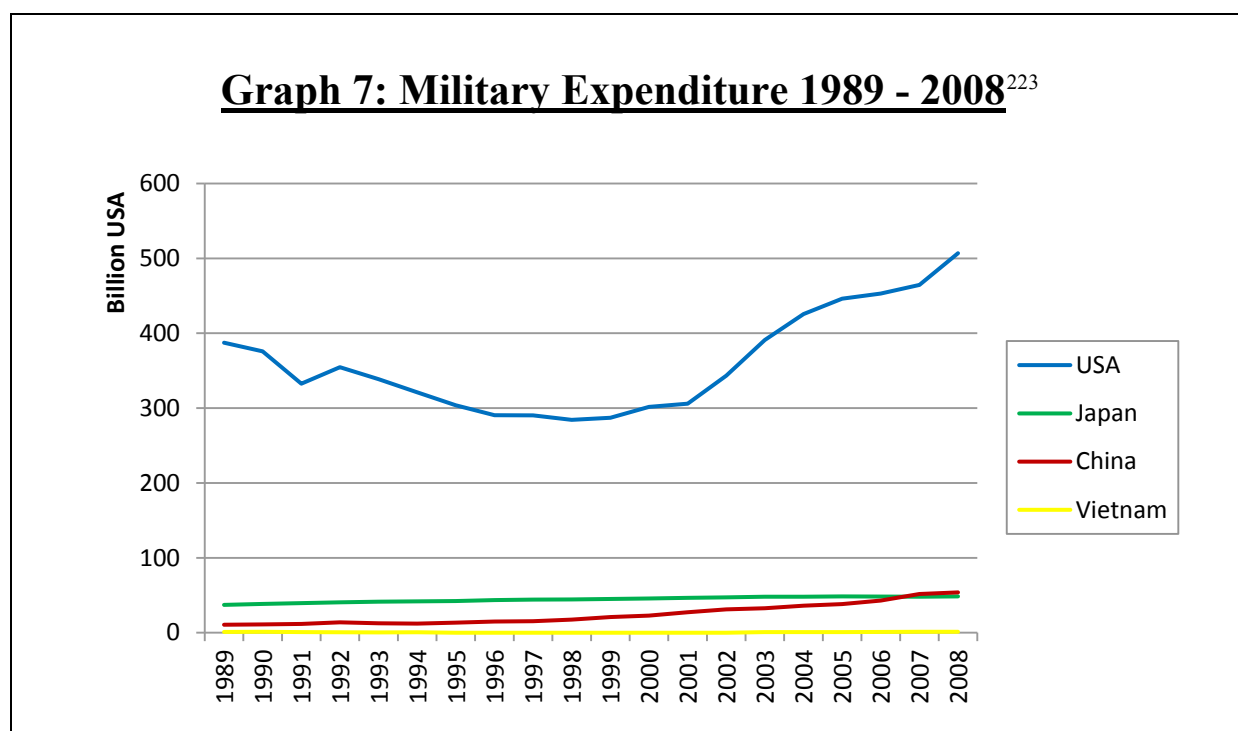
²¹⁹ World Bank Country Data, Japan

²²⁰ World Bank Country Data, Vietnam

²²¹ World Bank Country Data, China; World Bank Country Data, Japan; World Bank Country Data, United States; World Bank Country Data, Vietnam

Military expenditure

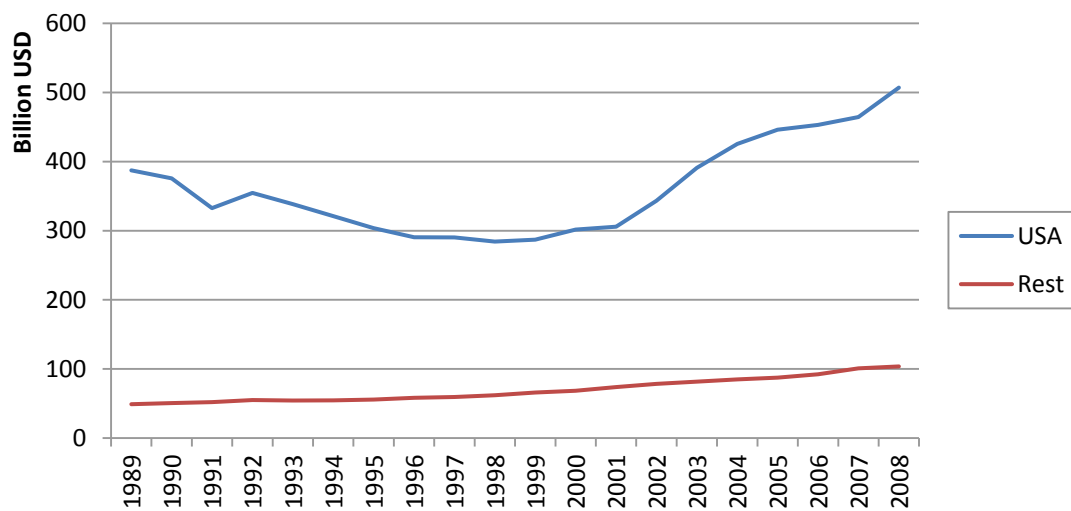
The amount of military spending gives a hint of a country's intentions. A high level of expenditure means that a nation has, or intends to develop, significant military capabilities. In percentage of GDP, the United States has spent twice the amount on its military forces than China in most years. Again, to assess Vietnam's strength is difficult because there are no data available for the years to 1995 to 2002 which skews the picture a little bit. What is worth noting, however, is that Vietnam's military expenditure as share of GDP has dropped rapidly and significantly between 1989/90 and 1993 from more than seven percent to below three percent. Japan has spent between 0.9 and one percent of GDP for its military forces throughout the years. Graph 7 shows the absolute military expenditure of all four countries.²²² As one can see, the United States has spent significantly more than any other country, and three to five times more than China, Japan, and Vietnam combined, which is illustrated in Graph 8 further below.



²²² It has to be noted that military expenditure has been calculated with constant 2000 USD, which means that they might diverge significantly. For example, China's military expenditure in 2008, measured in 2000 USD, amounts some 53 billion USD. However, calculated in 2010 USD, as the SIPRI did, her 2008 military expenditure amounts some 96 billion USD.

²²³ *World Bank Country Data*, China; *World Bank Country Data*, Japan; *World Bank Country Data*, United States; *World Bank Country Data*, Vietnam

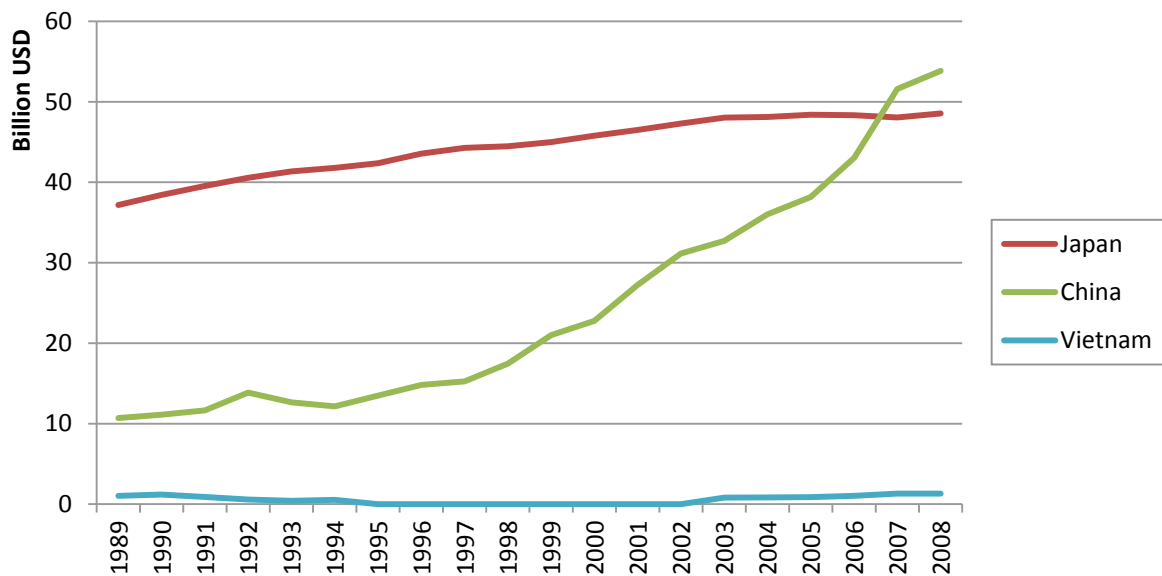
Graph 8: Military Expenditure USA vs. Rest, 1989-2008²²⁴



In order to provide a better understanding about military expenditure of the other countries, I have plotted a third graph, Graph 9, illustrating military expenditure developments without the United States. What is striking is that China's military expenditure has increased fivefold between 1989 and 2008, while military expenditure of the other countries has increased marginally. In 2007, China overtook Japan, which spent 48 billion US dollars in that year, in military spending. However, China's roughly 53 billion US\$ spent in 2008 only account for one tenth of U.S. spending on military.

²²⁴ *World Bank Country Data, China; World Bank Country Data, Japan; World Bank Country Data, United States; World Bank Country Data, Vietnam*

Graph 9: Military Expenditure without the USA, 1989-2008²²⁵



We can only argue that large military spending means that a country upholds a military of significant size and equipment. And this holds true if we compare China and the United States. For example, while China has one carrier, the ex-Varyag which is not battle-ready, the United States had twelve super-carriers stationed around the globe until decommissioning the USS Kitty Hawk in 2009. In addition, the U.S. employs a fleet of B-2 and YF-117 stealth bombers which give it the possibility to carry out missions on a world wide scale. The United States also spend a significant amount of money on the nuclear arsenal. Contrary, China does not have such capabilities (yet).

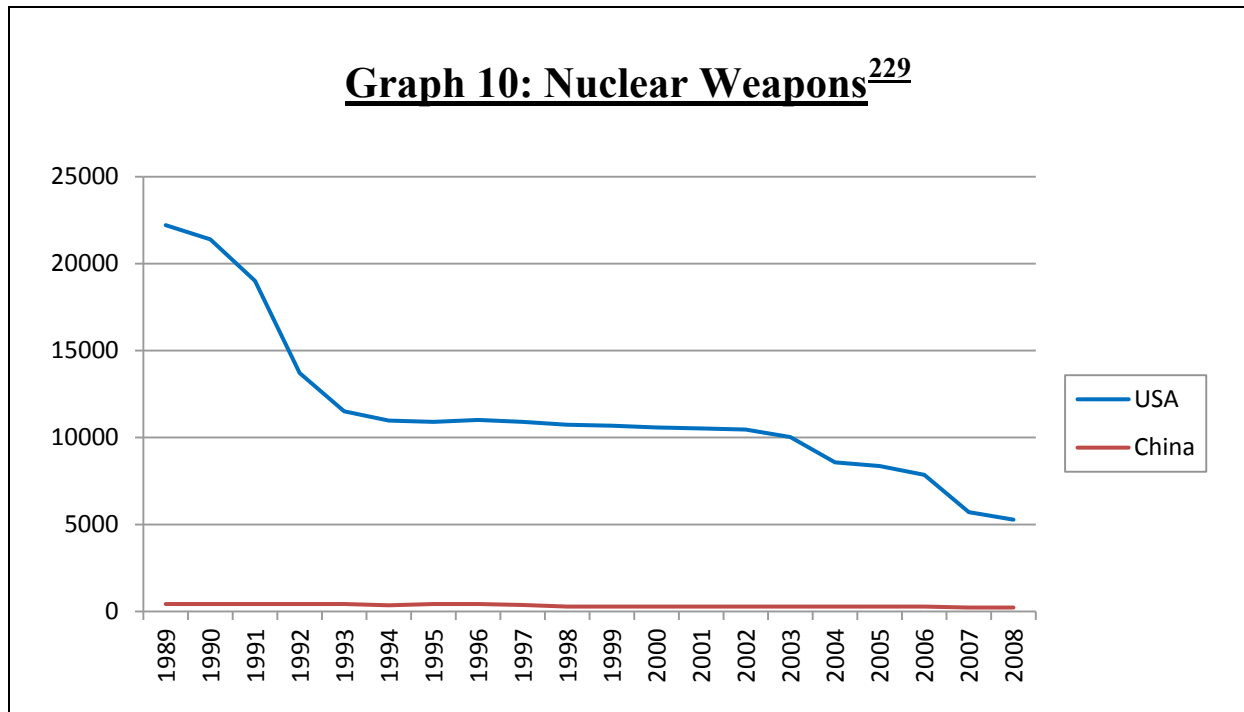
Nuclear forces

When it comes to nuclear weapons, none of the other countries can keep up with the United States. Of our sample, only China does possess nuclear weapons as well. And both, the U.S. and China have reduced the nuclear arsenal significantly between 1989 and 2008. However, the only reason China could increase its relative share is that the U.S. has reduced the number of nuclear warheads more drastically than China, namely from over 22,000 in 1989 to 5,200 in 2008.²²⁶ During this period China reduced its arsenal from 422 to 225.²²⁷ It

²²⁵ *World Bank Country Data, China; World Bank Country Data, Japan; World Bank Country Data, United States; World Bank Country Data, Vietnam*

²²⁶ Hans M. Kristensen, Robert S. Norris, Global nuclear weapons inventories, 1945–2010. In: *Bulletin of the Atomic Scientists* (2010, 66: 77), p.82

also has to be noted that there are between 3,500 and 4,500 nuclear warheads that are waiting for dismantling and are therefore not listed in the DoD's stockpile.²²⁸ Graph 10 illustrates this development.



China's position in the world

As noted at the beginning of the chapter, it is important to determine whether China has assumed a great power position in the world system. Again, it has to be pointed out that the indicators used in the analysis do not encompass all crucial variables, such as soft power, to fully assess relative power positions. Also, since data on Vietnam are partially inaccessible, its position will be lower than what it would have if all data had been available. With this limited data it is very unlikely that the trend-lines shown below are close to reality, but they give a good hint at how those “real” power lines might look like. Furthermore, this power analysis is a zero-sum analysis, as the emergence of one country means a loss of power to another because the highest score a country can achieve is 100 per cent, which means that the other country/ies have 0.

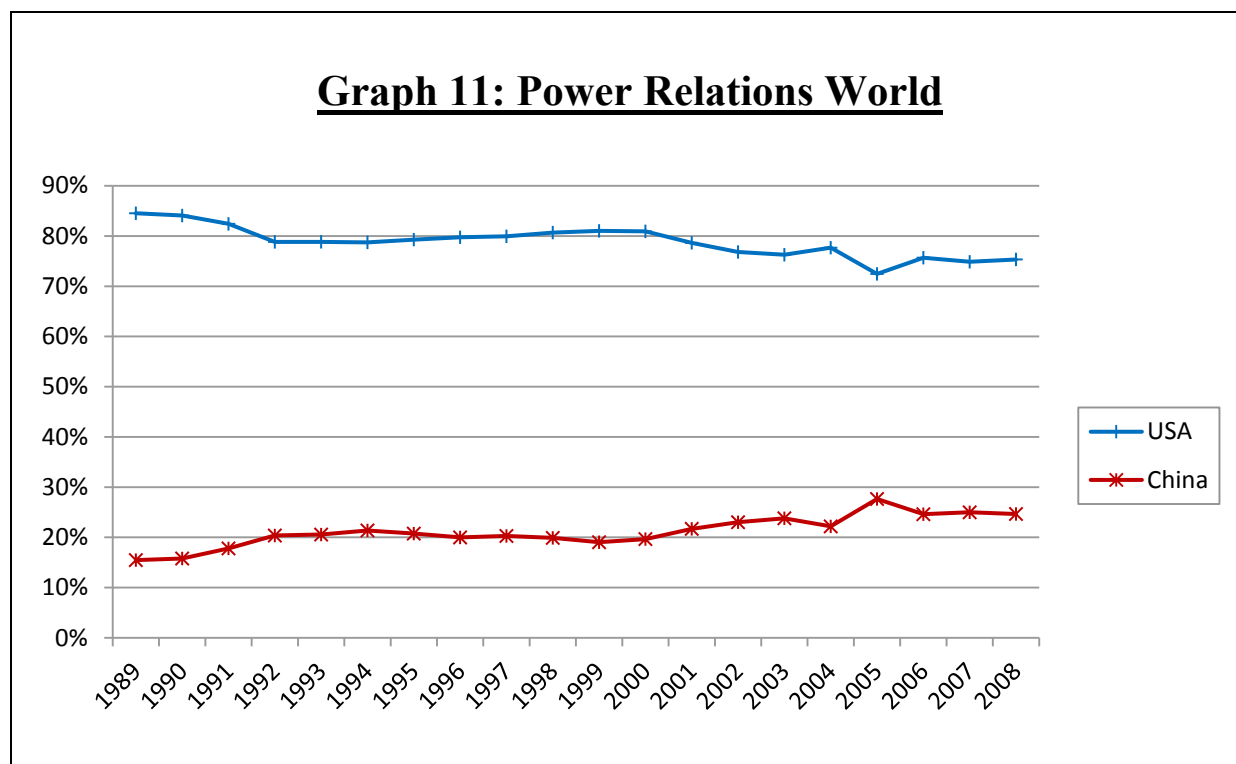
²²⁷ Kristensen, Norris, Global Nuclear Weapons Inventories, p.82

²²⁸ Kristensen, Norris, Global Nuclear Weapons Inventories, p.82

²²⁹ Kristensen, Norris, Global Nuclear Weapons Inventories, p.82

Even though the Graph 11 shows that China has not assumed a powerful position in the world and that it is in no way threatening U.S. hegemony, we can still see that the gap between the two states has narrowed. The U.S.'s power score decreased from 84.5% to 75.4% during the observation period. Conversely, China's score has increased from 15.5% to 24.6% during the period. So far, the United States still are the only super power in the world system. Nevertheless, despite developing its capabilities significantly, China still lags behind the United States. Differences in military spending and GDP (absolute and per capita), FDI and nuclear weapons cause the gap between the two countries.

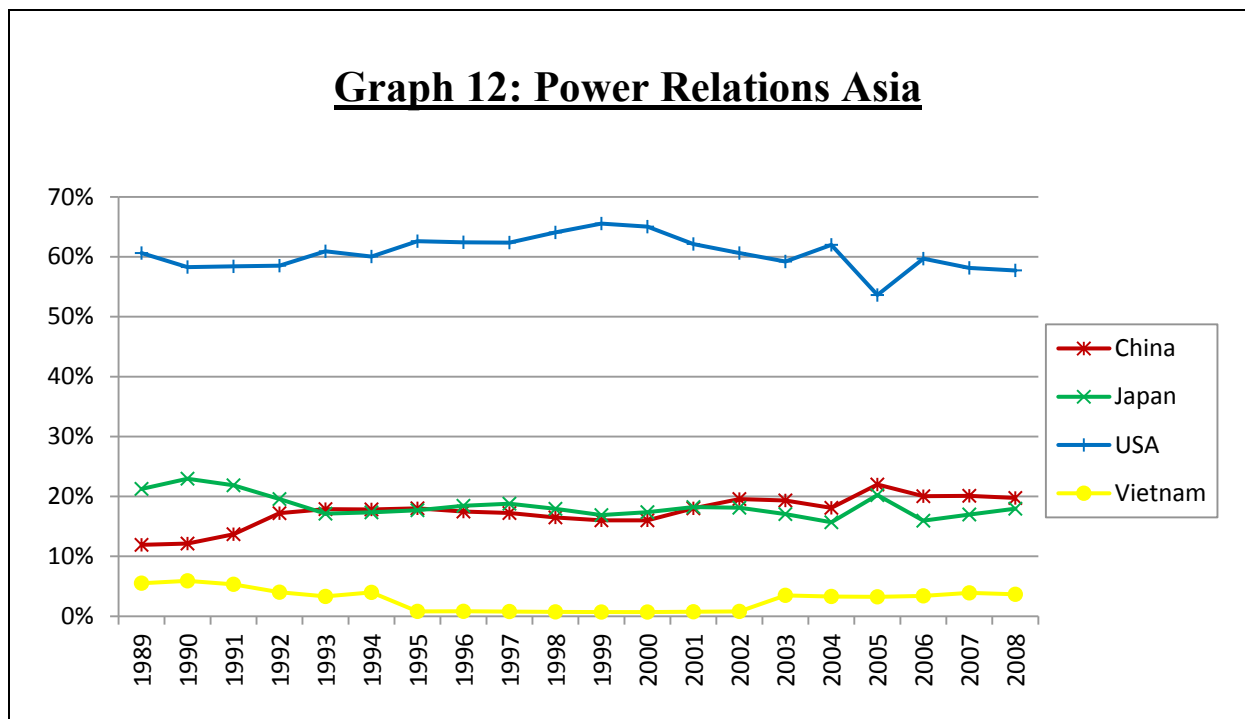
Again, it has to be noted that China lags behind in the GDP per capita section because of its population size. According to Kissane, if China manages to continue its growth, it will challenge the U.S. position sometime between 2015 and 2030.²³⁰ But, it has to be said that Kissane uses different indicators than I did. Using my data, keeping in mind that these are based on constant 2000 USD, and assuming that China will resume increasing its power continuously by 2.7% (which is the average percentage growth from 1989 to 2008), it will not overtake the United States until 2035 when it will score 51.8%.



²³⁰ Dylan Kissane, 2015 and the Rise of China: Power Cycle Analysis and the Implications for Australia. In: Security Challenges, Vol.1, No.1 (November, 2005), pp. 105-121, p.117

China's Position in Southeast Asia

As can be seen in Graph12, power relations show a different picture in Asia. The United States are the leading nation in Asia and China has managed to win ground against the United States, and also take over Japan as the new “domestic power”. The U.S. had to forfeit only a small amount power, as its score dropped from 58.1% in 1989 to 49.7% in 2005 and finally to 54.4% in 2008. While Japan achieved a higher score between 1989 and 1993 than China, the race for the number two spot in the region was a close one until 2001. While Japan scored 19.8% in 1989, China had a score of 11.5% in that year. In 2008 Japan's score was 16.1% while China's was 18.8%. Vietnam never played a significant role at any point. Its power score is only of little value at best, as data unavailability of FDI net outflows (1989-2004), military expenditure and military expenditure as share of GDP (both 1995-2002) distort the results significantly.



ISSUES

No matter how compelling the analysis one tries to perform, there will always be some concern about certain issues. First of all, as I have mentioned numerous times above, a merely quantitative analysis will suffice in order to assess any country's strength correctly. A quantitative approach is simply the most convenient way to make a statement as, for example, a higher rate of economic growth over a prolonged time is better than only little growth. But this approach can in no way tell us anything about quality. China might have the largest number of active military personnel, but this tells us nothing about their training and prowess to perform their tasks. Also, data provided to the world might look impressive, but in China's case, we do not really know whether they are accurate or not. I will now focus the, in my opinion, most important matters that cause distress when analyzing China.

Is China's economy really that strong?

GDP or GDP per capita

One of the major discussions is how to assess economic strength. While China insists on using GDP as the determinant of economic might, which would make the country the second largest economy behind the United States, others insist that it makes more sense to look at GDP per capita. For example, according to the Economist, America's GDP growth rate gets flattened by immigration and relatively high birth rates. Contrary, Japan, even though its population has never grown more than 1% since 1975 and not more than 0.5% since 1986, has achieved a lower GDP growth than the United States.

However, Japan's population has benefitted more from the relatively smaller growth than Americans because while the pie got bigger, fewer mouths had to be fed.²³¹ China's position in this dispute makes sense. After all, every country aims for a more powerful position. Then again, given its sheer infinite labor supply, one could argue that a nation of China's size has to produce more than the United States. I am sure that even India will, at some point, outperform the American economy. And it might produce even more than China one day. Even though GDP does not measure a country's living standards it still helps to see trends of economic activity. Therefore, a high GDP per capita would suggest that, on average, people are not only better off, but also more productive.

²³¹ The Economist, Grossly distorted picture. If you look at GDP per head, the world is a different—and, by and large, a better—place (Mar 13th 2008 from the print edition), accessed: 05.04.2012, online: <http://www.economist.com/node/10852462>

China and the technology ladder

Accusations of politicians, business leaders, and news corporations that China's economic rise is threatening especially the U.S. economy are not new. Aasche has pointed out that combined with the fear that China is climbing up the technology ladder – after all it is allegedly developing a stealth fighter, aircraft carriers and other goods of relatively high technological standards – pessimists identify two threats: A quantitative threat associated with China's stellar export performance, and a qualitative threat that is concerned with the increasing sophistication of China's exports.²³²

However, despite China's soaring exports, there is evidence that at least the qualitative threat is rather illusion than reality. For example, Greg Linden has shown that the value added by the Chinese economy to the iPod is very small. He calculated that while the trade balance between the United States and China shifts for about 150USD in favor of China for every iPod exported to the U.S.. However, none of the important parts, such as the CPU, are manufactured by a Chinese company. The work performed by a Chinese company to add value to the product accounts for “a few dollars at most”.²³³ My point with this example is this: Despite China's massive export volume –Chinese companies assemble more than just the iPod and it would not be difficult to find other examples – it is not capable of producing high-quality products on its own.

If we look at great powers throughout the history, we find that each was a technologically leading nation, not only militarily, but also economically. For example, Great Britain economic strength was built on a technological advantage that triggered the Industrial Revolution and made Great Britain the great power of the 19th century. The United States became a great power during the 20th century because it became the economically leading country. This means that, unless China manages to produce its own high-technology products, it will depend more on other economies than the other way around.

In the end, if American and other foreign companies find the environment too adversely to conduct business they could also go somewhere else for several reasons. The first reason to relocate their business are rising wages of Chinese workers. For example, Wal-Mart is putting more and more pressure on their Chinese suppliers who have to cut positions

²³² Ari Van Assche, Chang Hong, Veerle Sloommaekers, China's International Competitiveness. Reassessing the Evidence. In: LICOS Centre for Institutions and Economic Performance Discussion Paper Series, Discussion Paper 205 (2008), p.2

²³³ Jason Dedrick, Kenneth L. Kraemer, Greg Linden, Who captures the Value in a Global Innovation System? The case of Apple's iPod. In: The Personal Computing Industry Center (2007), p.10

because higher wages are eating up profits.²³⁴ The second is increasing shipping costs mostly because of higher oil prices and transportation costs. For example, “*GE is moving production of its hybrid water heaters to Kentucky, saying rising Chinese labour costs and shipping costs make it more competitive to produce locally for the US market*” others such as Vodafone are leaving China entirely.²³⁵

Data are inaccurate

Military budget and growth figures

However, everyone dealing with data should question their genuineness. This is particularly true with China as the government is very reluctant to have any outsider get an insight. In my opinion the problem with official data is that the Chinese government bends them the way it wants. One example would be the understatement of military expenditure. Despite the increasing availability on military data, the government is not only still reluctant to publish details of the military budget, but it is considered to understate expenditure figures significantly.²³⁶ It is therefore hard, if not impossible, to draw any sound conclusions about China’s military development. Another example would be the overstated growth (provincial) party officials are incentivized to report.

Provincial officials, for example, are therefore inclined to overstate their production figures as it strengthens their position within the party. On the international level it is good for China to overstate its growth figures for two reasons. First, it looks economically stronger. And second, higher growth figures lure more foreign investment into the country further accelerating China’s rise. Nevertheless, there seems to be more and more doubt internationally about Chinese publications of data. The U.S. Department of Defense reckons with China regularly understating its military expenditure.²³⁷

²³⁴ Dexter Roberts, Why factories are leaving China. A labor shortage is trimming margins for exporters, who are moving to Vietnam, India, and elsewhere. In: Businessweek Online (13.05.2010). Online: http://www.businessweek.com/magazine/content/10_21/b4179011091633.htm (accessed: 24.05.2012)

²³⁵ Ambrose Evans-Pritchard, Vodafone joins queue of firms to leave China. Telecoms company is planning to sell its £4bn stake in China Mobile. In: The Telegraph Online (29.08.2010). Online: <http://www.telegraph.co.uk/finance/newsbysector/mediatechnologyandtelecoms/7971181/Vodafone-joins-queue-of-firms-to-leave-China.html> (accessed: 25.04.2012)

²³⁶ SIPRI Yearbook 1991. World Armaments and Disarmament (Oxford, 1991), p.156

²³⁷ Office of the Secretary of Defense, Annual Report, p.41

FDI

The third issue that I will raise concerning data coming from China deals with FDI. The Central Government, again, uses data inaccurately to its advantage and counts investment from Hong Kong towards FDI. Despite Hong Kong being (legally) an independent entity, it has to be said that the Chinese approach is only to polish its investment data. Even though its share in FDI has dropped from 60% in 1989 to 37.9% in 2008, Hong Kong is still the single largest FDI source for China followed by the European Union, which accounted for 4.6% of FDI in 2008.²³⁸ To explain the reason for this is simple. Many Chinese businesses establish a shell company in Hong Kong that invests in China in order to take advantage of tax incentives and other advantages. When these benefits end after some years, the main company simply shuts down its Hong Kong-based subsidiary and establishes a new one again.

SUMMARY

In this chapter I have tried to show that China has transformed its capabilities significantly since 1949. There are several findings that are of interest. First, the emergence of a nation takes place only over time. Like the United States, China is rising gradually in a relatively safe environment. While the United States deduced its security from her geographic isolation, China was simply seen economically and militarily too weak to pose a threat to stronger nations in the past. Second, the rise of reformist leaders to power started a journey that would transform the country's economic environment from one characterized by trial and error towards one that had features similar to a market economy.

Despite liberals arguing that the leadership in charge as well as political institutions matter, they have missed that the new group of leaders did nothing else but act like neorealist theory would predict. Chinese leaders knew they would have to act in a self-help manner towards other nations if they wanted to secure their power position at home and lead China to become a powerful nation. China's self-help has many facets. For example, in order to protect its economy, the government imposed significant trade barriers to keep foreigners out of the market. And despite being forced to lower many barriers and abandon policies that were seen as counterproductive to trade, when China accessed the WTO, the government still keeps up barriers. For example, ownership is still regulated and very limited for foreigners. Restricting foreign ownership is not only a tool to control the flow of capital in and out of the country,

²³⁸ *Invest in China*, Annual FDI Data. Online:
http://fdi.gov.cn/pub/FDI_EN/Statistics/AnnualStatisticsData/default.jsp (accessed: 20.05.2012)

but also to keep foreigners out of China and hence, Chinese companies under Chinese control.²³⁹

Third, by attracting investment and opening up for trade, the government achieved three things. First, it could resolve the unemployment problem at home. Moving millions of workers to the newly established labor-intensive manufacturing industries helped to ease conflict potential among the population. Second, by attracting trade, China's foreign reserves skyrocketed in the past 20 years which gives the government pretty good bargaining chips and helps to create an environment that makes other countries more dependent. Third, foreign companies coming to China does not only create jobs. It is also a way to learn and attain intellectual properties at a relatively low cost. In the recent past, Chinese companies have increasingly produced goods from cars to military jets that looked like their Western counterparts. However, most Chinese enterprises have, so far, not managed to create goods, such as cars, that equaled their Western counterparts in quality.²⁴⁰

Forth, China's emergence since 1990 has had a significant impact on the alignment of states. While China was still too weak to challenge stronger nations right away during the WTO accession talks, which meant that it had to accept the demands teeth-gnashingly, it has started to take on a stronger position towards other countries and starts to make demands. For example, even though China is not capable to challenge the U.S. militarily so far, the U.S. deployment of troops to in military exercises, like the Balikatan exercise in the Philippines or the Cobra Gold exercise in Thailand every year,²⁴¹ causes political distress between China and the United States.

²³⁹ For example: Kevin Brass, China Limits Foreign Ownership of Property (16.11.2010). In: International Property Journal. Online: <http://internationalpropertyjournal.com/blog/2010/11/16/283-china-limits-foreign-ownership-of-property.html> (accessed: 05.05.2012); *The Economist*, China's murky ownership rules. Who owns what? The perils of investing where the law is unclear (07.07.2011, from printed edition). Online: <http://www.economist.com/node/18928526> (accessed: 05.05.2012)

²⁴⁰ Andrew Osborn, Crash Course in Quality for Chinese Car. Chery's Hot-Selling Amulet Crumples in a Russian Test, Raising Broad Safety Issue. In: Wall Street Journal Online (08.08.2007). Online: <http://online.wsj.com/article/SB118651314364590719.html> (accessed: 10.05.2012); Li Lubo, The Quality Drag on China's Car Industry. Chinese automakers have made great strides, but J.D. Power's Lubo Li says structural barriers block the way to a globally competitive level. In: Bloomberg Businessweek online. Online: http://www.businessweek.com/globalbiz/content/jun2007/gb20070629_028900.htm (accessed: 10.05.2012)

²⁴¹ *Global Security*, Exercise Balikatan. "Shouldering the Load Together". Online: <http://www.globalsecurity.org/military/ops/balikatan.htm> (accessed: 03.05.2012); *Global Security*, Cobra Gold. Online: <http://www.globalsecurity.org/military/ops/cobra-gold.htm> (accessed: 03.05.2012)

Also, since Chinese officials are aware that the United States has taken advantage of China's Open Door policy²⁴², they seek to limit American influence not only in the Pacific region, but also in political matters, such as the human rights question, where Beijing does not tolerate international criticism any longer and literally tells other nations, including the United States, to mind their own business.²⁴³ This is because China perceives the United States to be a declining power, while China itself is emerging. In addition to the continuous warnings towards the United States to stay out of the region, China's disputes in the South China Sea with Viet Nam, the Philippines, and partially Malaysia and Brunei show an increased confidence in its own capabilities. For example, despite having bilateral agreements with the involved nations about how to resolve the issue, China keeps ignoring them and bends the rules of conduct the way it pleases.²⁴⁴

In the end, it has to be admitted that China is definitely on the rise and according to my analysis above, China has become Asia's most powerful country. However, it is still far away from being a super-power and American influence in the region is still overwhelming. There is also evidence that other Asian countries start to counterbalance China and increase their cooperation with the United States (again). And it seems that in Asia, and possibly in the world as well, countries will have to ask themselves who to side with in the future, the U.S. or China. From an American point of view, China will most likely challenge the American presence in the region openly sooner than later. But this will not happen until China has developed a new generation of weapon systems and tactics and developed its domestic market in order to decrease its dependency on foreign buyers.

²⁴² *Mearsheimer*, *The Gathering Storm*, p.386

²⁴³ Chris *Buckley*, China tells U.S. to quit as human rights judge. In: Reuters Online (10.04.2011). Online: <http://www.reuters.com/article/2011/04/10/us-china-usa-rights-idUSTRE7382EH20110410> (accessed: 05.05.2012)

²⁴⁴ *BBC News*, Q&A, South China Sea dispute (19.07.2011). Online: <http://www.bbc.co.uk/news/world-asia-pacific-13748349> (accessed: 06.05.2012)

Chapter 3 – China and Southeast Asia

I have defined China's position in the world and the region in the last chapter. Furthermore, the data analysis on which I based my assessment showed that it still has not assumed a super-power position similar to the United States. Data rather indicate that it did overtake Japan as the leading nation in East Asia. But, despite China's rise, American influence is still too strong in the region. Thus, referring to China as a regional hegemon would be wrong. China's development causes significant alterations of economic patterns and power relations among nations worldwide and East Asia in particular. For example, supply chains have undergone a significant transformation during the past 30 years. While the production of only a limited number of goods was based on global supply and value chains in the 1970s and 1980s, production of most goods, such as the iPod, is spread globally.

Furthermore, worldwide capital flows, for example, have shifted significantly as East Asian and other emerging nations such as Brazil, India, and South Africa are attracting more and more capital away from the established markets in order to further spur their economic growth. Parallel to the transformation of the world economy, power relations in the world have been tested as well since the end of World War II. Especially the fall of Soviet Russia and the opening up of China have triggered significant alterations and challenges for the established power ranking.

As Jarvis and Welch point out, China's connections with ASEAN (countries) have several reasons. Not only do the economic commitments in the form infrastructure investments and trade agreements with ASEAN nation help to build relations, but also do they support Beijing to enforce its strategic interests. Binding neighboring countries through economic cooperation is one way, but whenever it seems to the Sino government that her interests are not met, cooperation becomes competition.²⁴⁵ For example, in China has granted the Philippines several loans intended for infrastructure projects throughout the country (most notably to fund the expansion of the North Luzon Railway with an investment of approximately 400 million USD²⁴⁶). Furthermore, construction is mostly done by Chinese state-owned corporations. In return, China expects the Philippines to accept its demands not

²⁴⁵ Darryl S.L. *Jarvis*, Anthony *Welch*, Structural Changes, Economic Challenges and Political Accommodation. Managing the Rise of China in Southeast Asia. In: Darryl S.L. *Jarvis*, Anthony *Welch* (Eds.), ASEAN Industries and the Challenge from China (London/New York, 2011), pp.3-7

²⁴⁶ *GMA News*, RP reviews North Luzon Railways contract with China's CNMEG (03.10.2010). Online: <http://www.gmanetwork.com/news/story/202597/economy/rp-reviews-north-luzon-railways-contract-with-china-s-cnmeg> (accessed: 19.05.2012)

only, for example, in the South China Sea and is prepared to take military action should the occasion arise. This way China does not only create dependency, but also makes sure that the money returns home.

China's actions in the region are also intended to contain Japan with which diplomatic relations are bad at best. For example, Chinese leaders do not want to forgive the Japanese for their actions during World War II. At the same time, Japanese leaders refuse to apologize for what had happened. Another issue of conflict is the struggle for the Senkaku Islands in the East China Sea which are important "*for drawing lines for deep-sea gas and fishing rights*"²⁴⁷ These developments are, in my opinion, in accordance with my and neorealist analysis as public condemn of Japan clearly stands for China's increasingly strong position relative to Japan. Contrary, a weaker state that has to fear its opponent does not, if its leaders are not insane, use aggressive language as it is increasingly the case with China.

The People's Republic became stronger in absolute and in relative terms since 1990. And China did not only expand its economic capabilities significantly. It also did develop its military forces massively to project its new power further away from its shores and, if need be, to enforce its (political) will with force. Thus, it behaves accordingly to neorealist theory in the region: the stronger nation makes the weaker nation dependent and challenges those whom it considers a threat.

China's new rank in the system and the implications for ASEAN and Vietnam in particular are the center of attention. I will investigate how China's emergence has influenced ASEAN's and Vietnam's capabilities between 1990 and 2008 and how each reacted to the new power. Like in my analysis in the previous chapter, I will proceed from the "macro to the micro level". This means that I will first elaborate on China's relation with the ASEAN and then go on and look at China's interconnection with Vietnam.

It is important to elaborate on China-ASEAN relations as well not only because Vietnam is a member. It is also important to do so because each actor (China, ASEAN and Vietnam) uses a different approach for different issues. Sometimes Vietnam engages China as part of the ASEAN, and sometimes engagement takes place bilaterally. During this chapter I want to show how ASEAN and Vietnam attempt to balance China's emergence. Also, this chapter tries to identify whether the assessment concerning China's position holds true. Again,

²⁴⁷ Kevin Voigt, China-Japan fight goes deeper than islands (22.09.2010). In: CNN online. Online: <http://edition.cnn.com/2010/BUSINESS/09/22/china.japan.island.dispute/index.html> (accessed: 19.05.2012)

I would like to stress that sound statistics are not available for Vietnam for the years before 1995. Consequently, any attempt to support findings quantitatively for this period is unfortunately relatively inaccurate.

China and ASEAN

The Association of Southeast Asian Nations (ASEAN) was founded in 1967 with the signing of the Bangkok declaration by Thailand, Malaysia, The Philippines, Indonesia and Singapore. Until 1999, five other nations, namely Brunei (1984), Vietnam (1995), Laos, Myanmar (1997) and Cambodia (1999) joined ASEAN. Ever since its foundation, the main purpose of the ASEAN was to create peace, economic growth and stability in the region.²⁴⁸ This was to be achieved mainly by promoting trade and mutual respect “*for the independence, sovereignty, equality, territorial integrity, and national identity of all nations*”²⁴⁹ among the members. As Lim points out, creating peace and stability in a region “*divided by conflict and war*”²⁵⁰ was not the only reason why these nations got together. The other reason was China which, at that time, sought to spread communism to Southeast Asian countries.²⁵¹

While the ASEAN nations collaborate on other issues than economic cooperation as well, and the most striking feature of the ASEAN is the non-interference rule. It states that ASEAN members must not interfere with internal affairs of any other member-state.²⁵² Acharya argues that the implementation should be of no surprise as each state was primarily concerned with its internal security, rather than with an external threat. Similar to Lim, he stresses that weak state structures and the internal threat were the driving factors behind its enforcement.²⁵³ Acharya further states that “*ASEAN’s doctrine of non-interference was ... an expression of a collective commitment of the survival of its non-communist regimes against the threat of communist subversion.*”²⁵⁴

²⁴⁸ ASEAN, Aims and Purposes, (accessed: 21.05.2012) online: <http://www.aseansec.org/64.htm>

²⁴⁹ ASEAN, Fundamental Principles, (accessed: 21.05.2012) online: <http://www.aseansec.org/64.htm>

²⁵⁰ Chong Yah Lim, Southeast Asia. The Long Road Ahead, 3rd Edition (Singapore, 2009), p.11

²⁵¹ Lim, Southeast Asia, p.11

²⁵² ASEAN, Fundamental Principles, (accessed: 21.05.2012) online: <http://www.aseansec.org/64.htm>

²⁵³ Amitav Acharya, Constructing a Security Community in Southeast Asia. ASEAN and the problem of regional order (New York, 2009), p.70

²⁵⁴ Acharya, Constructing a Security, p.71

This, in my opinion, is another example for realist behavior-pattern of states. A common threat, in this case survival of the state, resulted in cooperation among nations. The gains each could attain through this pact were the same for all states. If gains among the participating nations had been distributed unequally, the difference between them must have been perceived as marginally small by each country. Thus, each could focus on solving its domestic problems without having to fear that another nation might take advantage of the situation.

Besides that, ASEAN members have increased their cooperation in foreign relations over the years as well. Beginning in 1977, ASEAN members agreed to “*expand the member states’ bilateral connections with important economic and strategic partners to a collective forum*”²⁵⁵. The first nations to being named “dialogue partner” were New Zealand, Australia and Japan (all 1977). In 1978, Canada, the United States, and the European Community were announced dialogue partners. Later in 1991, South Korea, and in 1996, China, India and Russia were awarded this status. The ASEAN members meet after every annual ASEAN Ministerial Meeting (AMM) first with all 10 partners as a group (ASEAN +10) and then with each country alone (ASEAN+1) to discuss pressing matters.²⁵⁶

With the communist threat gone after 1989, the ASEAN transformed even further towards an economic cooperation. While there have been previous trade agreements such as the ASEAN Preferential Trading Arrangement (PTA) from 1977, which give priority to certain goods up to a certain value limit, or the ASEAN Industrial Projects (AIP) from 1976, which was created to foster industrial projects through multinational cooperation, the most important initiative was the creation of the ASEAN Free Trade Area (AFTA) in 1992. The goal was to reduce and subsequently eliminate all tariffs while increasing trade among the signatories even further within a 15 year timeframe. Lim identifies the transformation of the development strategy – from inward-oriented towards outward-oriented development – of most states as the key factor to AFTA’s success.²⁵⁷ Furthermore, the Initiative for ASEAN Integration (IAI) was initiated in 2000 in order to help new members to integrate themselves faster into the association’s economic and political system.

²⁵⁵ Donald E. *Weatherbee*, *International Relations in Southeast Asia. The Struggle for Autonomy* (Oxford, 2005), p.100

²⁵⁶ *Weatherbee*, *International Relations*, p.101

²⁵⁷ *Lim*, *Southeast Asia*, p.220

Trade

Trade between the ASEAN region and China contributed relatively little to total ASEAN trade until 2003. Between 1995 and 2003 the volume of trade grew from 1.3 billion to 59.6 billion USD.²⁵⁸ The trade volume between the two accounted for a mere 2.1% of total trade in 1995, while Japan, as ASEAN's single largest trading partner, held a share of 19.7%, followed by the United States (16.5%) and the EU-25 (14.7%).²⁵⁹ Until 2003, China's share in ASEAN trade increased to 7.2% while the U.S. (14.3%), Japan (13.7%) and the EU-25 (12.3%) continued to be the most important trading partners.²⁶⁰ While China's overall trading performance between 2003 and 2008 is impressive (trade increased by 89%)²⁶¹, the development of trade with the ASEAN region is even more astounding since it grew 222.8% during the same period.²⁶² Subsequently, China became the region's third most important trading partner in 2008.²⁶³

However, throughout the period, the most important trading partner of ASEAN nations were other ASEAN members. While, for example, Japan's trade with the ASEAN region in 1995 was only marginally smaller than inter-ASEAN trade, its trade volume decreased to 46.3% of inter-ASEAN trade in 2008.²⁶⁴ In addition, trade between ASEAN nations as a share of total trade has increased from 20% to 26% as total trade increased by 177.9%.²⁶⁵ Subsequently, the ratio between extra- and intra-ASEAN as share of total trade has narrowed from 3.9 to 2.73 in favor of external trade.²⁶⁶ Plus, the ASEAN have transformed from a net import region to a net export region having listed a surplus of about 48 billion USD in 2008 – at the same time, the trade deficit with China grew from 928.8 million USD to 21.4 billion USD between 1995 and 2008²⁶⁷

As I have stated previously, importing a significant share of goods from a single country makes the importing country dependent on the other. I also showed that China's trade surged particularly after the turn of the century. Between 1995 and 2008 China moved up from the seventh to the second most important exporter to the ASEAN with the volume of

²⁵⁸ *ASEAN*, Statistical Yearbook 2008, p.78f

²⁵⁹ Calculated by the author. Source *ASEAN*, Statistical Yearbook 2008, p.78f

²⁶⁰ Calculated by the author. Source: *ASEAN*, Statistical Yearbook 2008, p.78f

²⁶¹ *World Bank Country Data*, China

²⁶² *ASEAN*, Statistical Yearbook 2008, p.79

²⁶³ *ASEAN*, Statistical Yearbook 2008, p.79

²⁶⁴ *ASEAN*, Statistical Yearbook 2008, p.78f

²⁶⁵ *ASEAN*, Statistical Yearbook 2008, p.56f

²⁶⁶ *ASEAN*, Statistical Yearbook 2008, p.56f

²⁶⁷ *ASEAN*, Statistical Yearbook 2008, p.82f

having grown fifteen-fold.²⁶⁸ At the same time, China as an export market has also become very attractive among ASEAN nations. While it was the sixth most important country that imported from ASEAN countries, China moved up to number four. Even though this might not sound impressive, it has to be noted that exports to China have increased 13.8-fold.²⁶⁹ At the same time, the United States slid to the fourth largest trading partner of the ASEAN region.²⁷⁰ The United States moved from the most important export destination down to the third most important and while the U.S. was the number two source of imports in 1995, it was only ranked fourth in 2008.²⁷¹ Japan, on the other side, has been the most important import market for ASEAN economies. Furthermore, the country has become the second most important exports destination over the years.²⁷² Subsequently, interdependence patterns also shifted significantly between 1990 and 2008. Trade has tied ASEAN nations closer together, which is in accordance with the Association's goals. However, Sino-ASEAN trade developments indicate that the ASEAN economies became more dependent on China during that period than before.

Cooperation

While China was considered a Communist threat in the 1960s and 1970 that sought to spread its influence and ideology by force throughout Southeast Asia, cooperation between the ASEAN and the People's Republic was enhanced ever since China's Foreign Minister Qian Qichen attended the opening ceremony of the ASEAN ministerial meeting in Kuala Lumpur in 1991 and expressed his government's keen interest to work closely together with ASEAN for mutual benefit.²⁷³ As a result – and as already mentioned above – China was granted the status of Dialogue Partner in 1996. In 2003 a Joint Declaration between the two parties was signed in Bali and a Plan of Action “*to broaden and deepen ASEAN-China dialogue relations in a comprehensive and mutually beneficial manner while strengthening the strategic partnership for regional peace, development and prosperity*”²⁷⁴ was implemented a year later.

²⁶⁸ ASEAN, Statistical Yearbook 2008, p.82f

²⁶⁹ ASEAN, Statistical Yearbook 2008, p.82f

²⁷⁰ ASEAN, Statistical Yearbook 2008, p.82f

²⁷¹ ASEAN, Statistical Yearbook 2008, p.82f

²⁷² ASEAN, Statistical Yearbook 2008, p.82f

²⁷³ Yang Mu, Heng *Siam-Heng*, China-ASEAN Relations after CAFTA. In: Mingjiang Li, Chong Guan Kwa (eds.), China-ASEAN Sub-Regional Cooperation. Progress, Problems, and Prospect (Singapore, 2011), pp.125-142, p.127

²⁷⁴ ASEAN, ASEAN – China Dialogue Relations. Online: <http://www.aseansec.org/5874.htm> (accessed: 21.05.2012)

As I showed previously, some ASEAN nations disregard China's demands of keeping outside powers outside and regularly conduct military exercises with the United States (e.g. Cobra Gold). What is a blow to China's face is the fact that the military exercise that China should seek to host in order to impose its "defense strategy" upon the region is held by India. The "Milan" exercise is a multi-nation exercise hosted biannually since 1995. Its first participants included India, Indonesia, Singapore, Sri Lanka, and Thailand. In 2006 the number of participants had grown to 9²⁷⁵, and in 2008 to 14 nations, including "*Australia, Bangladesh, Brunei, Philippines, Myanmar, Thailand, Indonesia, Sri Lanka, Singapore, Vietnam, Malaysia, Maldives, Seychelles and Mauritius.*"²⁷⁶

South China Sea

The biggest dispute between China and ASEAN members takes place in the South China Sea. While this conflict is not new, but rather reemerged after World War II, it plays the most important role in security consideration of (South) East Asian countries particularly since 1970. Tensions have never been as high as they were since the turn to the 20th century as the sea became very important to China in the 1990s when the country's dependency on oil and other raw materials skyrocketed parallel to its economic output.

The Sea is important to all nations for three reasons as well. First, the South China is one of the busiest, if not the busiest, sea transportation area in the world. Controlling these lanes would give any country a strategic advantage as it controls the flow of goods such as oil. In the case of China, controlling these sea lanes would mean to ensure its supply (most importantly oil and other natural resources) by military force if it had to. Second, the South China Sea is believed to be rich of natural resources. However, estimates diverge significantly across nations and Chinese assessments are (naturally) higher than those of Western analysts.²⁷⁷ The third reason of interest is that the South China Sea has become an important source for the fishing industry for countries like the Philippines where fish is the major dish of the people-²⁷⁸

²⁷⁵ Mrityunjay Mazumdar, Bharat Rakshak, Exercise Milan 08. Friendship Across the Seas (Jan. 2008). Online: <http://www.bharat-rakshak.com/NAVY/Articles/Article11.pdf> (accessed: 21.05.2012)

²⁷⁶ *Indian Military*, Navy to host 14-nation Milan exercise from Feb 1 (31.01.2012). Online: <http://www.indian-military.org/news-archives/indian-navy-news/1929-navy-to-host-14-nation-milan-exercise-from-feb-1.html> (accessed: 21.05.2012)

²⁷⁷ Shaohua Ma, China's multilateralism and the South China Sea conflict. Quest for Hegemonic stability? (Singapore, 2006), p.2

²⁷⁸ John W. McManus, The Spratly Islands. A Maritime Park? In: *Ambio*, Vol.23, No.3 (May, 1994), pp.181-186, p.182

China's approach towards ASEAN is bilateral. Its position is that the single states have a say in the disputes and not the ASEAN as a whole. ASEAN members, on the other side, argue that China is trying to separate the nations as each country alone is weaker in order to play them against each other.²⁷⁹ China's view that ASEAN has no saying in this is reflected in its adherence of the Declaration of Conduct (DoC) in 2002 in order to

*“resolve their territorial and jurisdictional disputes by peaceful means, without resorting to the threat or use of force, through friendly consultations and negotiations by sovereign states directly concerned, in accordance with universally recognized principles of international law, including the 1982 UN Convention on the Law of the Sea.”*²⁸⁰

The only problem with the DoC is that China does not abide to its commitments and continuously threatens and contains other countries by sending warships to the region.²⁸¹ Subsequently, the sought military cooperation among ASEAN nations and between ASEAN nations and foreign powers such as India and the United States should be of no surprise to China (and the world) as ASEAN members clearly are in a process of balancing China's emergence.

China and Vietnam

Vietnam is the weakest among the states in the sample that I have tested in the previous chapter. Despite the fact, as shown in Table 4, that Vietnam's GDP per capita had almost tripled between 1990 and 2008 from 227 to roughly 656 USD²⁸², this development still lags behind significantly to China's. During this period, China had increased five-fold from 383 USD to over 2030 USD per capita.²⁸³ This means that while Vietnam's per capita income grew by 188.5%, China's income grew by over 410% during the same period.²⁸⁴ Furthermore, Vietnam's average GDP growth between 1990 and 2008 was between 7% and 8% on average, which is significantly lower than China's average GDP growth. This resulted in Vietnam's

²⁷⁹ Mae La, T.F., The South China Sea. A Sea of Disputes. In: The Economist online, Banyan Blog (21.02.2011). Online: <http://www.economist.com/blogs/banyan> (accessed: 22.05.2012)

²⁸⁰ ASEAN, Declaration on the Conduct of Parties in the South China Sea (04.11.2002). Online: <http://www.aseansec.org/13163.htm> (accessed: 18.05.2012)

²⁸¹ Kathy Quiano, China, ASEAN agree on plans to solve South China Sea dispute (21.07.2011). In: CNN online. Online: http://articles.cnn.com/2011-07-21/world/china.sea.conflict_1_chinese-patrol-south-china-sea-vietnamese-vessels?_s=PM:WORLD (accessed: 14.05.2012)

²⁸² World Bank Country Data, Vietnam, (accessed: 24.01.2012) online: <http://data.worldbank.org/country/vietnam>

²⁸³ World Bank Country Data, China

²⁸⁴ World Bank Country Data, Vietnam, (accessed: 24.01.2012) online: <http://data.worldbank.org/country/vietnam>; World Bank Country Data, China

GDP to grow by 290% compared to China's 528%.²⁸⁵ Similarly, Vietnam's trade grew by 55%, China's trade grew by more than 75% between 1990 and 2008.²⁸⁶

Table 4: Cumulative Economic Data Vietnam, 1990-2008²⁸⁷

	Population	GDP growth (average)	GDP per capita (constant 2000USD)	GDP per capita growth (in %)	Trade growth (in %)
1990-1994	66016700 (1990)	7.32%	227.48 (1990)	5.42%	29.01%
1995-1999	71995500 (1995)	7.51%	309.41 (1995)	5.84%	80.26%
2000-2004	77630900 (2000)	7.17%	401,56 (2000)	5.87%	63.62%
2005-2008	82393500 (2005)	7.86%	543,35 (2005)	6.67%	49.37%
	85122300 (2008)		656,31 (2008)		
Growth (1990 -2008)	28,94%		188.5%		55.56%

From the data that I have provided in the paragraph above, it is obvious that China's economy outperformed Vietnam's, thus widening the gap between the two countries even further. Vietnam's per capita GDP, for example, was 227USD in 1990, while Chinese per capita income was 382USD.²⁸⁸ In 2008 Vietnam's value was 656 USD, but China's was 2032USD.²⁸⁹ Therefore, the difference between people's incomes in both countries subsequently increased from 155USD to 1376USD despite the fact that China's population was 15 times the size of Vietnam's.

²⁸⁵ World Bank Country Data, Vietnam, (24.01.2012) online: <http://data.worldbank.org/country/vietnam>; *World Bank Country Data*, China

²⁸⁶ World Bank Country Data, Vietnam, (24.01.2012) online: <http://data.worldbank.org/country/vietnam>; *World Bank Country Data*, China

²⁸⁷ World Bank Country Data, Vietnam, (accessed: 24.01.2012) online: <http://data.worldbank.org/country/vietnam>

²⁸⁸ World Bank Country Data, Vietnam, (24.01.2012) online: <http://data.worldbank.org/country/vietnam>; *World Bank Country Data*, China

²⁸⁹ World Bank Country Data, Vietnam, online: <http://data.worldbank.org/country/vietnam>; *World Bank Country Data*, China

Trade connections between China and Vietnam are, from a Chinese perspective, very limited. Vietnam has been a relatively unimportant trading partner for China since the 1990s. According to Chinese statistics, trade between the two countries had a total value of only 53.3 million USD in 1994.²⁹⁰ In the following years, trade relations intensified significantly in subsequent years and the value of trade increased twelve-fold to 1.15 billion USD until 1996.²⁹¹ Until 2000, however, trade growth slowed down a little and reached a volume of 1.54 billion USD.²⁹² This is partly owed to the Asian Financial Crisis of 1997/1998 which slowed down economic activity throughout the entire region. Since then and until 2008, Sino – Vietnamese trade relations experienced another surge, when overall trade between the two countries continuously grew to 19.46 billion USD.²⁹³

These developments point out three important things in Vietnam's trade relations with China. First, until 2008 China always ran a trade surplus versus Vietnam. Thus, Beijing sold more of its goods in Vietnam than the other way around. For example, trade with China grew twice as fast as Vietnam's total trade between 1994 and 2008. While Vietnam's total trade surged by 672%, trade with the People's Republic exploded by more than 3,550% during the same period.²⁹⁴ Thus, it should be of no surprise that China's share in Vietnam's total trade increased from 3.8% to 20.4% during this period.²⁹⁵ However, compared to China's two largest trading partners in that year, Japan and the United States, trade with Vietnam seems only marginally important to China. Vietnam's share of total Chinese trade increased only from 0.18% to 1.16% between 1994 and 2008, which is an increase of 542%.²⁹⁶

²⁹⁰ *China Statistical Yearbook 1996*, 16-7 China's Foreign Trade with Related Countries and Regions (Customs Statistics). Online: <http://www.stats.gov.cn/english/statisticaldata/yearlydata/YB1996e/P16-7e.htm> (accessed: 25.05.2012)

²⁹¹ *China Statistical Yearbook 2001*, 17-7 China's Foreign Trade with Related Countries and Territories (Customs Statistics). Online: <http://www.stats.gov.cn/english/statisticaldata/yearlydata/YB1998e/Q071AE.htm> (accessed: 25.05.2012)

²⁹² *China Statistical Yearbook 2001*, 17-7 China's Foreign Trade with Related Countries and Territories

²⁹³ *China Statistical Yearbook 2010*, 6-7 Value of Imports and Exports by Country (Region) of Origin/Destination. Online: <http://www.stats.gov.cn/tjsj/ndsj/2010/indexeh.htm> (accessed: 25.05.2012)

²⁹⁴ World Bank Country Data, Vietnam, (accessed: 24.01.2012) online: <http://data.worldbank.org/country/vietnam>; *China Statistical Yearbook 1996*, 16-7 China's Foreign Trade with Related Countries and Regions; *China Statistical Yearbook 2010*, 6-7 Value of Imports and Exports by Country (Region) of Origin/Destination

²⁹⁵ *China Statistical Yearbook 1996*, 16-7 China's Foreign Trade with Related Countries and Regions; *China Statistical Yearbook 2010*, 6-7 Value of Imports and Exports by Country (Region) of Origin/Destination; World Bank Country Data, Vietnam, (accessed: 24.01.2012) online: <http://data.worldbank.org/country/vietnam>

²⁹⁶ *China Statistical Yearbook 1996*, 16-7 China's Foreign Trade with Related Countries and Regions; *China Statistical Yearbook 2010*, 6-7 Value of Imports and Exports by Country (Region) of Origin/Destination; World Bank Country Data, Vietnam, (accessed: 24.01.2012) online: <http://data.worldbank.org/country/vietnam>

Despite the fact that China's trade increased by a lesser 531.6%²⁹⁷ in the same period, it has to be understood that Vietnam has not become an important trading partner for the Chinese government as China's politicians managed to increase Vietnam's dependency. For example, if both sides stopped trading with each other today, the Chinese economy would probably not even notice the missing market. On the other side, if Vietnam could not do business with China anymore, its trade would be reduced by around 20% overnight. Therefore, Vietnam's economic dependency was significantly increased during the 1990s and the first decade of the 21st century which gives the government in Beijing a significant advantage in political considerations.

Balancing China?

Vietnam's opening up to ASEAN nations and the rest of the world has been a very long and stressful way for Vietnamese policy makers. With the fall of Soviet Russia, Hanoi's most important ally had vanished overnight and the country was left with its biggest threats right across the borderlines. The first was the imperialist and capitalistic United States, which had to be balanced by Vietnam, at any cost, for ideological reasons. The second was China, with which political relations were in great need of improvement. The third problem Vietnamese leaders saw were the capitalist nations in Southeast Asia that threatened to isolate the country further by accelerating their economic development while Vietnam remained a backward country.

The rationale behind approaching China immediately after the fall of the Iron Curtain was that government officials feared a possible Chinese attack and ideological similarities between both countries made this move seem reasonable for the Vietnamese government. Vietnamese leaders had to figure out a way to ensure the country's security in the long run as the government also realized that external security would be the requirement to ensure internal security and stability.

The first goal was to normalize relations with its northern neighbor, which was considered a paramount task considering that both countries fought a fierce war in 1979 and had further territorial disputes about islands in 1974 and 1988. Subsequently, Vietnam leaders chose to defer to China when party and government chiefs did not celebrate Vietnam's 45th anniversary, but attended meetings with Chinese leaders. These included Vietnam's

²⁹⁷ *China Statistical Yearbook 1996*, 16-7 China's Foreign Trade with Related Countries and Regions; *China Statistical Yearbook 2010*, 6-7 Value of Imports and Exports by Country (Region) of Origin/Destination; World Bank Country Data, Vietnam, (accessed: 24.01.2012) online: <http://data.worldbank.org/country/vietnam>

Pham van Dong, the country's oldest statesman, but not Deng Xiaoping. During this meeting (and during the following decade) Vietnamese leaders tried to convince China to identify itself with Vietnam's case and protect socialism on an ideological basis.²⁹⁸

The lifting of the American embargo was very important for the country as it not only supported the Vietnamese economy - trade grew 29% between 1990 and 1994, but 72% between 1994 and 1998²⁹⁹ – but also helped Vietnam out of isolation. Shortly after that Vietnam was visited by a significant number of important politicians from the Asia-Pacific region, Great Britain and the Netherlands.³⁰⁰ Subsequently, Vietnam started to integrate itself internationally in the following years. In July 1993 IMF and World Bank support was increased. In the end and despite severe reservations from leaders of Indonesia and the Philippines, which “*expressed concern over whether Hanoi would be able to conduct its regional affairs independently of Chinese preferences on such matters as the ARF and the settlement of the various maritime disputes*”³⁰¹ – ASEAN leaders wanted Vietnam to resolve these issues through the association and not bilaterally which was in contrast to the Vietnamese foreign policy approach - Vietnam became an ASEAN member in 1995. Vietnam also applied to the GATT/WTO on 4 January 1995 and became a full member of the WTO in January 2007 after 14 Meetings of the Working Party.

Vietnam's goal was to maintain healthy relationships with all major parties involved in Southeast Asia. Good foreign relations increase the country's security. This holds true for relations with both China and the United States. However, the Vietnamese considered the United States as a military counterpart to an emerging China and speculate that, if China uses military action, Washington will step in and contain the Chinese threat and they were “*depressed by their growing economic dependence on China for consumer goods and industrial equipment,...*”³⁰² They also did so because they wanted to satisfy not only China, but the other important nations in the region as well. Until the turn of the century, Vietnamese leaders tended more towards China than the United States for ideological reasons, despite China's refusal to cooperate on this basis. But recently, and especially since the American invasion of Iraq in 2003 showed Vietnamese leaders that the U.S. were still stronger than

²⁹⁸ Alexander L. *Vuving*, Strategy and Evolution of Vietnam's China Policy. A Changing mixture of pathways. In: Asian Survey, Vol.46, No.6 (November/December 2006), pp. 805-824, p.812

²⁹⁹ World Bank Country Data, Vietnam, online: <http://data.worldbank.org/country/vietnam>

³⁰⁰ Allan E. *Goodman*, Vietnam in 1994. With peace at hand. In: Asian Survey, Vol.35, No.1, A Survey of Asia in 1994: Part I (January 1995), pp.92-99, p.93

³⁰¹ Allan E. *Goodman*, Vietnam and ASEAN. Who would have thought it possible? In: Asian Survey, Vol.36, No.6 (June 1996), pp. 592-600, p.598

³⁰² *Goodman*, Vietnam and ASEAN. p.596

Russia, China, India, or Germany and France, who could not stop it, they started to tend towards United States³⁰³

Border Treaty

As we know, China and Vietnam have a long history, with the latter being part of the Chinese empire for several decades. I have already elaborated on the fact that political cooperation with China sought Vietnam was the result of Soviet Russia's demise. The Vietnamese government did not only approach China to negotiate a deal that would make both countries brothers in arms based on ideology, but it did also approach Beijing in order to resolve other issues than the conflict in the South China Sea that Hanoi thought might be a source of conflict with its northern neighbor.

The principal reason for the border conflict between the two neighbors was that borderline landmarks dated back to the years after the Sino-French War (1884/1885) during which the French acquired the Tonkin region. Since the borderline was marked only vaguely its pathway became increasingly unclear to follow and a line drawn on a map simply too inaccurate and “*a small adjustment could result in a big difference [on site]*”³⁰⁴ Both sides understood that the most important question to achieve any further goals was to establish a borderline that both sides accepted in the long run. The Land Border Treaty (LBT) was signed in 2002 and it was agreed that the border would be in a state of mutual agreement by 2005.

There were two reasons why both parties expected the setting up the new border to take three years. First, the old border was still sown with mines from the war which (including other military infrastructure such as watch towers) had to be removed along the 1,400 km long border, and second, the number of new landmarks that were to be planted was around 2,000.³⁰⁵ In the end, the border was to be ready in 2008, three years behind schedule, as the operations turned out to be more dangerous and complicated than anticipated. The resolution of the border conflict, which had already resulted into a bloody conflict in 1979, was therefore for both nation of interest to be resolved.

³⁰³ *Vuving*, Strategy and Evolution, p.817f

³⁰⁴ Do Thi Thuy, The Implementation of Vietnam-China Land Border Treaty. Bilateral and Regional Implications. In: RSIS Working Paper Series, No.173 (Singapore, 5 March 2009), p.6

³⁰⁵ Thuy, The Implementation, p.6

Thuy points out that initially, both nations had an interest to put an end to this dispute, as both countries were politically isolated from the West in 1991 – China was isolated due to the Tiananmen Square incident and Vietnam exposed to an American embargo that had starved the country for decades.³⁰⁶ Furthermore, the Chinese government realized that Vietnam's desire to modernize quickly was its chance to get access to the ASEAN region. In addition it could get rid of one problem quickly and without a serious commitment of its capabilities for this matter, which, in turn, meant that these (capabilities) could be used somewhere else.

Infrastructure

China does not only use trade and military presence to increase its influence in the region but also invests heavily in other Southeast Asian countries infrastructure. For example, China has signed multiple bilateral contracts since the early 1990s with countries from the Greater Mekong Subregion (mainly with Laos and Myanmar, and to a lesser extent with the region's other nations too) to build a railway network and other infrastructure projects that encompasses the entire region.³⁰⁷ There are three reasons why China puts more weight on this. The first reason of expanding its trade network is obvious and has already been mentioned a couple of times in this paper. Again, I would like to point out that expanding the Sino trade network (while maintaining a trade surplus) causes not only a strengthening of China's economy, but also a weakening of other countries which lose trade to the People's Republic mostly in the low-tech and manufacturing sectors. Second, rising transportation costs erode profits. Subsequently, rising oil prices leads to transporting goods with ships becoming too expensive over time which is why a growing number of enterprises started to move their production back home (mostly in the United States) or to a country with lower costs.³⁰⁸ The upgrade of the ancient highway network in the region alone did not suffice to handle the massive trade flow and an expansion was inevitable. In the end, transporting goods on trains will lower average costs and foster trade even further.

³⁰⁶ Thuy, *The Implementation*, p.3

³⁰⁷ *The Economist*, China coming down the tracks. A railway boom promises to tie South-East Asia together—and boost China's sway (20.01.2011, from the printed edition). Online: http://www.economist.com/node/17965601?story_id=17965601 (accessed: 05.04.2011)

³⁰⁸ Nick Zieminski, Big manufacturers more likely to embrace "Made in USA". Survey. In: Reuters Online (20.04.2012). Online: <http://www.reuters.com/article/2012/04/20/us-usa-manufacturing-china-idUSBRE83J05Z20120420> (accessed: 24.05.2012); Dexter Roberts, Why factories are leaving China. A labor shortage is trimming margins for exporters, who are moving to Vietnam, India, and elsewhere. In: Businessweek Online (13.05.2010). Online: http://www.businessweek.com/magazine/content/10_21/b4179011091633.htm (accessed: 24.05.2012); Kirsten Korosec, Why Companies Are Leaving China, in: CBS Money Watch (26.05.2011). Online: http://www.cbsnews.com/8301-505123_162-43045348/why-companies-are-leaving-china/ (accessed: 24.05.2012)

The main reason China gets involved is purely strategic. First, a functioning railway network helps China to circumnavigate the street of Malacca and the South China Sea to supply its economy. China supports Myanmar and builds at least one deep-sea harbor, which will not only support the flow of goods through a Chinese-controlled area but also offers the opportunity to station Naval forces in the future.³⁰⁹ These, in turn, can secure China's main trading routes along its "string of pearls". Second, a developed (and functioning) railway network throughout the region is therefore in China's interest as it allows Beijing to send military forces to countries that need to be rectified politically. This would not be anything from a (relatively) strong nation. The United States have brought democracy to several countries, such as Chile (1973), Panama (1989, and Iraq (2003), whenever it deemed it necessary. This means that if, for example, Vietnam does not abide to Chinese demands and goals and if this conflict escalates from a diplomatic to a military one, China has multiple options (Laos, Myanmar) through which it can invade its southern neighbor in addition to crossing the common border or an invasion from the sea.

Mekong River

Another example of infrastructure development is the Mekong River which runs from the Tibetan Plateau more than 4,300 km south until it enters the South China Sea in Vietnam. As the largest river in the region it is of great importance to the countries it runs through for various reasons. While northern countries such as Cambodia and Lao clearly benefit from China's involvement in building dams that supply energy to the region, Vietnam's inhabitants along the river have experienced a profound change of their living conditions. The Mekong River has always been a major source of food supply, especially for Vietnam's population, but China's lust for energy has had devastating effects so far. Like their Thai and Cambodian counterparts in the north, Vietnamese fishermen and farmers find the environment to grow rice and catch their quota of fish more and more hostile. The importance of the river for Vietnamese food production becomes evident if one considers the fact that eight out of ten Vietnamese living in the Mekong Delta "*depend on the river subsistence, either in terms of the fish caught from the river or in terms of agriculture.*"³¹⁰

³⁰⁹ Myanmar harbor

³¹⁰ Phua *Peipei*, Hydropower Development in the Mekong Region. In: Mingjiang *Li*, Chong Guan *Kwa* (eds.), China-ASEAN Sub-Regional Cooperation. Progress, Problems, and Prospect (Singapore, 2011), pp.95-124, p.98

Building hydropower plants throughout the region has thus very significant implications for the nations involved. Clearly, China's involvement in these energy programs is seen by the Mekong Subregion states as a very positive sign for several reasons. First, as an economy grows, its energy consumption grows as well. Thus, China's money is appreciated very much as the assurance of energy supply helps the respective nation to continue its economic growth. For example a factory that is no longer in danger of falling victim to a blackout during working hours simply produces more goods.

Therefore, countries from the Mekong Region are in fact in a miserable situation. On the one side they want to develop their economy as quickly as possible in order not to fall (further) behind other developed (South) East Asian nations such as Singapore. In the case of Vietnam the reluctance to work closely together with the United States for ideological reasons still prevails in the government. Since their number was relatively small so far, it has been very difficult for reformists to counterbalance the group of Communist politicians. Furthermore, the aftermath of the Vietnam War can still be felt in the country which causes politicians and the population alike to distrust the United States despite all the efforts from the American side during the 1990s, when, for example, the State Department helped their Vietnamese counterparts to establish diplomatic facilities and showed them how to run such a facility efficiently.

The other option would be to bandwagon with the emerging China. This would not be a bad idea since China wants to get access to the region anyway. However, despite the appreciation of China's economic development support, the countries concerns – especially Vietnam's – over various issues grew significantly since the turn of the 20th century. Not only the fear of economic dependency and the worries that China might one day continue its politics with other means than diplomatic meetings that I have already elaborated on are of concern, but also the fact that the Mekong River has been plastered with dams built by China.³¹¹

In particular there are three points connected to the hydropower plants that cause distress. First, despite the ever increasing number of these facilities, China diverts a significant amount of electricity home since the beginning of its own program in 1995.³¹² Thus, it uses these countries mostly as a supply base for its own economy. The crux of the matter is that, in addition to those in the other countries, China builds even larger dams in

³¹¹ It should be pointed that ASEAN, IMF and the World Bank have financed a number of projects as well.

³¹² *Peipei*, Hydropower Development, p.105

Yunnan province, which it claims are (besides energy production, or course) built to control the amount of water in the river and thus helps to contain floodings.³¹³

Second, among all countries through which the Mekong River flows, Cambodia and Vietnam are affected the most environmentally. The numerous dams upriver have a significant impact on water levels and irrigation. Especially Vietnam, where a significant amount of the population depends on the river, is worried about the environmental impact China's involvement in the regions has. This is despite China's presence is intended by the Chinese government to convince its southern neighbors - and consequently other countries in Southeast Asia (and the world) - that it is pursuing a peaceful path of growth.

Third, while the ASEAN Power Grid programs were initiated on the basis of mutual cooperation among the ASEAN member states and despite the signing of contracts with China, the latter does not really care. Since 1990, and especially since the turn of the century, China considered itself stronger compared to other nations in the region. As a result it simply ignores contracts that it deems hindering on its path to regional domination. For example, when Chinese authorities began planning of the dams in the 1980s they did so unilaterally and did not consider environmental costs.³¹⁴ And why should they? Controlling the water flow of the Mekong River is a very powerful bargaining chip. In times of peace, other nations will have to pay for energy, the construction of dams by Chinese companies, and in the future maybe even for the supply of water. In a conflict situation, the Chinese simply "turns off the water" in order to get what they want.

South China Sea

As already showed above, the South China Sea is the center of competition among ASEAN nations and China. Vietnam is the country that is affected the most of all countries by China's rise since its claims are the same as China's concerning the islands in the South China Sea.³¹⁵ Furthermore, Vietnam, together with China and the Philippines, is one of the biggest claimants of territory. And like its northern neighbor, Hanoi's claims are founded on historical documents. It government claims that it has ruled (at least over the Paracel Islands) since the 17th century and that it has, contrary to China, announced its claims to the international community.

³¹³ Evelyn Goh, China in the Mekong River Basin. The Regional Security Implications of resource development on the Lancang Jiang, The Institute of Defence and Strategic Studies No.69 (Singapore, July 2004), p.5

³¹⁴ Goh, China in the Mekong River Basin, p.9

³¹⁵ *Global Security*, Territorial claims in the Spratly and Paracel Islands. Online: <http://www.globalsecurity.org/military/world/war/spratly-claims.htm> (accessed: 01.06.2012)

China's claims are based on both, historical documents and the Cairo Declaration which returned land taken by Japanese forces from China to their native owner. However, both sources do not support China's claims. The historical documents Beijing bases its claims on refer to a province that is located in the northern part of Vietnam today.³¹⁶ Plus, the Cairo Declaration only states "*that all the territories Japan has stolen from the Chinese, such as Manchuria, Formosa, and The Pescadores, shall be restored to the Republic of China.*"³¹⁷ Neither the Spratly Islands, nor the Paracel Islands are mentioned in the document. Even Article 2 (f) of the Treaty of San Francisco in 1951 merely stated that "*Japan renounces all right, title and claim to the Spratly Islands and to the Paracel Islands*"³¹⁸ Again, there is no indication that China is the (recognized) owner of the island groups.

Occupation of islands

While the Philippines already occupied islands in 1968, there has been an intense race among Malaysia, the Philippines, China, Taiwan and Vietnam to occupy islands since the mid-1970 when President Marcos of the Philippines claimed the Kalayaan Island group for its country for economic reasons.³¹⁹ Especially in 1988, when Vietnam occupied and established military facilities on these islands in order to consolidate its claims, occupying islands seemed to be of great importance to these countries. To occupy as many Spratly islands as possible was a move by the Vietnamese to follow China's example, which occupy the Paracel Islands since 1974 when they took them by force from Vietnam.

The occupation of these islands, as weird as it may seem to station soldiers on a sand bank, is of crucial importance to each nation for several reasons. For example, if Vietnam sets a flag on a deserted island, it does not guarantee that China will not take it. But, if Vietnam stations troops on that island, it will be impossible for China to take control of it without provoking a military escalation. Therefore, the stationing of troops aims at scaring off rivals. Another way to see it is that a territory that is not occupied by anyone does not belong to anyone. Stationing troops on a sand bank or an island of 1 Acre is therefore no different as it

³¹⁶ Zhou Choufei, Ling Wai Dai Da (Information on Things Beyond the Passes); Zhao Juguo Zhu, Fan Zhi (Notes on Foreign Countries)

³¹⁷ *Cairo Declaration* (01.12.1943). Online:

http://www.ndl.go.jp/constitution/e/shiryo/01/002_46/002_46tx.html (accessed: 01.06.2012)

³¹⁸ *Treaty of San Francisco* (08.09.1951). Online: <http://www.taiwandocuments.org/sanfrancisco01.htm> (accessed: 01.06.2012)

³¹⁹ *Presidential Decrees*, Presidential Decree No. 1596 - Declaring certain area part of the Philippine Territory and providing for their Government and Administration (11.06.1978). In: Chan Robles Virtual Law Library. Online: <http://www.chanrobles.com/presidentialdecrees/presidentialdecreeno1596.html> (accessed: 22.05.2012)

provides a relatively secure opportunity to build naval stations and deploy ships in the future which increases the respective country's military strength in the region further.

2005 incident

Over the years, and especially since the turn of the century, the region has experienced increased Chinese naval activities in order to enforce its territorial claims. This happened despite Beijing's official position that it wants to resolve any dispute with the respective claimant bilaterally. For example, in 2005 Chinese ships killed 9 Vietnamese fishermen in the Gulf of Tonkin despite the fact that the Vietnamese ships carried their country's flags, while the Chinese ships (allegedly) hid their flags quickly in order to blur traces.³²⁰ The Chinese government, on the other side, claimed that this act was one of self-defense as "pirates" threatened Chinese fishing boats in Chinese waters.³²¹ This incident shows that China has the capabilities to take a two-tracked approach. On the one side it wants to be considered the reliable and reputable partner that can guarantee peace and stability. At the same time, the Chinese government pursues its strategies, like most other countries (in the region), with military force if need be.

Looking outside the region

In addition to internal and inter-regional efforts by the Vietnamese government to counterbalance China's increasing presence and influence in the region, Vietnam (like ASEAN) has tried to bring in powers from outside. Beside the United States, Vietnam has also sought to maintain and expand its friendly relationship with India throughout the years. Relations between the two countries were set up in 1972 because of their common distrust towards China. On the Indian side, the distrust towards China stems from the fact that the two countries are having a territorial dispute for several decades now and that India wants to become a major player internationally itself.

³²⁰ Cao Ngo, Ngoc Minh, Chinese ships "shot to kill" Vietnamese fishermen (17.01.2005). In: Vietnamese Seaports Association. Online: http://www.vpa.org.vn/detail_temp.jsp?page=35&id=462&cate_id=21 (accessed: 28.05.2012)

³²¹ Thi Lam, Massacre in the Gulf of Tonkin. Killing of Vietnamese fishermen reveals China's imperialist designs (11 March, 2005). In: The CBS Interactive Network Resource Library. Online: http://findarticles.com/p/articles/mi_m1141/is_19_41/ai_n13499573/ (accessed: 28.05.2012)

While military cooperation was limited until the 1990s – Indian delegations only visited Vietnam after the 1979-war with China to study Vietnamese defense behavior against Chinese troops³²² - the year 2000 marked a change when both countries signed a Protocol on Defense Cooperation. China's rise and the collapse of the Soviet Union has bound Vietnam and India closer together as opposition towards an alliance with the United States for either, ideological reasons, or the preference to bring in a local power as strong partner, is still a popular option.

Karambelkar points out that traditionally

*“India and Vietnam defence relations are characterised by high level bilateral visits, training of personnel, assistance in defence production, sharing of intelligence and joint exercises. A joint working group on terrorism was established in the framework of strategic partnership agreement. Terrorism is a challenge for India where it is benefitting from Vietnam's expertise in counter insurgency and asymmetric warfare. India and Vietnam are maritime neighbours having common concerns like piracy and security of sea lines of communication.”*³²³

Furthermore, cooperating with India also makes sense in the context of Vietnamese balancing strategy of diversifying its security net. As a result of increasing cooperation India signed a “Joint Declaration on Framework of Comprehensive Cooperation” in 2003 and a “Strategic Partnership Agreement” in 2007.

In the end, both parties needed and benefited from cooperating with each other. In addition to military cooperation in the fields named above, Kumar points out that *“India needs Vietnamese cooperation in countering China in the South China Sea and Indian Ocean region”*³²⁴ Thus, as both countries share the same opponent their cooperation should be of no surprise. However, neither can be sure that the other one will stick with the commitments agreed upon forever. In case one of them finds a more compelling alternative to their cooperation, relations will start to deteriorate. For example, if Vietnamese integrationists get totally isolated or even repelled from the government as Communist hardliner take over power, a drift of Vietnam away from India, the United States and possibly the ASEAN towards China would be a likely scenario.

³²² Subhash Kapila, India-Vietnam. A Convergence of Strategic Interests. In: Asia Times Online (11.01.2001). Online: <http://www.atimes.com/ind-pak/CA11Df04.html> (accessed: 02.06.2012)

³²³ Amruta Karambelkar, Indo-Vietnam Defence Relations. Strategically Responsive (31.01.2012). In: Institute for Peace and Conflict Studies. Online: <http://www.ipcs.org/article/india/indo-vietnam-defence-relations-strategically-responsive-3568.html> (accessed: 03.06.2012)

³²⁴ Pankaj Kumar Jha, India's Defence Diplomacy in Southeast Asia. In: Journal of Defence Studies (JDS), Vol.5. No.1 (January, 2011), pp.47-63, p.58

Summary

The resolving of the border issue helped both countries. On the one side, Vietnam thought itself safe and could increase its trade, as indicated above, with China significantly. On the other side, China also got what it wanted, especially with Vietnam's accession to ASEAN: access to the ASEAN markets and a potential outpost. In addition, the fact that Vietnam depends more on Chinese exports than the other way around supports Beijing's goal to get the region under control. If, at some point in the future, Vietnam does not abide to Chinese demands in the future it simply cuts supplies or invades its southern neighbor(s).

Yet, in 2008, China's position was seemingly not strong enough to consider this an option as there were no signs of such a behavior until then. Nevertheless, China's economic emergence, which is expected to continue by both, the Chinese government and foreign analysts, will at some point in the future be one of its biggest strategic advantages. This development will be fueled by the increasing imbalance of trade between China and the various countries. Vietnamese leaders were already concerned before 2008 that the continuation of increasing imports and investment (through infrastructure projects) from China could make the country too dependent.

On the other side, China showed two different faces between 1990 and 2008. While the government focused on appearing as a neighbor who wants nothing but peace, stability and prosperity for all nations in the region through cooperation, before turn of the 20th century. Rather, China's appearance in the region (and the world) has become more aggressive and self-confident since then. It has managed to get its foot into some East Asian countries and become an important player in the region. As a consequence, its rhetoric towards Japan, and the United States in particular has become more hostile.

Chapter 4 – Conclusion and Outlook

Conclusion

I have tried to show that China's emergence, particularly after 1990, poses a very serious threat not only for the United States, the sole super power left after the demise of the Soviet Union, but also in particular for China's neighbors in East Asia. While more and more people, scientists and other analysts alike, are attracted to studying the Chinese emergence, nobody should be surprised by China's emergence though. As Maddison showed, China was already the largest country in the world (measured in GDP) around 1820, when it held a share in world GDP of 32.9%.³²⁵ However, China lost the leadership position in the decades up to 1890, when its share in world GDP had declined to 13.2%.³²⁶

Total humiliation followed when the Chinese Empire was overpowered and forced by Western nations to sign the so called "unequal treaties". Even after 1890 China's decline continued and reached its lowest point in 1978 with a share in world GDP of 4.9%.³²⁷ Since then the country has undergone a tremendous process as the government managed to increase the share in world GDP to 15.3% in 2003.³²⁸ As a result, China's confidence has returned together with China's economic comeback. The impact on other countries can thus neither be neglected, nor disregarded as insignificant, as China is on the way to (re)build its empire.

However, what is really astounding is the pace at which the Chinese government manages to develop the country's capabilities. Besides the Soviet Union, no other country has managed moving up the power ladder so quickly. The difference between China and its once brother-in-arms, is though that, contrary to Soviet Russia, first, the People's Republic is seen by many as a new super power that could replace the United States as the strongest nation in the world system. Second, so far concerns that China's emergence is not sustainable have been limited while it was clear that the fall of Soviet Russia would only be a matter of time.

When the Soviet Union fell apart, governments all over the world realized the magnitude of the impact this would have. In particular those Southeast Asian countries, such as Vietnam, that were not integrated into the world economy and had lost their (ideological)

³²⁵ Angus Maddison, *Chinese Economic Performance in the Long Run*. Second Edition, Revised, and Updated, 960-2030 AD (Paris, 2007), p.60

³²⁶ Maddison, p.60

³²⁷ Maddison, p.60

³²⁸ Maddison, p.60

patron, had to find a new way to ensure their survival in a very hostile region. Others, such as Singapore and Taiwan have already realized that integrating into the world markets would not only provide an opportunity to develop the country, but also to make sure that the United States would protect them in case of an attack in the 1970s. After Mao's death some of China's political leaders also had realized that the country's security would, in the long run, depend on whether or not it would develop economically and catch up as Beijing's fallout with Moscow had led to total isolation.

Between the start of the Reform Era in 1978 and 1990, when the Chinese government initiated another round of reforms, many of which were connected to the GATT/WTO accession demands coming from Western nations (and the United States in particular), China's engagement of the (South) East Asian region was very limited since Beijing did not consider it strong enough to challenge the main powers Japan and the United States. Rather, its focus was to develop the internal capabilities and ensure the political stability of the nation.

However, China's engagement with and rhetoric towards other nations in the region and the United States has changed dramatically between 1990 and 2008 due to China's economic emergence. China developed a two-tracked approach towards others. While the initial attempt was to achieve its goals convincing the other side with diplomatic reasoning (and money), the government has expanded military operations in the South China Sea since the turn of the 20th century to express its ambitions. Nevertheless, diplomatic actions and economic cooperation remained the primary approach. Filled with the money it makes from trading, China warchest became huge between opening the country in 1978 and 2008. Especially China's accession to the WTO at the end of 2001 caused the trade balance to tilt in the People's Republic's favor.

Subsequently, this gave the government both, the ability to further develop the country's capabilities and the chance to focus on its foreign goals, while still attracting massive inflows of foreign capital. Furthermore, China was in a fortunate situation that ten years before its WTO accession several Southeast Asian nations, including Vietnam, started to look outward and were therefore in need of financial support and markets to get engaged with in order to maintain internal stability. Thus, the Chinese government seized the moment and started to promote economic cooperation in the region.

Cooperation was mainly focused on building up the infrastructure in the respective country and on trade. Thus, China supported the other country's development while it created a setting that made the country dependent. For example, the construction of the railway system in the Greater Mekong Subregion helps its own goals, as well as the countries Chinese companies build the rails in. The expansion of the railway system helps GMS countries to increase trade among each other and with China, thus spurring their economic development. China, on the other side, gets a piece of the cake as well. Not only will the countries have to bear the construction costs. They will also buy more Chinese goods in the future. Most importantly, however, is the fact that a debtor is bound to the creditor and has to comply with the latter's demands. Therefore, getting involved in the development process was one way for China to increase its sphere of influence.

China's desire to increase its reach in the region is also evident in the fact that the Chinese government prefers to sign agreements with ASEAN members on a bilateral basis in all areas. Cooperation in security matters between the ASEAN members China was very limited before 2010 to "*combating drug trafficking, illegal immigration, piracy, terrorism, arms smuggling, money laundering, international economic and cyber crimes and other transnational crimes.*"³²⁹ However, it seems that ASEAN nations have a different view on how peace in the region should be preserved. While China wants the United States (and Japan) out of the region, and sees military cooperation with ASEAN members to better defend its own sovereignty³³⁰, ASEAN members do not share this view. They rather seek close relations with powers, mostly the United States, and also India, from outside the region to ensure stability.³³¹

The period between 1990 and 2008 was one that brought significant challenges to the world's sole super power, the United States. China's emergence definitely did not go so far as to threaten the position of the U.S. in the region, least in the world. However, the gap between the two countries has narrowed significantly during that period because of China's continuously high rate of economic growth. Furthermore, the economic stagnancy of the United States and other Western powers gave Asian nations reason to believe that China might be a viable alternative. However, it seems that during the observed period, these nations

³²⁹ *China Daily*, China-ASEAN cooperation. 1991-2011 (16.11.2011). Online:

http://www.chinadaily.com.cn/cndy/2011-11/16/content_14101968.htm (accessed: 18.05.2012)

³³⁰ DJ Yap, China ready to hold military exercises with PH. In: *The Global Inquirer* (23.12.2010). Online: <http://globalnation.inquirer.net/news/breakingnews/view/20101223-310597/China-ready-to-hold-military-exercises-with-PH> (accessed: 20.05.2012)

³³¹ Stanley Chan, Quiet power. ASEAN. In: *Asia Times Online* (10.08.2002). Online: http://www.atimes.com/atimes/Southeast_Asia/DH10Ae06.html (accessed: 21.05.2012)

swayed, at least before the turn of the century, back and forth between the two nations. Despite the gains China provided to (South) East Asian nations, most, like Vietnam, have already come to realize that China might in the (near) future turn to military action once it develops these capabilities.

Thus, military exercises with the United States have more importance than (military) cooperation with China. Furthermore, ASEAN nations also started to consider India as a third option to help them maintain stability in the region and contain a potential Chinese threat. In my opinion, ASEAN nations, despite their differences between each other, realized that aligning with either U.S. or China has its price as tensions rose between the two to new heights. Especially since 2005, China's rhetoric towards the United States became more aggressive as Beijing openly denies Washington any voice in conflicts, such as the South China Sea dispute or Human Rights.

Despite its efforts, Vietnam's economic development has not lifted the country to new heights and it still lags far behind other countries. This holds true particularly with China, as Beijing outgrew the gap between the two increased over the years. Vietnam has become more and more dependent on its northern neighbor and some (politicians and policy makers) were already expressing concern of this dependency in the past. As a result, the government undertook actions to develop its naval forces in order to being able to defy Chinese aggressive behavior in the South China Sea. However, the Vietnamese had one advantage: they already knew that China would become more and more aggressive over time and that they could never contain it alone. Subsequently, Hanoi's approach to build a security net that involves all major nations as well as ASEAN and even India is both, logic and smart.

Outlook

So far China is not strong enough to openly challenge the United States with any military means so far. The fact that Beijing announced in 2010 that it was ready to conduct full scale military operations with the Philippines, despite Manila's close relations with the United States and its (partially) open criticism of Chinese actions³³² shows three things. First, China is about to build up a network (and draw nations away from the U.S.) that ensures military support from other nations in case that open (military) conflict with the United States

³³² DJ *Yap*, China ready to hold military exercises with PH. In: The Global Inquirer (23.12.2010). Online: <http://globalnation.inquirer.net/news/breakingnews/view/20101223-310597/China-ready-to-hold-military-exercises-with-PH> (accessed: 20.05.2012)

breaks out. Second, Asian nations (already) see a threat in China's rise. Like the Philippines, other countries in the region have either kept their ties with Washington, or intensified cooperation in order to balance the Chinese emergence.

Third the size of military operations conducted between China and an ASEAN member are still small compared to other exercises and are signaling that China's relations with most countries are still at the beginning. For example, the Sino-Thai "Blue Assault-2010" was an anti-terrorism exercise aimed at helping both sides to learn from each other.³³³ Since then military exercises, such as the Sino-Vietnamese joint patrol in Beibu Gulf to strengthen the ties between the two countries and to ensure a peaceful region³³⁴, have become more frequent.

There are several insecurities that remain for all parties involved and that might cause instability in the region. First of all, China's nontransparent behavior has already caused great distrust towards Beijing. For example, the government's constant understatement and lack of transparency concerning its military budget and military developments simply cannot be understood as an act of self-defense. Rather, nations that hide something are considered to be dangerous or most likely will become dangerous to other nations in the future. The fact that assessments about China's military strength and its capabilities are not based on sound information does not help China to be considered a trustworthy partner that seeks peace and stability.

Instead of becoming a peaceful Asian giant, China will most likely become a hungry dragon and use large scale military action in the future, like any other powerful nation in history did. However, there is still a time window of 5 to 10 years for the rest of the world, but most importantly for the United States, to take counterbalancing actions before the Chinese government has upgraded its forces and introduced nuclear submarines and aircraft carriers around 2020. And even then, the PLA's true capabilities are questionable as it lacks combat experience. Nevertheless, there will be plenty of opportunities for the Chinese navy to learn and improve in the South China Sea when it engages states such as the Vietnam or the Philippines in the struggle for unoccupied islands.

³³³ *China Defense Blog*, Cobra Gold With Chinese Characteristic? (20.10.2010). Online: <http://china-defense.blogspot.com/2010/10/cobra-gold-with-chinese-characteristic.html> (accessed: 18.05.2012)

³³⁴ *China Military Online*, Chinese frigate "Xiangfang" to participate in Sino-Vietnamese joint patrol (01.12.2010). In: Beibu Gulf online: http://eng.chinamil.com.cn/news-channels/china-military-news/2010-12/01/content_4345910.htm (accessed: 18.05.2012)

For ASEAN, the threat is that China manages to undermine the Association's political framework and takes on each country separately. Furthermore, members will have to make sure that no other member officially sides with China as well since this would also mean that the already fragile network might dissolve. ASEAN as a whole should rather take Vietnam's security approach as an example and try to bring in as many major powers into the region as possible, despite China's opposition. But they would have to move quickly to bring in India, keep the U.S. and bring back Japan to create a stable environment, because once China has passed the point until which its ambitions can be contained, (South) East Asian nations will face severe dependency issues and will have to fear China's military interventions as well without any chance of help from the outside.

As much as China is trying to convince the world, and Asian nations in particular, that its rise is a peaceful one – and that it will be peaceful in the future as well– we must always keep in mind Mearsheimer's words:

*“Talk is cheap”*³³⁵

³³⁵ Mearsheimer, *The Gathering Storm*, p.383

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Abstracts

Deutsch

Der Aufstieg Chinas ist eine Entwicklung die mit immer größer werdender Wahrscheinlichkeit die politische Rangordnung der Welt durcheinander bringen und der Amerikanischen Vormachstellung ein Ende setzen könnte. In meiner Arbeit habe ich versucht anhand der neorealistischen Theorie versucht die Auswirkungen des Chinesischen Aufstiegs auf die Südostasiatische Region und insbesondere auf Vietnam für den Zeitraum von 1990 bis 2008 zu untersuchen. Nach der Vorstellung der neorealistischen Theorie, habe ich zunächst versucht die wichtigsten Elemente der Chinesischen Transformation aufzuzeigen und habe in einem weiteren Schritt versucht diese quantitativ darzustellen, um so die relative Position der Nationen zueinander bestimmen zu können.

Ich habe die Analyse in zwei Schritte aufgeteilt. Im ersten Schritt habe ich Chinas Daten mit jenen der USA, die als einzige Weltmacht der Maßstab sind, gestellt. Das Ergebnis war, dass China vergleichsweise stärker wurde, jedoch noch beträchtlich davon entfernt ist der USA den Rang auf globaler Ebene abzulaufen. Im zweiten Schritt habe ich den Datensatz erweitert und Japan und Vietnam hinzugefügt. Ersteres ist war deshalb wichtig, da es schnell nach Ende des Zweiten Weltkriegs zur lokalen macht aufgestiegen war, während letzteres im vierten Kapitel von Bedeutung ist. In dieser Berechnung kam ich zu dem Ergebnis, dass China Japan um die Jahrtausendwende überholt und den zweiten Rang hinter den USA eingenommen hat. Anhand der Datenauswertung wurde auch ersichtlich, dass Vietnam verglichen zu allen anderen Nationen sehr schwach war.

Im letzten Teil der Arbeit habe die Beziehungen zwischen China und der ASEAN, beziehungsweise zwischen China und Vietnam untersucht. Die Handlungen der jeweiligen Staaten stehen im Einklang mit jenen, die die Theorie vorgibt. China versucht sich zunächst als (friedliche) Alternative anzubieten und lockt mit Geld und Kooperation. Seit 2003 jedoch beginnt das Reich der Mitte damit, immer aggressiver aufzutreten und scheut auch nicht davor zurück militärisch durchzugreifen. Auf der anderen Seite sehen beide, ASEAN und Vietnam im Aufstieg China zunächst eine Möglichkeit, der Vormachstellung der USA entgegenzutreten. Auf der anderen Seite, stellen die Länder jedoch schnell fest, dass Chinas Entwicklung auch Negatives mit sich bringt. Vietnam im Besonderen versuchte sich dahingehend abzusichern, indem es ein weitreichendes Sicherheitsnetz aufbaut. Dazu gehört nicht nur die Förderung der Entwicklung des Landes, sondern auch, dass man versucht sich

mit China politisch zu einigen, da man weiß, dass der Nachbar im Norden militärisch nicht besiegt werden kann. Für den Fall eines militärischen Konflikts mit Peking versuchte man sich nicht nur durch Kooperation mit den anderen ASEAN Staaten abzusichern, sondern vor allem auch dadurch, dass man Indien mit ins Boot holt. Darüber hinaus hat man seit 1990 die Beziehungen zu den USA aufgebessert und sich so noch weiter abgesichert.

English

China's emergence is a development, which will more and more likely mix up the world's power ranking and subsequently pose a serious threat to American hegemony. In my paper, based on Neorealist thought, I have tried to assess the consequences China's emergence has had for the Southeast Asian region and Vietnam in particular between 1990 and 2008. Upon introducing Neorealist theory, I have tried to present the most important aspects of China's transformation. I have tried to portray these with a quantitative assessment from which I derived a power ranking of the involved nations.

I divided my analysis into two parts. The first part compares data from China with those of the United States, which, as the sole super-power left, serves as a rule. The outcome was that China caught up significantly during the period of observation. However, China is still too far behind the U.S. to pose a serious threat on a global level. In a second step I added Japan and Vietnam to the assessment. While the first was added because it became the regional leader (behind the U.S.) relatively quickly after World War II, the latter was added because it is the center of attention in the fourth chapter. The results showed that China overtook Japan around the turn of the 21st century and took the second rank. This approach also helped to show that Vietnam was weak compared to the other nations.

The last part of the paper focused on presenting the relations between China and the ASEAN, and China and Vietnam, respectively. Each nation's actions are in accordance with what Neorealism predicts. Initially, China tries to position itself as a (peaceful) alternative and lures other states with money and cooperation. However, since 2003 the Middle Kingdom has become more aggressive and does not back off from using military action. Both, the ASEAN and Vietnam, consider China's emergence an opportunity to break American hegemony. They quickly realized though that China's development is also a threat. Vietnam in particular tried to ensure its security by building up a widespread network. This did not only include the (internal) development of the country, but also to resolve problems with China with diplomatic means since Hanoi knew it was never going to win a military conflict against its

powerful neighbor in. However, for the case such a conflict would occur, the Vietnamese government tried to balance China by working closely together with ASEAN and by bringing India into the region. In addition, Hanoi worked on improving its relations with the United States since 1990 as well to further increase its security.

Resume

ANDREAS THOMAS SPIES

EDUCATION

University of Vienna Vienna, Austria
Diploma Program in History Oct. 2006 – June 2012
Concentrations: *Economics, East Asian Studies*
Diploma Thesis: “*China’s geopolitical emergence: Its impact on Southeast Asia, in particular Vietnam, from a neorealist perspective*”
Concurrent enrollment at the Vienna University of Economics and Business
Honors: Performance Scholarship awarded by the Austrian Federal Ministry of Science and Research 2008

The University of Chicago Chicago, IL, USA
Student at Large Exchange Student Jan. – Jun. 2010
Classes taken at: The College, Booth School of Business, Harris School of Public Policy

WORK EXPERIENCE

Office of Event Management of the University of Vienna Vienna, Austria
Assistant May 2008 – present