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2011

# China in its Neighbourhood: A 'Middle Kingdom' not Necessarily at the Centre of Power

Zhimin Chen

Zhongqi Pan, *Fudan University*



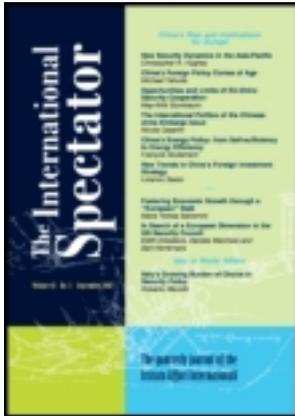
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Publisher: Routledge

Informa Ltd Registered in England and Wales Registered Number: 1072954 Registered office: Mortimer House, 37-41 Mortimer Street, London W1T 3JH, UK



## The International Spectator: Italian Journal of International Affairs

Publication details, including instructions for authors and subscription information:

<http://www.tandfonline.com/loi/rspe20>

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Available online: 05 Jan 2012

To cite this article: Zhimin Chen & Zhongqi Pan (2011): China in its Neighbourhood: A 'Middle Kingdom' not Necessarily at the Centre of Power, *The International Spectator: Italian Journal of International Affairs*, 46:4, 79-96

To link to this article: <http://dx.doi.org/10.1080/03932729.2011.628098>

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# China in its Neighbourhood: A 'Middle Kingdom' not Necessarily at the Centre of Power

Zhimin Chen and Zhongqi Pan

With a new wave of regionalism sweeping around the globe after the Cold War,<sup>1</sup> many researchers of international politics have turned their attention to regions,<sup>2</sup> which has become a catchword and a distinctive perspective for interpreting the dynamic structure of the international system at both regional and global levels. Almost nobody disputes that all major powers engage in regional politics, in addition to global politics, and pay special attention to their respective neighbourhoods. But the different ways in which they conceptualise their neighbourhood policies still remain inadequately explored.

Contemporary China, as a regional country, is comparable only to Russia, in terms of the large number of neighbouring countries and precarious nature of its neighbourhood. Traditionally, China as the 'Middle Kingdom' occupied the central place not only geographically in the eastern part of the Eurasian continent, but also politically and strategically in its power structure. China's central position was the key to understanding the hierarchical system in Asia – different from the anarchical one in the Western world<sup>3</sup> – that was ended by the arrival of Western powers in the mid-19th century. Thereafter, China and its neighbours all embraced the European concept of sovereignty, becoming equal sovereign states under international law. Today, after decades of rapid economic development, China has once again resumed its status as the biggest economy in Asia. It is anyone's guess, however, whether it will reclaim its role as the Middle Kingdom not only geographically, but also politically and strategically in the years to come.

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*Zhimin Chen* is Professor of International Relations, Jean Monnet Chair, Department of Diplomacy Studies, School of International Relations and Public Affairs, Fudan University, Shanghai, China. Email: zhmchen@fudan.edu.cn; *Zhongqi Pan* is Professor of International Relations, Department of International Politics, School of International Relations and Public Affairs, Fudan University, Shanghai, China. Email: zqpan@fudan.edu.cn

<sup>1</sup> See Mansfield and Milner, "The New Wave of Regionalism", 589–627; Söderbaum and Shaw, *Theories of New Regionalism*; Breslin *et al.*, *New Regionalisms in Global Political Economy*.

<sup>2</sup> See, for example, Buzan and Waever, *Regions and Power*; Katzenstein, *A World of Regions*.

<sup>3</sup> Kang, "Hierarchy, Balancing, and Empirical Puzzles", 165–80; and *China Rising*.

Like many other major powers in the world, China is increasingly looking at its surrounding regions, searching for a stable, peaceful and prosperous neighbourhood. The article will focus on China's conceptualisation of its neighbourhood policy, looking specifically into three questions. First, how China perceives its region and defines its objectives in its neighbourhood policy? We will try to examine whether China pursues a hegemonic role in the neighbourhood and whether its hard interests conflict with its normative goals. Second, whether China engages its neighbours exclusively through bilateral relations or also through regional and multilateral forums? Does China engage in 'region-building' in its neighbourhood? Third, what China's preferred policy instruments and methods are in its neighbourhood? In particular, whether China is more inclined to use civilian as opposed to military methods in neighbouring countries compared to countries further afield? To conclude, we will present our understanding of why China is still the Middle Kingdom, but not necessarily the sole power centre in Asia.

### China's intricate neighbourhood

Geographically, China is both a continental and a maritime country in Asia. There are 14 countries lying along its 22,800 km long land border and seven maritime neighbours off its 18,000 km long coastline.

During the Cold War years, China was caught in the bitter bipolar confrontation and involved in the Korean War (1950–53), as well as in border wars with India (1962), the Soviet Union (1969) and Vietnam (1979). Since the end of the Cold War, China has quite successfully initiated and implemented a good neighbourly policy (*mulin zhengce*) and thus improved its relations with neighbouring countries. As early as 1993, an official Chinese publication proudly declared that, "Today, looking around our neighbouring areas from east to west and from north to south, we have basically established a relatively stable periphery environment around our neighbouring areas. Our country has established good neighbouring relations with all our neighbours. This is the best period since the founding of the PRC."<sup>4</sup>

But this situation cannot be taken for granted, given the intricate nature of China's neighbourhood. In the years to come, China will continue to deal with a number of regional challenges, among which the following three loom large.

First, China's territorial disputes with neighbouring countries remain.<sup>5</sup> China has already solved the majority of its land territorial disputes with its neighbouring countries in the post-Cold War era through diplomatic channels. But two are still unsettled, those with India and Bhutan. The one with India to some extent interplays with the irritating Tibet issue since India has granted a Tibetan exile government a

<sup>4</sup> Tian, *Chinese Diplomacy since the Reform*, 20.

<sup>5</sup> For a detailed study on China's settlement of territorial disputes, see Fravel, "Regime Insecurity and International Cooperation", 46–83.

place in Dharmasala to campaign for Tibetan independence, even though India has officially agreed with China's claim to sovereignty over Tibet. The one with Bhutan, although much smaller in scale, has yet to find a solution since Bhutan is the only country bordering on China that has not established diplomatic relations with China, mainly because it is under the strong influence of India.

By contrast, little progress has been achieved in solving China's maritime territorial disputes with its neighbouring states. Among others, the one with Japan over the Diaoyu/Senkaku Islands in the East China Sea is becoming more salient, souring Chinese-Japanese relations.<sup>6</sup> The other disputes with Vietnam, the Philippines, Malaysia, and Indonesia in the South China Sea complicate China's relations with those countries individually and with Southeast Asia as a whole. These maritime disputes are becoming more complex and worrisome since the claimants from Southeast Asia are trying to interpret them as multilateral, instead of bilateral as argued by China. Moreover, the United States made explicit efforts to seize the opportunity to gain an upper hand in the region by leaning towards ASEAN disputants at the July 2010 Association of Southeast Asian Nations (ASEAN) Regional Forum (ARF) meeting in Hanoi. The latest frictions between China and Vietnam and between China and the Philippines in 2011 have made the situation in the South China Sea deteriorate. The United States' joint military exercises with both these countries during this period have further complicated the picture.

Second, besides these territorial disputes, several other regional flashpoints in Asia could potentially destabilise the region and hinder China's efforts to promote regional stability and a peaceful environment for its development. Security challenges are present in all directions. To the northeast of China, in addition to the continuing difficult relations between China and Japan, the conflicts between North Korea and South Korea, and between North Korea and the United States over the nuclear issue could potentially escalate into another major military conflict on the Korean peninsula. To the south of China, the India-Pakistan conflict over Kashmir is a lasting problem for China, since it is closely related to the China-India dispute over border territory.<sup>7</sup> To the west of China, the US-led Afghanistan war is still ongoing after ten years, notwithstanding Osama bin Laden being killed in May 2011. Pakistan, which China backs, is becoming more instable and fragile. To the northwest, given the proximity of Xinjiang to the Central Asian countries, the growth of militant Islam there would further encourage separatist movements in Xinjiang and undermine internal stability in those border regions. Any interstate conflict or civil war in Central Asia would be detrimental to China's efforts to defend its territorial integrity and resist foreign intervention in the Xinjiang issue.

That said, from a Chinese perspective, some positive progress has been made. The relationship across the Taiwan Straits was long a flashpoint in East Asia,

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<sup>6</sup> Pan, "Sino-Japanese Dispute", 71-92.

<sup>7</sup> Holslag, "The Next Security Frontier".

especially during the two terms of the pro-independence leader Chen Shuibian in Taiwan from 2000 to 2008. However, since the Nationalist Party regained power in 2008, Taiwan and Mainland China have developed a more stable and closer relationship, direct mail, travel and transportation have been re-established, and the two sides have signed a free trade agreement that has greatly reduced tension.

The third challenge in Asia is represented by the concentration of great powers. Alongside Russia, Japan and India, even the United States, with its military bases in Asia, it could be argued is one of China's neighbours. Therefore, China is surrounded not only by a great number of neighbours, but also by most major powers in the world today, especially nuclear powers: the United States, Russia, India, North Korea and Pakistan. The United States is the only remaining super-power in the world, and in keeping with President Barack Obama's claim that he is the first 'Pacific' American president, the United States has stepped up its efforts to boost its leadership in Asia since 2010. Russia is still the second largest nuclear power in the world, with a lingering global power ambition. Although Japan has ceded its status as no. 1 economic power in Asia to China, it continues to be the most developed and wealthy country in the region. While Japan benefits economically from its booming trade relations with China, it is strengthening its military alliance with the US, apparently as a way to balance China's rising power. India, the newly emerging power, shares a wide range of interests with China regarding many issues of global governance, like climate change and trade liberalisation, but it is at odds with China over border disputes and China's support to Pakistan. In this context, managing its relations with these great powers is of critical importance for China in order to achieve a more balanced regional power structure and to pursue its global agenda.

All these factors prompt China to put its main foreign policy focus on its neighbourhood. Just as Wu Xinbo, Professor at Fudan University, once put it, "China is still a country whose real interest lies mainly within its boundaries, and to a lesser extent, in the Asia-Pacific region where developments may have a direct impact on China's national interests. . . . In terms of interests and resources, it is fair to say that China is a regional power with some limited global interests."<sup>8</sup>

### **China's goals and priorities in its neighbourhood**

Although long a regionally bound country, until the end of the Cold War China was almost "a regional power without a regional policy", as Steven Levine observed back in 1984.<sup>9</sup> Gilbert Rozman even argues that, until today, there is "no clear blueprint for a new regional order" in China's strategic vision.<sup>10</sup> Yet, China may not have a defined systemic neighbourhood strategy, but it

<sup>8</sup> X. Wu, "Four Contradictions Constraining China's Foreign Policy", 294.

<sup>9</sup> Levine, "China in Asia", 107.

<sup>10</sup> Rozman, *Chinese Strategic Thought*, 5.

does have a workable good neighbourly policy. And more relevant for this analysis, China has discernable strategic goals and priorities concerning its region, as well as a quite comprehensive toolbox with which to achieve them.

Generally speaking, the ultimate goal of China's good neighbourly policy is to build a peaceful, prosperous and friendly neighbourhood. This is in line with the central objective of China's grand strategy, which is shaping a long-term, favourable and peaceful international environment that is conducive to China's peaceful rise or development. Liu Huaqiu, then Director of the Foreign Affairs Office of China's State Council, stated that China aims to "actively develop friendly relations with the surrounding countries, preserve regional peace and stability, and promote regional economic cooperation".<sup>11</sup> In terms of China's relations with great powers, Zhang Yunling and Tang Shiping wrote that "the number one goal of China's regional security strategy is to maintain at least a workable relationship with all the major powers in the region (the United States, Russia, Japan and India) so that China will never again become isolated and encircled by great powers".<sup>12</sup> To that end, China attempts to prevent any anti-China coalition – either among purely regional countries or between them and external great powers – from disturbing its development. It also takes part in various regional multilateral arrangements: ASEAN, ARF, the Shanghai Cooperation Organisation (SCO), and the Six-Party Talks on North Korea, etc. In addition, another key objective of China's neighbourhood policy is to safeguard its territorial integrity, to thwart any kind of intervention of its internal affairs by foreign countries and prevent potential ripple effects of regional conflicts on its domestic stability.

With its rising power, there is a growing temptation in China to play a more influential role in regional affairs, and to defend its territorial claims in a more forceful manner. This does not mean that China aspires to resuming its traditional hierarchical tributary system in East Asia. To alleviate such a fear among China's neighbouring countries, particularly the weaker ones, China has reassured them that it "will always be a good neighbour, good friend and good partner of other Asian countries",<sup>13</sup> and that Beijing has no interest in turning East Asia into its "exclusive sphere of influence" as some Western analysts tend to argue.<sup>14</sup> Given the regional reality and China's foreign policy principles, it is neither possible nor desirable for China to recreate a Middle Kingdom as the power centre of Asia. With the engagement of external powers in Asia and the rise of other regional powers, the international system in Asia is more balanced than in any other period

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<sup>11</sup> Liu, "China will Always Pursue Peaceful Foreign Policy", 2–3

<sup>12</sup> Zhang and Tang, "China's Regional Strategy", 51.

<sup>13</sup> Hu Jintao, "Towards Common Development and a Harmonious Asia", speech at the opening plenary of Boao Forum for Asia annual conference, Boao, 15 April 2011.

<sup>14</sup> For example, see the presentation by Marvin C. Ott from the National War College to the US–China Commission on 22 July 2005, on "China's Strategic Reach into Southeast Asia", [http://www.uscc.gov/hearings/2005hearings/written\\_testimonies/05\\_07\\_21\\_22wrts/ott\\_marvin\\_wrts.pdf](http://www.uscc.gov/hearings/2005hearings/written_testimonies/05_07_21_22wrts/ott_marvin_wrts.pdf).

of 'Asian' history. This renders any attempt by a single country to dominate the whole region impossible in the foreseeable future. The Chinese are abundantly aware that a hierarchical Asian order is history, never to return in this increasingly globalised and interdependent world. At the same time, being the champion of the principle of sovereign equality and the opponent of Western imperialism and hegemonism, China also has normative reasons to renounce any desire to dominate the region.

So far, building a peaceful, stable and friendly neighbourhood has been perceived by China as the best way to ensure its hard interests in economic development, national security and geopolitical position in its 'near abroad' – to borrow a Russian term. In general, China believes that its hard interests and normative ambitions can go hand in hand. Today and in the future, working with its neighbouring countries on an equal footing is not a choice but a necessity for China. With this clearly in mind, China is very cautious in dealing with various regional issues and tries to make its economic growth an opportunity for the region rather than a threat. In this vein, the Chinese traditional conception of *Tianxia* ('all under the heaven') system<sup>15</sup> has been replaced by *Hexie Shijie* ('harmonious world').

Nevertheless, it seems there is rising tension between China's efforts to defend its territorial claims and other central goals like developing closer relationships with its neighbours and preventing a counterbalancing coalition from arising there. Seeing China's growing power and influence, and perhaps considering it a "reformist revisionist",<sup>16</sup> some neighbours are also becoming more assertive in their territorial claims *vis-à-vis* China, such as over the disputed islands and in the South China Sea. Therefore, finding a fine balance between its pursuit of closer relationships with its neighbours and its desire to defend its territorial claims and seek a larger voice in Asia will be a major challenge for China in the years to come.

Since China's neighbourhood in Asia is a very complicated one, China has very broadly defined strategic goals, but its policy priorities vary in the various directions. In Northeast Asia, security concerns and economic cooperation are China's top concerns. Achieving denuclearisation on the Korean peninsula has been articulated by China as its policy objective with regard to the North Korean nuclear program. At the same time, it is encouraging North Korea to open up its economy by agreeing to be involved in a newly launched Sino-DPRK joint economic zone on a border island, a sign that Pyongyang may undertake Chinese-style reforms to restore its troubled economy.<sup>17</sup> Beijing has also worked with the new Taiwanese authorities to drastically improve the relationship across the Taiwan Strait and has

<sup>15</sup> Zhao, *Tianxia Tixi* [The Tianxia System], See also, Callahan, "Tianxia, Empire and the World", 152–75.

<sup>16</sup> As Barry Buzan has argued, a "reformist revisionist" accepts some of the institutions of international society, but resists and wants to reform others, and possibly also wants to change its status. See Buzan, "China in International Society", 18.

<sup>17</sup> "North Korea Presses Ahead on Island Economic Zone with Key Ally", *Global Time*, 9 June 2011.

thus alleviated a major destabilising factor in the region. China has also made great efforts to consolidate its already strong economic ties with Japan and South Korea.

In Southeast Asia, China's top priority is to further develop its economic relations with the ASEAN countries. China has established itself as an important engine of Asia's economic growth. International observers argue that China is replacing Japan as the 'lead goose' or 'locomotive' of a new regional development model<sup>18</sup> and that it has made a breakthrough in opening up a broader regional space for its economic development.<sup>19</sup> It has used both bilateral and multilateral diplomacy to assure these countries that a rising China will bring more opportunities than threats. To that end, China signed the Treaty of Amity and Cooperation in Southeast Asia in 2003 and in the area of security the Declaration on the Conduct of Parties in the South China Sea in November 2002.

In South and Central Asia, security concerns rank top in China's neighbourhood policy. China already solved the majority of its territorial disputes with its neighbours here in the 1990s. Progress has also been made on China-India border disputes, codifying the Agreement on the Maintenance of Peace and Tranquility along the Line of Actual Control in the China-India Border Areas in 1993, the Agreement on Confidence Building Measures in the Military Field along the Line of Actual Control in the China-India Border in 1996, and the Agreement on the Political Parameters and Guiding Principles for the Settlement of the India-China Boundary Question in 2005. These agreements have effectively stabilised the situation along the border, though they are far from solving the territorial disputes between the two countries. In 2001, China, together with other Central Asian countries, created the first multilateral international organisation of the 21st century, the Shanghai Cooperation Organisation, with a secretariat in Beijing, initially designed to enhance mutual trust and to fight against separatism, extremism and terrorism.

### **Partnership bilateralism and tailored multilateralism**

As China's former ambassador to France Wu Jianmin once wrote, "for a fairly long period, Chinese diplomacy was mainly a bilateral affair, while multilateral diplomacy played a very limited role in the conduct of Chinese diplomacy."<sup>20</sup> Being a strong supporter of the principle of equal sovereignty and non-interference in domestic affairs, China has long championed an independent foreign policy. This overall foreign policy line finds bilateralism a more comfortable form of conducting China's relations with its neighbours.

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<sup>18</sup> See Saywell, "Powering Asia's Growth"; "Why Europe was the Past, the U.S. is the Present, and a China-Dominated Asia is the Future of the Global Economy", *Financial Times*, 22 September 2003.

<sup>19</sup> Shambaugh, "Return to the Middle Kingdom?", 23-47.

<sup>20</sup> Wu, J., "Multilateral Diplomacy to Build a Harmonious World", 10.

After the Cold War, with traditional mistrust fading away, China resumed its diplomatic relations with Indonesia in 1990. It established diplomatic relations with Singapore in 1990, Brunei in 1991, and South Korea in 1992. It renormalised its relations with the Soviet Union (later Russia) in 1989, and Vietnam in 1991 after bitter hostilities. After the disintegration of the Soviet Union, China recognised the five new states in Central Asia along its border – Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan – in 1992.

In the mid-nineties, China went further to establish stronger bilateral relationships with neighbours under China's new partnership strategy. It started with Russia, launching a strategic partnership of coordination in 1996. China now has a network of various partnerships with most of its neighbouring countries, including strategic partnerships with Kazakhstan (2005), India (2005), Indonesia (2005), Pakistan (2006), South Korea (2008), Vietnam (2008), Laos (2009), Mongolia and Myanmar (2011); comprehensive partnerships of cooperation with Bangladesh (2005), Sri Lanka (2005), Afghanistan (2006), and Cambodia (2006); partnership of friendship and cooperation with Uzbekistan (2005); partnership of economy and trade cooperation with the Philippines (2006). In addition, China and Japan vowed to construct a strategic relationship of mutual benefit in 2007. China and North Korea maintain a special friendship based on a mutual defence treaty. Although China watered down its military pledge to North Korea after the end of the Cold War, the treaty still exists and is the only alliance that China still engages in, at least nominally. A partnership was even announced in Sino-American relations during President Hu Jintao's state visit to the US in January 2011. Presidents Hu and Obama proclaimed that, "China and the United States are committed to work together to build a cooperative partnership based on mutual respect and mutual benefit in order to promote the common interests of both countries and to address the 21st century's opportunities and challenges."<sup>21</sup>

Through these bilateral partnerships, China has attempted to secure a favourable context to uphold its economic development, and contain the independence movements in Taiwan, Tibet and Xinjiang. Moreover, these partnerships are meant to help forge a positive mutual identification between China and its neighbours, avoiding that China be negatively defined as an enemy or competitor.<sup>22</sup> Overall, China's partnership strategy has served fairly well in advancing China's neighbourhood policy, while contributing to Asia's economic rise and the absence of major military conflicts in the region, though the success of this strategy does raise the level of anxiety in some countries, like Japan, over the rise of China's power.

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<sup>21</sup> "China, U.S. to Build Cooperative Partnership of Mutual Respect and Mutual Benefit", *Xinhua News Agency*, 20 January 2011, <http://english.people.com.cn/90001/90776/90883/7266237.html>.

<sup>22</sup> See, among others, Li, *A Rising China*.

In addition to this bilateral partnership diplomacy, since the end of the Cold War, China has also stepped up its efforts to engage in multilateral diplomacy, globally as well as regionally. China's Asian multilateral diplomacy is a combination of practical and strategic multilateralism. The former applies to China's participation in the existing regional multilateral institutions that were mainly founded or initiated by other regional actors. In 1991, China joined the Asian-Pacific Economic Cooperation (APEC), a pan-Pacific bloc to advance trade and investment liberalisation. In 1994, it started to participate in the ARF, a confidence-building forum hosted by ASEAN countries with the involvement of the US and the EU. In 1997, China became a dialogue partner of ASEAN, leading to the establishment of China-ASEAN strategic partnership in 2003. Also in 1997, China joined, along with South Korea and Japan, in the 'ASEAN plus three' mechanism, a major platform in East Asia to promote regional cooperation.

Entering the 21st century, China's regional multilateral diplomacy has become more proactive and acquired a strategic aspect, with a growing understanding that multilateralism can be used to shape a favourable surrounding environment which is conducive to the realisation of its long-term foreign policy goals. China started to work with regional players in initiating a number of regional mechanisms to address various issues. To promote economic ties with ASEAN countries, in 2002, China and ASEAN, upon China's proposal, signed an agreement to establish a China-ASEAN free trade area by 2010, which has been achieved as designed. In 2007, they further signed the Agreement on Trade in Services, the first of its kind inked by China and other countries and regions. In 2005, China and other countries in the "ASEAN plus three" convened the first East Asian Summit, which also included new members like Australia, India and New Zealand. In March 2010, to enhance the regional capacity, to provide financial support to countries with short-term liquidity needs and to supplement existing international financing arrangements, the Chiang Mai Initiative Multilateralisation (CMIM) Pact came into effect. As one of the major supporters of this liquidity mechanism, China contributed USD38.4 billion to the total package of USD120 billion, a share equal to that of Japan, with South Korea offering USD19.2 billion.<sup>23</sup>

In Northeast Asia, to deal with North Korea's nuclear issue, China played a leading role in initiating the Six-Party Talks, along with North and South Korea, the United States, Japan and Russia. China had already hosted six rounds of talks, which at a certain point "scored successive achievements, [with] the tension in Northeast Asia [...] much released"<sup>24</sup> before they were stalled by the renewed confrontation between North and South Korea in 2009.

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<sup>23</sup> "Chiang Mai Initiative Multilateralisation Pact Comes into Effect on Wednesday," *Malaysian National News Agency*, 24 March 2010, [http://www.bernama.com/bernama/v3/news\\_lite.php?id=484874](http://www.bernama.com/bernama/v3/news_lite.php?id=484874).

<sup>24</sup> China's Information Office of the State Council, *China's National Defense in 2008*, 5.

On the western front, under Chinese initiative, the SCO as a formal intergovernmental organisation comprising China, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, and Uzbekistan was founded in Shanghai in 2001. The SCO aims to fight three so-called 'evil forces' – terrorism, separatism and extremism – and maintain regional security. It serves as a channel through which China can present itself as an important security player in Central Asia.<sup>25</sup> To further engage in this direction, China proposes to add new layers of cooperation with Central Asian countries, including trade, investment, energy, environment, etc.<sup>26</sup>

China also participates in two major trilateral dialogue mechanisms. The China–Russia–India trilateral dialogue began in September 2002. While the start of this mechanism was quite tentative due to the precarious bilateral relations between India and China,<sup>27</sup> it now plays a growing role in coordinating the trilateral cooperation of the three countries, as well as in making their joint voices heard on the international stage. Leaders from China, Japan and South Korea already met regularly at the 'ASEAN plus three' summits. Yet, in December 2008, they decided to create an independent China–Japan–South Korea dialogue mechanism. During their first meeting in Fukuoka, leaders from the three countries agreed that they should form a trilateral partnership based on their respective bilateral partnerships.

China does not apply a unified model of multilateralism to all sub-regions in its neighbourhood. Instead, it fits different modes of multilateralism to different geopolitical and geo-economic conditions. For example, in Southeast Asia and the broadly defined Asia-Pacific region, China prefers a loosely structured and open-ended multilateralism, but to the west, in the case of the SCO, China spares no effort to push for institutionalisation. The top priority in China's multilateral diplomacy may also differ from one sub-region to another. For example, while Beijing puts emphasis on economic multilateralism in Southeast Asia, it has taken a "security first and economy second" approach in Northeast and Central Asia, challenging the logic of traditional functionalism.<sup>28</sup>

Furthermore, China embraces only consensus-based regional multilateralism, which is firmly rooted in the equality of member states, with consensus as the general rule of decision-making. This type of multilateralism may not generate strong rules, but it is comfortable for China and other developing states in the region and is successful in averting external interference and safeguarding sovereignties. Under such an institutional framework, China enjoys no privileged leadership. China may have a stronger influence in the agenda-setting of the SCO and the Six-Party Talks, but any decision has to be agreed upon by all participating parties. In the ASEAN+3 and the East Asian Summit, it is ASEAN that firmly

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<sup>25</sup> Ong, *China's Security Interests*, 112.

<sup>26</sup> Khodzhaev, "The Central Asian Policy of China", 9–28.

<sup>27</sup> Ma, "Development of China-Russia-India Triangle", 39–49.

<sup>28</sup> Wang, "China and SCO", 120.

controls the agenda-setting process, and China can only exert influence in the later consensus-building stage. In 2004, China took the lead in proposing an East Asian community to be built upon the ASEAN+3, but had to give in to pressure from Japan and Singapore to expand membership to Australia, New Zealand and India. The expanded membership, it was thought, would prevent China from dominating proceedings.<sup>29</sup> Being aware of this kind of apprehension on the part of its neighbours, China has been very cautious to engage in 'region-building' in order to avoid any unnecessary counterproductive repercussions.

### Soft and hard use of China's power

Joseph Nye put forward his popular concept of soft power in 1990. Embraced widely by academics, media and policy practitioners across the globe, the concept has also created confusion, especially because it mixed power resources and power behaviours, equating material or tangible power resources with hard power and non-material or intangible power resources with soft power. In his 2011 book, *The Future of Power*, Nye undertakes a systemic refinement of his articulation of power, differentiating power resources from power behaviours. For Nye, tangible power resources such as military and money, though generally associated with hard power, can also produce soft power behaviour. For example, the US Navy's help in providing relief to Indonesia after the 2004 East Asian tsunami increased Indonesians' attraction to the United States. On the other hand, while intangible power resources like patriotism, morale and legitimacy are often associated with soft power, they can generate hard power behaviour. For example, as Nye argues, threats to use force are intangible, even though they are a dimension of hard power.<sup>30</sup>

While Nye's recent theoretical development is a major step ahead, the authors find that it still does not capture the key feature of China's strategy for using power. His soft power concept does not include those economic activities involving an exchange of material interests, like trade benefits, aid or investment for resources, or better political relations, which the authors believe is the key feature of China's power-use strategy. Thus, starting from the similar premise that there is a difference between power resources and power behaviour, the authors argue that there are generally two ways to use tangible and intangible power resources: hard use and soft use. The former involves the coercive use of tangible (military intervention or negative economic sanction) or intangible (the threat of use of force) resources; the latter involves attractive use of tangible (market access, investment, aid and peacekeeping) and intangible (culture, values) resources. Such a modification of Nye's theory allows us to capture the central feature of China's power projection strategy, that is, soft use of economic power, supported by the soft use of intangible

<sup>29</sup> Yahuda, "China's Multilateralism and Regional Order", 79.

<sup>30</sup> Nye, *The Future of Power*, 21–2.

resources and military power with occasional hard use of economic and military power when non-coercive means are unable to defend China's core interests.

Soft use of its economic power has been the central instrument that China has employed to advance its objectives in its neighbourhood. In just over 30 years, it has transformed its backward closed economy into the biggest open economy in Asia, becoming the central driving force for expanding regional trade and growth. China is now the biggest trading partner for most of its neighbours, including North and South Korea, Japan, ASEAN countries, India, etc. At the same time, while China is the biggest surplus trading state in the world, it registers substantial trade deficits with most of its major trading partners in Asia, hence offering them a stable and expanding export market. In 2010, according to Chinese statistics, China's trade deficit with South Korea, Japan and ASEAN stood at USD69.6 billion, 55.6 billion and 16.4 billion, respectively.<sup>31</sup> China believes that this high level of economic relations and the neighbouring countries' economic dependence to some degree on China has a positive impact on their political relationship with it.

Valuing this economic engagement, China has made further efforts to strengthen its economic ties with neighbours, for both the direct economic and indirect political benefits. These efforts have been made on four fronts.

Firstly, China has launched a campaign to sign free trade agreements with its neighbours. An FTA with ASEAN has already been in effect since 2010. Feasibility studies are being conducted about possible future FTAs with South Korea, Japan and some ASEAN countries.

Secondly, while China can attract more developed Asian neighbours with its massive domestic market, its FTA arrangements with less developed neighbours are usually 'unequal'. As Ravenhill and Jiang have found, China has chosen not to use the asymmetry in economic power to its own advantage, opting instead to use the FTAs as assurance mechanisms against fears of Chinese economic domination. Through the 'Early Harvest' provisions of the agreements with ASEAN, China accepted ASEAN exports of agricultural products, fully realising that they would damage domestic producers in provinces bordering on ASEAN countries. This is in marked contrast to the EU and US, whose FTAs frequently have a mercantilist character – being designed to open up foreign markets to their own exports.<sup>32</sup> In a sense, China's way of trading for friendship and interdependence with its neighbours could be defined as functionalist – wishing for a spillover effect of economic benefit on political friendship.

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<sup>31</sup> China Customs Statistics Information, "China's Import-Export Trade Value with Countries (Regions), December 2010". [http://www.chinacustomsstat.com/asp/1/newdata/record\\_class.aspx?page=2&guid=1566](http://www.chinacustomsstat.com/asp/1/newdata/record_class.aspx?page=2&guid=1566).

<sup>32</sup> Ravenhill and Yang, "China's Move to Preferential Trading", 31.

Thirdly, as China accumulated a mounting foreign currency reserve, from USD165.6 billion in 2000 to USD3 trillion as of February 2011, China has turned from a receiver of foreign aid and investment into a rapidly growing aid donor and investor in its neighbourhood and the world. This has allowed China to acquire a new economic instrument in support of its neighbourhood diplomacy. Chinese aid and related investment projects or offers to ASEAN countries in 2002–07 have been estimated at a combined total value of USD14.8 billion. Approximately 43 percent of that went to infrastructure and public works projects, 32 percent to natural resource extraction or development, 3 percent to military, humanitarian and technical assistance, and the remaining 22 percent to unspecified activities.<sup>33</sup> China's assistance and economic interactions with ASEAN countries have come largely without the political, legal or environmental strings usually attached to Western aid. Chinese aid is also provided comparably faster and without the red tape that major aid donors, multilateral financial institutions and multinationals usually require.<sup>34</sup> Cambodia's Prime Minister Hun Sen was reported as saying in 1988 that "China is the root of all that is evil in Cambodia" for China's support to the Khmer Rouge in the 1970s. But in 2005, as Chinese aid poured into Cambodia, he announced that Phnom Penh's relations with Beijing were "entering into the best stage in history".<sup>35</sup>

Fourthly, China has initiated efforts to improve its transport connectivity, via land, river, sea and air with its neighbours. China has supported the building of highways and railways connecting China and Indochinese countries. Pipelines have been built to transport gas and oil from Central Asia and Russia to China. A new oil pipeline is under construction in Myanmar which will connect China's Yunnan to the Indian Ocean. The aim of all these efforts is to "create better conditions for the free flow of goods, capital and information, people-to-people exchanges, and economic and social development in this region".<sup>36</sup>

Soft use of intangible power resources, or soft power in Nye's original understanding, is another Chinese approach to dealing with its neighbours. According to Joseph Nye, soft power is the "attractive power" of a country, the power of "getting others to want the outcomes that you want", which rests on three resources: culture, political values and foreign policy.<sup>37</sup> Two key components of China's soft power approach are assurance diplomacy and cultural diplomacy.

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<sup>33</sup> Quoted in the US Congressional Research Service, "China's Foreign Aid Activities in Africa, Latin America, and Southeast Asia," 25 February 2009, 17, <http://www.fas.org/sgp/crs/row/R40361.pdf>.

<sup>34</sup> B. McCartan, "A Helping Chinese Hand: Trade and Aid with Southeast Asia", *Asia Times*, 30 April 2009.

<sup>35</sup> Kurlantzick, *Charm Offensive* 133.

<sup>36</sup> Wen Jiabao, "Strengthen Good-neighborly Relations and Deepen Mutually Beneficial Cooperation", speech at Balai Kartini, Jakarta, 30 April 2011.

<sup>37</sup> Nye, *Soft Power*, 5–11.

Aware of its different political system and rapid rise, China has adopted a systemic strategy to assure its neighbours that China pursues a ‘peaceful rise’ or ‘peaceful development’ foreign policy. China has gone out of its way to settle border disputes – and on notably generous terms. Taylor Fravel concluded that, in settling 17 of its 23 territorial disputes, China usually agreed to take less than half of the contested land.<sup>38</sup> With regard to the remaining territorial disputes, China sought to find a mutually acceptable solution with India, or to shelve the sovereignty disputes with Japan over Diaoyu/Senkaku Islands. It adopted a policy of “shelving the disputes and working for joint development” over the maritime boundary delineation and resources development of the East China Sea and the South China Sea, respectively with Japan and several ASEAN countries. In 2008, a framework agreement that would allow the joint development of some areas in the East China Sea was signed between China and Japan, though it is on hold at the moment due to other bilateral disputes and because it “is seen by some Chinese as too favorable to Japan”.<sup>39</sup> In the context of growing tension in the maritime disputes in the South China Sea, in July 2011, China and ASEAN countries signed Guidelines for the Implementation of the 2002 Declaration on the Conduct of the Parties in the South China Sea (DOC), committing them to clearly identify joint cooperative activities or projects. Future decisions to implement concrete measures or activities of the DOC could lead to the eventual realisation of a legalised Code of Conduct.<sup>40</sup>

Another soft power strategy focuses on China’s cultural attractiveness, given its historical status as a cultural centre in Asia. It is estimated that there are about 30 million Chinese in the diaspora around the world, mostly in Southeast Asia. Reaching out to these Chinese communities is one of the key elements in China’s cultural diplomacy. According to some figures, the estimated total wealth of the Chinese diaspora amounts to more than USD1.5 trillion. For example, in Indonesia, the ethnic Chinese comprise roughly 3 percent of the population, but reportedly control as much as 80 percent of the nation’s economy.<sup>41</sup> Between 1990 and 2002, just five countries – Thailand, Malaysia, Singapore, Indonesia and the Philippines – invested roughly USD90 billion in China, with most of the capital coming from overseas Chinese firms.<sup>42</sup> By attracting the overseas Chinese to rebuild their cultural and commercial ties with China through various preferential economic policies, China is not only obtaining substantial foreign investment and access to foreign markets, but also building closer relations with Southeast Asian countries.

<sup>38</sup> Fravel, “Regime Insecurity and International Cooperation.”

<sup>39</sup> Drifle, “China and Japan”, 145.

<sup>40</sup> “Guidelines for the Implementation of the DOC between China and ASEAN Countries”, 20 July 2011, <http://www.fmprc.gov.cn/chn/pds/ziliao/zt/dnzt/yjcdm2/t844329.htm>.

<sup>41</sup> Chanborey, “China’s Soft Power in Southeast Asia,” 1–38.

<sup>42</sup> Kurlantzick, *Charm Offensive*, 75.

Beyond that, the Chinese government has poured substantial resources into attracting Asian students to study in Chinese universities. Scholarships offered by the China Scholarship Council increased ninefold between 1999 and 2009, from 2017 to 18,245. In the same period, scholarships offered to Asian students increased almost twelvefold, from 736 to 8409, indicating a growing focus on attracting Asian students.<sup>43</sup> In 2010, there were about 260,000 foreign students studying in China, of which 66.32 percent were Asian. Of the top ten countries of origin, all except for the US are China's direct neighbours. The Chinese government has also supported the establishment of Confucius Institutes and classrooms in Asian countries to promote Chinese language and culture. As of October 2010, China had established 322 Confucius Institutes around the world, of which 81 are in 30 Asian countries.<sup>44</sup>

As for military power, over the last decade, the People's Liberation Army (PLA) of China has undergone rapid modernisation. In 2011, China's defence budget reached RMB601.1 billion, a little less than USD95 billion, which made China the second largest spender on defence in the world after the US. The PLA is moving faster in strengthening its naval and air forces. Nevertheless, over the last two decades, the Chinese military has not engaged in any military conflicts with other countries, and its overseas missions have centred mostly on international peacekeeping, emergency rescue, and the more high-profile escort operations in the Gulf of Aden and the waters off the Horn of Africa. A stronger PLA will surely be a strong backup for Chinese foreign policy but, as David Lampton has argued, China mainly uses the PLA for four purposes: homeland defence, deterrence, power projection and reassurance – none of which has involved direct use of armed force to coerce other countries since the end of the Cold War.<sup>45</sup> China did pledge, however, to use non-peaceful means, including military means to prevent Taiwan from going independent in its 2005 Anti-Succession Law.

To directly enforce Chinese maritime rights, China has built and relied on the expanding civilian law enforcement capacities under the China Ocean Surveillance Administration and the China Fishery Administration. In several cases, China has apparently made hard use of its economic power to force other countries to forsake their policies, which China believed grossly infringed on its interests. For example, in September 2010, when the Japanese Coast Guard arrested a Chinese fishing boat captain in waters adjacent to the disputed Diaoyu/Senkaku Islands, China, after diplomatic efforts failed, temporarily halted its export of rare earths to Japan, along

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<sup>43</sup> China Scholarship Council, *Annual Report 1999, 2009*, <http://www.csc.edu.cn/Nianbao/Default.aspx>.

<sup>44</sup> South Korea alone has 17 Confucius Institutes, ranking number one, followed by 12 in Japan, 7 in Indonesia, 3 in the Philippines. Notably, however, there is still no Confucius Institute in North Korea, Vietnam or Myanmar. [http://www.hanban.edu.cn/confuciusinstitutes/node\\_10961.htm](http://www.hanban.edu.cn/confuciusinstitutes/node_10961.htm).

<sup>45</sup> See Lampton, *The Three Faces of Chinese Power*, 45–66.

with other measures like suspending high-level bilateral talks, which eventually forced the Japanese side to release the captain.

As David Shambaugh once noted, from a regional perspective, China has, step by step, established an image as a responsible, constructive and respectable power in Asia. In 2004, he wrote, “most nations in the region now see China as a good neighbour, a constructive partner, a careful listener, and a non-threatening regional power”.<sup>46</sup> More recently, Barry Buzan has found that China has “steered a new course much more in harmony with the surrounding international society”. He argues that China is now widely regarded as a “good citizen” at regional level, though to a lesser extent globally.<sup>47</sup> In the eyes of China’s neighbours, the results of China’s neighbourhood diplomacy are still mixed. As the 2011 BBC multi-nation opinion polls indicated, China’s neighbours are still divided on their views of a rising China. Asked about China’s influence, the poll found that in the seven neighbouring countries surveyed, a majority of the public in four countries gave quite positive answers: 66 percent in Pakistan, 63 percent in Indonesia, 62 percent in the Philippines, and 52 percent in Russia. On the other hand, a majority of 52 percent in both Japan and India, and 53 percent in South Korea, replied that Chinese influence is negative.<sup>48</sup>

## Conclusion

China’s neighbourhood policy is mainly centred on its efforts to forge a friendly, stable and prosperous regional environment conducive to its hard interests in economic development, national security and geopolitical position in its near abroad. In general, China’s hard interests and normative ambitions are perceived as going hand in hand. Nevertheless, external anxiety over China’s surging power and its attempts to step up its efforts to enforce its territorial claims has raised questions about whether China can maintain compatibility among the different goals of its neighbourhood policy. To achieve its goals, China has developed an approach combining both partnership bilateralism and tailored regional multilateralism. While multilateralism has gradually acquired importance in China’s neighbourhood diplomacy, bilateralism is still more developed and preferred. Generally speaking, China does not take its neighbourhood as a whole, and has been very cautious and hesitant to engage in overarching ‘region-building’. This is demonstrated by its tailored multilateralism toward its various sub-neighbourhoods in Northeast Asia, Southeast Asia and Central Asia. China has mostly relied on the soft use of its power, as clearly indicated in its preference for economic diplomacy,

<sup>46</sup> Shambaugh, “China Engages Asia”, 64–99.

<sup>47</sup> Buzan, “China in International Society”, 14, 16.

<sup>48</sup> 2011 BBC Country Rating Poll, March 2011, [http://news.bbc.co.uk/2/shared/bsp/hi/pdfs/05\\_03\\_11\\_bbcws\\_country\\_poll.pdf](http://news.bbc.co.uk/2/shared/bsp/hi/pdfs/05_03_11_bbcws_country_poll.pdf).

cultural diplomacy and assurance diplomacy, while diplomatic and economic coercion has occasionally been exercised. By and large, China gives priority to its economic and cultural instruments over military methods in its neighbourhood policy toolbox.

In 2010, China resumed its status as the biggest economy in Asia. Nevertheless, the new power configuration in Asia does not allow for, nor is China interested in a return to the old Middle Kingdom, with China in a leading position in Asia. Any effort to resume a China-centred hierarchical order in Asia is not only counter-productive to China's ends but doomed to fail in this increasingly globalised and interdependent world. Even though it is expected that China wishes its voice on regional affairs to be heard better and its interests and concerns to be respected more by its neighbours, and that China would seek to defend its national interests in a more resolute manner, for example in the East and South China Seas, with the presence of various external constraints and China's professed goal of a peaceful rise and development, it will continue to behave as a self-restrained regional power in the foreseeable future. After all, China may continue to be the Middle Kingdom in Asia geographically, but it is no longer the sole power centre politically and strategically.

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