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Integration on the Basis of Strength: China's Impact on East Asian Security

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China is perhaps the most important variable in East Asian security, not only because of its growing power but also because of the great uncertainty over its future. Therefore, to assess China's impact on regional security, one question should be tackled first: what will China look like in the future?

There are three different schools of thought concerning China's future: the "implosion" school holds that China, unable to cope with a wide array of social, economic, and political challenges created by its rapid economic growth, will follow in the footsteps of the former Soviet Union and "implode"; the "expansion" school argues that as China gradually builds up its material strength, Beijing will wield its weight and seek to establish hegemony in the region; and the "integration" school believes that as China's economy further merges with the world economy, Beijing's internal and external behaviors will slowly but inevitably conform to international norms, and China will become a more responsible and more cooperative member of the world community.

While other possibilities cannot be totally excluded, the author views the "integration" scenario as the most likely for the following reasons. First of all, at a time when China is undergoing its greatest transformation since 1949, Beijing has been able to maintain political and security stability while gradually liberalizing its political system as required by growing economic prosperity. The power transition from the Long March generation to the technocrat generation has come smoothly to a close. In the post-Deng era, Jiang Zemin faces no strong challengers within the top leadership, and his position has been well established. While endeavoring to sustain the rapid economic growth, Jiang and his colleagues pay special attention to the preservation of social stability. Their dealings with a variety of destabilizing problems—from curbing high inflation to fighting widespread crime—have been quite successful, and this demonstrates their capacity to maintain effective control over the fast-changing society. With Deng's passing, China's politics have entered a period of

collective leadership and gradual political reform which will lead to the establishment of the rule of law and further democratization.

On the economic front, several trends seem to be irreversible. First, due to the continued inflow of external direct investment and the expansion of domestic and international markets, China's rapid economic development will continue through the next decade. Because China's economy came to a "soft landing," the high rate of growth will be healthier and more sustainable.[1] Second, the market-oriented economic reform will deepen; the 15th Chinese Communist Party Congress decided to take strident steps to overhaul the ailing state-owned sector.[2] Third, links between China's economy and the world economy will increase, and as Beijing strives to join the World Trade Organization the degree of openness and internationalization in China's economy will expand.[3]

Diplomatically, China will follow the pragmatic line set by Deng Xiaoping in the 1980s to create a favorable international environment for China's economic development. There are three main aims underlying Beijing's foreign policy: first, to preserve stability on its periphery and seek to resolve territorial disputes with its neighbors through negotiation; second, to address differences with Western powers over human rights, Taiwan, and other issues in a conciliatory manner and endeavor to maintain amicable relations with them; and third, to adopt a receptive posture toward the international system and to be mindful of its responsibility as a permanent member of the UN Security Council.

For the foreseeable future, the PRC leadership will remain preoccupied with three major concerns on China's national agenda: political and social stability, economic growth, and national unification. However, none of these can be effectively addressed if Beijing is unable to secure cooperative and accommodative relations with the outside world. This means that the integration option not only serves the interests of the international community but those of China as well.

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[1] There are several good reasons to be optimistic about China's economic future. Since 1993 China has been the second largest capital importer after the United States, and in 1996 foreign direct investment in China amounted to $40 billion, an increase of 13 percent over the previous year. From 1992 to 1996, its foreign trade grew 16.4 percent per annum, and in the first half of 1997 exports increased by 25 percent while imports declined by 0.1 percent. Its foreign currency reserve is expected to reach $140 billion by the end of 1997. The overheated economy came to a "soft landing" in 1996: the GDP growth rate in 1996 was 9.7 percent while the inflation rate decreased to 6.1 percent, as compared with 14.8 percent in 1995.

[2] To improve the effiency of state-owned enterprises, Beijing will shift from socialist-style state ownership to a system of shareholding. The government will hang on to 3,000 strategic companies; about 10,000 other large and medium-sized firms will sell shares to the public or workers, with the government maintaining sizable stakes. Other medium-sized and small firms will have considerable latitude to do whatever it takes to get off government life support.

[3] By August 1997, the utilized foreign direct investment in China amounted to $204.4 billion. China's exports and imports made up around 40 percent of its GDP by the mid-1990s. The prospects for the continued inflow of foreign direct investment and the growth of foreign trade look good. To bolster its prospects of joining the WTO as well as to respond to calls from within APEC for freer trade, China cut its average import tariff from 35 percent to 23 percent in April 1996, and from 23 percent to 17 percent in October 1997. Beijing promised that tariffs will fall to an average of 15 percent by 2000.

Dealing with the Major Powers

Relations with the United States, Japan, and Russia hold the key to China's overall relations with the outside world. From Beijing's perspective, two important changes have been unfolding in Northeast Asia since the end of the Cold War. One is the shifting balance of power among the four major powers—China and Japan are on the rise, Russia suffered greatly from the collapse of the Soviet Union and is now only a regional power, and the United States is the only remaining superpower, but its influence is also on the decline relative to the ascendance of the two indigenous powers. The other trend is the readjustment of relations among the four major powers in response to the changing power balance and the new geopolitical reality in Northeast Asia: Beijing and Moscow are moving closer to each other as "strategic consultative partners," while the United States and Japan are working very hard to reaffirm their security alliance. Under the new circumstances, China's approaches to the other three powers are driven by its desire to enter into positive interactions with all of them and to secure for China a favorable strategic position in East Asia.

The United States is the only country that can considerably affect every major aspect of China's national interests: political, economic, and security. It is therefore quite natural that relations with Washington have taken top priority on Beijing's foreign policy agenda since the normalization of bilateral relations and the initiation of the reform and open door policy in 1979. With the end of the Cold War, however, the Sino-U.S. relationship has been troubled by two structural failings: the absence of a strategic foundation and the strong and active intervention of domestic politics in each country. As a result, bilateral relations have become unstable, eventful, and less predictable, and mistrust and suspicion hover between the two continental powers. Among all the differences with Washington, Beijing is most concerned with the following three: Washington's attempt to challenge China's domestic political stability by continuing to play the human rights card; its diplomatic and military deployments in the Asia Pacific, such as the redefinition of the U.S.-Japan and U.S.-Australian security alliances, which may turn out to be part of an overall strategy to contain a rising China; and its changing policy on the Taiwan issue, which could serve to abet the growing secessionist influence on the island. Aware, however, of the already huge and still growing stake in its ties with Washington, Beijing exercises much restraint in dealing with these issues. While carefully watching the U.S. actions that bear directly on China and responding with diplomatic and military maneuvers, China abstains from actively challenging the U.S. position and interests in East Asia, and in doing so minimizes the damage to bilateral links wrought by frictions with the United States. In spite of continual disputes and conflicts with Washington, Beijing's U.S. policy objective remains consistent: to ensure, through stabilizing bilateral relations, that the United States will not challenge China's position on the Taiwan issue (i.e., the "one China" principle and the goal of ultimate unification) and will continue to contribute to China's economic development. By and large, Sino-U.S. ties tilt like a seesaw between cooperation and friction, while the mechanism remains intact. As China steadily builds up its material strength and mutual interdependence deepens, China-U.S. relations will become more mature and stable.

Since 1994, Sino-Japan relations seem to have entered a new period characterized by growing suspicion and friction. For the first time since the late nineteenth century, Japan has to face a flourishing China and appears at a loss over how to live with this more self-confident and powerful neighbor. Japan's reactions to China's nuclear tests in 1995 indicate that Tokyo has turned away from developing a harmonious Japan-China relationship and

supporting China's economic growth to ensuring that a rising China does not challenge Japan's interests. Beijing, on the other hand, is concerned with three issues in its relations with Tokyo. The first is Japan's attitude toward its aggressive past. In the eyes of Beijing, Japan's reluctance to repent of its past aggression (and the frequent attempts by some Japanese to defend Japan's behavior during the Second World War) not only hurts those who suffered from Japan's aggression but also indicates that Japan has not drawn due lessons from the past. The second is the concern that Japan, after becoming an economic giant, is seeking a political status commensurate with its economic capacity and may finally transform itself into a major military power. The fact that Japan's domestic politics are becoming more conservative and the Japan-U.S. security alliance has been redefined further aggravated China's concern over such a prospect. The third concern is the Taiwan issue. Beijing asserts that Tokyo, reacting to the Clinton administration's adjustment of its Taiwan policy in 1994, has also shifted its stance on the Taiwan issue and tried to develop closer and more official ties with Taipei. Indeed, the last four years have turned out to be the most difficult period in China-Japan relations since normalization. In spite of these problems, however, China has abstained from overstraining its links with Japan for two primary reasons. Economically, Japan is and will remain a major provider of capital, technology, and markets for China's economic growth; strategically, China does not want to drive Japan completely into the arms of the United States and hopes that Japan will follow a line different from that of the United States in dealing with China. In fact, Beijing would like to see Japan take a neutral position between China and the United States.[4] With these considerations, Beijing tempered its tone in criticizing the attempt by some Japanese to defend its aggressive past and the redefining of the Japan-U.S. security alliance, and kept under control the domestic anti-Japanese sentiment ignited by a Japanese rightist group's construction of a lighthouse on one of the disputed Diaoyu islands. Overall, while the Sino-Japanese relationship will continue to be plagued by issues such as Japan's treatment of its war responsibility, Taiwan, and the Diaoyu Islands, compared with Sino-U.S. ties Beijing-Tokyo relations will be less contentious and more pragmatic.

In contrast to the period between the 1960s and the 1980s, when Beijing-Moscow relations moved from alliance to estrangement, and to strategic confrontation, Sino-Russian ties in the post–Cold War era experienced a strategic rapprochement. In Beijing's calculation, relations with the Russians serve four general purposes. One is the settlement of the border issue. The long common border was a major bone of contention between China and the Soviet Union during the Cold War, and remained a source of great uncertainty in China-Russian relations after the Cold War. Demarcation of the common border through negotiation not only removed a major source of dispute in bilateral interactions but also significantly lessened Beijing's concern over the security of its northern border. The second purpose is to make use of Russian defense technology and weapons systems to boost China's military buildup. This connection is particularly important as China lost access to U.S. military technology and weapons systems after the Tiananmen incident. The third purpose is to counter the predominant influence of the United States in a single-superpower world. The forging of "strategic consultative partnership" between China and Russia not only gives an

[4] China harbors mixed feelings toward Japan. On the one hand, it resents Japan for its past aggression and its unwillingness to extend a sincere apology; on the other, China feels that Japan is somewhat different from the Western countries because of its cultural and geographic proximity, and therefore expects Japan to stand closer to China than the Western states.

impetus to bilateral relations but also represents an important effort to encourage multipolarity in the post–Cold War power structure. Fourth, China needs Russian help to upgrade the heavy industrial equipment that the Soviets built for China in the 1950s, and plans to import oil and natural gas from Russian Siberia. Economic factors also appear to limit Sino-Russian ties, however: as neither side can provide the other with the necessary investment, technology transfer, and export market, they both have to look to the West for help.[5] This very fact will make the strategic partnership between Beijing and Moscow a wounded duck.

The redefinition of the Japan-U.S. security alliance is a major development affecting the Northeast Asian strategic landscape. The redefined alliance seems to have two functions. One is military, which is to address a possible war either on the Korean peninsula or in the Taiwan Strait. The other is political-strategic, which is to shape an Asia-Pacific security order underpinned by the U.S.-Japan alliance and to bring China fully into such a regional strategic framework. China's problem with the redefinition of the alliance is threefold:

First, the alliance will no longer constrain Japan's remilitarization, as it was supposed to do, but rather serve to encourage Japan to build up its military capability and play a larger role in regional security affairs, about which China remains very sensitive for historical reasons.

Second, redefinition of the alliance will inevitably broaden the scope of its application and lead to more active U.S. and Japanese intervention in the Taiwan issue should there be a contingency in the Taiwan Strait. This very possibility will stimulate the secessionist influence on the island.

Third, redefinition of the alliance represents a major effort by the United States to pursue "preventive diplomacy" in East Asia and has strong implications for China. While Beijing's attitude toward the alliance depends to a large extent on the state of its bilateral ties with Tokyo and Washington, it does feel concerned over whether "preventive diplomacy" will turn out to be overreactive. For instance, if Washington and Tokyo decide to build theater missile defense (TMD) in Japan, it inevitably will have a destabilizing impact on the regional balance of power and greatly strain China's sense of security.[6] Needless to say, Beijing would be compelled to reassess its security environment and significantly adjust its security policy. For one thing, this would give more substance to the Sino-Russian strategic partnership.

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[5] Sino-Russian bilateral trade in 1996 totalled $6.8 billion. This is quite small compared with Sino-Japanese bilateral trade ($60.05 billion) and Sino-U.S. bilateral trade ($63.5 billion) in the same year. Beijing and Moscow plan to increase their two-way trade to $20 billion by 2000, a daunting task. Even if this objective can be met, Russia will remain far behind China's major trading partners such as Japan, the United States, the European Union, ASEAN, and South Korea.

[6] In Beijing's opinion, the construction of TMD, although defensive in nature, will inevitably erode China's strategic deterrent and endanger the strategic stability in East Asia; the past also indicates that pursuit of more advanced defense capability usually triggers a race for more sophisticated offensive weapons. China argues that unilateral actions to increase defense capability would be counterproductive; concern over missile attack can be addressed through multilateral arms control.

Addressing East Asian Security

In addition to securing beneficial relations with the major powers, China also faces challenges issuing from the Korean peninsula, the South China Sea, and the budding regional security mechanism.

The Korean peninsula has become the focus of attention in recent years not only because it is the only place where the legacy of the Cold War is still very much alive, but also for a perceived danger of either "implosion" or "explosion" in North Korea resulting from the severe food shortage and economic hardship. China's position on the Korean peninsula can be interpreted as the following. First, Beijing wishes to see the preservation of peace and stability on the peninsula and will continue to pursue the "two Korea" policy, as do many other states. China moves carefully between the two Koreas so as to keep its relations with them in equidistance and abstains from drawing too close to one side at the expense of its ties with the other.[7] Second, China obviously does not want to see North Korea acquire nuclear capability and will continue to cooperate with the United States and other countries to ensure the implementation of the U.S.–North Korea nuclear framework agreement. Third, for political and strategic considerations China does not want to see North Korea collapse, and will therefore do its best to help Pyongyang tide over the ongoing economic crisis. Contrary to some pessimistic views about the future of the DPRK, the mainstream opinion in China holds that a "hard landing" is unlikely since there seems to be no sign of serious power struggle within the leadership; Kim Jong Il holds his position firmly in spite of the defection of Hwang Jang-yop and the food shortage has not yet reached a point as to challenge the social and political stability. Overall, Pyongyang still maintains effective control of the situation.

Beijing would like to play a positive and constructive role in the Four-Party Talks. This is not only because the talks will help reduce tensions on the peninsula and may lead to the ultimate establishment of a new peace mechanism replacing the 1953 Truce Treaty to which China is a party, but also because China does not want to be excluded from the process of bargaining new security arrangements on the peninsula, where it has important geostrategic interests. Nonetheless, there seems to be a long way to go before any serious discussion can start on building the new peace mechanism. To some extent, it depends on how far Washington wants to go in addressing Pyongyang's diplomatic, economic, and security needs. So far as China is concerned, it will play its role as a useful mediator between the DPRK on the one side and the United States and the ROK on the other. While Beijing will sympathetically support Pyongyang's legitimate political, economic, and security claims, it should also make it clear to the North Koreans that the four-way talks are not a card that can be overplayed. Each side must approach this venture seriously; it has the potential to reduce tensions and promote long-lasting stability on the peninsula, which serves the interests of all parties concerned. Beijing should also be prepared to provide, along with the United States, the necessary external guarantee to the new security mechanism once it is struck.

Thus far there seems to be little discussion taking place within China's academic and policy circles about China's attitude toward reunification and the post-unification security arrangements on the peninsula. Yet it is safe to say that Beijing is unlikely to take any steps to

[7] Due to the normalization and the subsequent rapid warming of China–South Korean relations, Beijing-Pyongyang relations cooled after 1992. Cognizant of this problem, China has taken some steps since 1995 to repair its ties with North Korea.

slow or obstruct the process even though China may have some concerns about a unified Korea.[8] China hopes the process of unification will proceed gradually and peacefully. It will not favor a scenario in which the North suddenly collapses and is absorbed by the South. Beijing also holds that unification should be managed by the Koreans themselves, and opposes any direct military intervention by other major powers without obtaining China's acceptance and acquiescence in either bilateral or multilateral settings. Once unification occurs, China will carefully watch how the unified Korea sets its strategic orientation. From the Chinese perspective, the best scenario would be for Korea to pursue a neutral line in major-power-dominated surroundings so that the Korean peninsula remains free from the competition of the major players. If a unified Korea chooses to keep its security alliance with Washington and remain in the U.S.–East Asian strategic orbit, however, China will have no strong grounds for opposition, but Beijing will hope that the alliance be more politically and less militarily oriented. If Korea allows the United States to maintain its military presence on the peninsula, it may help to make Beijing comfortable if the level decreases substantially and the troops are stationed further southward. The post-unification security arrangements on the peninsula depend on several variables, such as public opinion in Korea, how unification comes about (takeover of the North by the South or peaceful mutual integration), and what role external powers play in the unification process.

Compared with the Korean peninsula, the South China Sea dispute has more direct relevance to China's national interests in terms of the sea's profound maritime resources and its strategic location across the shipping lanes between the Middle East and East Asia. In recent years, Beijing has directed more attention to the sovereignty dispute over the Nansha (Spratly) Islands, while the situation has become more complicated. Although Beijing still hopes to find a solution favorable to its interests, two emerging trends pose difficulties. One is the internationalization of the dispute. So far China has insisted that sovereignty disputes be addressed in bilateral rather than multilateral settings. However, in July 1995, the ASEAN Regional Forum (ARF) outlined a three-stage development plan consisting of confidence building, preventive diplomacy, and conflict resolution. Although ARF is still very much in the first stage, as it moves toward the second and third stages the South China Sea issue unavoidably will be brought on to the agenda. In addition, since 1995, China and ASEAN have been involved in an annual political and security dialogue, which, though nominally bilateral, is in essence a multilateral interaction, and the South China Sea issue has been on the agenda from the outset.

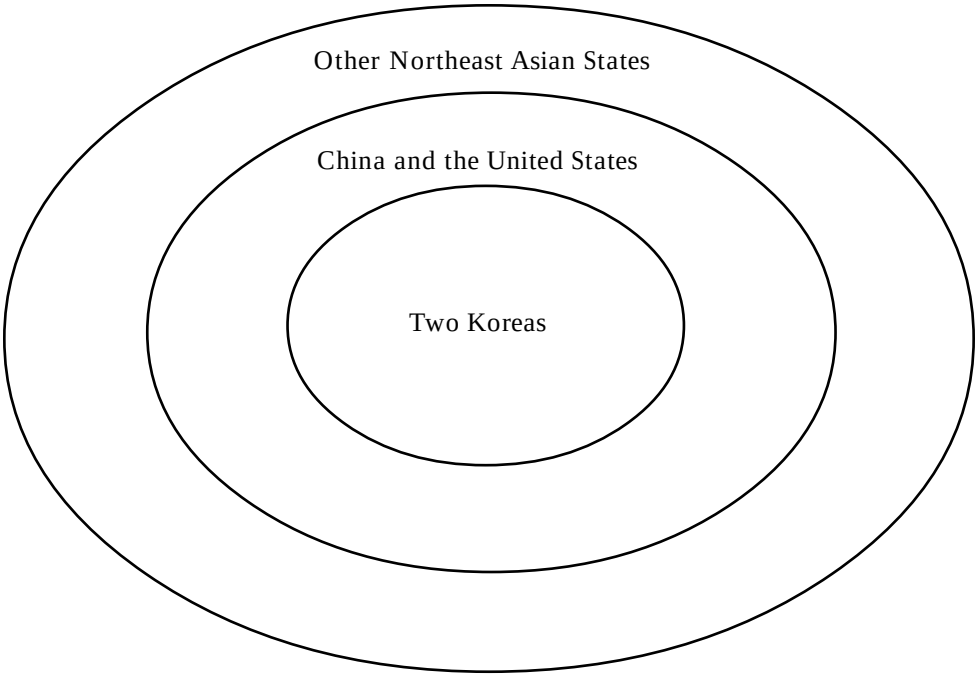
The second emerging trend on the South China Sea issue is that diplomatic means seem to outweigh military options. It is true that China did use force in 1974 and 1988 to assert its sovereignty claim over the Xisha (Paracel) Islands. What China confronts now on the Nansha dispute, however, is neither a tottering South Vietnamese regime nor a Vietnam isolated and abandoned by the international community because of its occupation of Cambodia, but ASEAN, which is viewed by Beijing as a political asset rather than a political liability to China in the post–Cold War world. Beijing simply cannot afford the costs of a military option, which would not only antagonize all of Southeast Asia but probably drive ASEAN, the United States, and Japan into an anti-China union.

[8] This concern is actually twofold: first, since there is a border problem between China and North Korea, a unified Korea may raise its territorial claim with China, just as Vietnam did in the wake of its unification; second, if a unified Korea stands as a close security ally to the United States, China's security environment in Northeast Asia will be directly affected.

It is very likely that before an ultimate solution is secured China will take a status quo approach to the South China Sea issue. Beijing will not give up its claim to the Nansha Islands, nor will it attempt to challenge other parties' holding of some islets and reefs. There may be from time to time rows and incidents issuing from fishing and exploration in the disputed areas, yet none of these will escalate into major political and military conflicts.

The past two years have witnessed an obvious shift in China's position on multilateral security. In comparison with the reluctance and suspicion with which Beijing regarded ARF in the beginning, it has now become more active in and enthusiastic toward the organization in deeds as well as rhetoric. At the 1996 annual meeting of ARF, for instance, Beijing proposed to cosponsor with the Philippines an ARF confidence-building conference in Beijing in spring 1997. Several factors led to the adjustment in China's attitude. First, China once worried that the United States might somehow gain control of the forum and use it as simply one more tool to constrain or pressure China, and this has turned out not to be the case. The ASEAN states have successfully resisted Washington's attempt to set the agenda and still hold the initiatives in their own hands. Meanwhile, the ASEAN countries so far appear to be navigating the forum cautiously, taking actions on the basis of consultation and consensus and giving much consideration to China's sensitivities. Second, China has found the forum useful in several ways. ARF may supplement ongoing bilateral efforts in promoting confidence building and contribute to the improvement of the overall security atmosphere in East Asia. By getting actively involved in ARF's activities, China calculates that this may help lessen the region's concern over China's growing strength, especially its defense modernization program. Also, as some people suspect, advocating multilateralism may serve to undermine the political and moral basis of the U.S. efforts to strengthen its bilateral security ties in the region.

This does not mean, however, that China will embrace multilateralism wholeheartedly. In fact, Beijing still has some reservations about ARF. It rejects any discussion of the Taiwan issue in the forum and would probably run the risk of quitting rather than accepting such. Beijing will also continue to resist the attempt to bring the South China Sea issue on to the agenda. Nonetheless, as ARF moves down the road Beijing may find it difficult to continue to do so, and in that case it would do its best to prevent ARF from passing any major binding resolutions that may disadvantage China on the issue. Finally, Beijing continues to view ARF as a supplement to rather than a replacement of its own efforts to augment its security coefficient, and therefore will not slow or scale down its military modernization drive. Yet Beijing may try to increase its defense transparency in the framework of ARF so as to mitigate its neighbors' anxiety over the buildup of China's military capability. With regard to the initiative on a Northeast Asian security mechanism, Beijing basically has no objection so long as it will not bring in Taiwan. From the Chinese perspective, such a mechanism has two obvious merits. One is that it will provide a useful multilateral framework for addressing the Korean issue. While it is understood that this issue must ultimately be resolved by and between the two Koreas, the geopolitical reality in Northeast Asia requires a certain degree of "constructive intervention" by the external powers, especially China and the United States. The situation here resembles three concentric circles. The inner circle represents the two Koreas, the middle layer encompasses China and the United States, and the outer circle includes other Northeast Asian states. The two outer circles are supposed to provide necessary diplomatic and economic assistance to fuel the operation of the inner one. The other utility of a Northeast Asian security mechanism is the establishment a multilateral structure for the interactions of the major powers. Currently, all of the four major powers in



A Northeast Asian security mechanism as seen in the context of the Korean issue

the region—China, Japan, Russia, and the United States—deal with one another mainly in bilateral settings. It now seems necessary that they interact in a multilateral framework, which will be especially useful for the trilateral relations among China, the United States, and Japan. For instance, were a multilateral security mechanism in Northeast Asia already in place, more light would have been shed on the redefinition of the Japan-U.S. alliance, helping to reduce China's suspicion and concern. Other issues, such as concern over China's long-term strategic intentions and its military buildup, can also be addressed in this framework. For the first time since the late nineteenth century there is no strategic confrontation among the four major powers, which makes possible the establishment of a Northeast Asian security mechanism. Meanwhile, two almost concurrent events—the redefinition of the Japan-U.S. alliance and the conclusion of the Sino-Russian strategic partnership—are reminiscent of the Cold War 1950s, when the Sino-Russian alliance stood against the Japan-U.S. alliance and there were calls for the creation of a new security framework to help shape the relations among major powers in a manner conducive to regional stability.

Some have suggested addressing Asia Pacific security issues in a regionwide mechanism, such as setting up a Council for Security Cooperation in Asia–APEC. Beijing appears uninterested in this initiative for a couple of reasons. First of all, the geographic breadth and diverse security interests of the region would make such a regional security mechanism overly broad and thus less effective. Singapore and Australia, for instance, may not have much interest in discussing the Korean issue, while the two Koreas and Russia seem indifferent to the South China Sea dispute. Second, such a regionwide mechanism, either in the form of CSCAP or APEC, is likely to be controlled by Washington, as no other single state has this capability, and Beijing certainly does not see this as serving its interests. Third,

if this is done in the framework of the APEC, Taiwan, an APEC member, will naturally become a party to the security mechanism. Beijing's position is that as Taiwan is not a sovereignty entity, it should not be allowed to participate in any international political and security regimes open only to sovereign states.

Managing Hong Kong and Taiwan Issues

Hong Kong's smooth transfer to China put an end to the long-standing concern over uncertainty in the transitional period from 1984 and 1997. Yet one question remains: Can Beijing maintain Hong Kong's long-term prosperity after the handover?

There are a variety of reasons to believe that Beijing would like to see Hong Kong remain as it is. Hong Kong boomed under British administration; if China is unable to sustain its prosperity, Beijing will lose face before the whole world. Economically, Hong Kong is a major source of capital, technology, and employment for the mainland. It provides 55 percent of the overseas direct investment in China and has created millions of jobs for South China provinces. What is most important is Hong Kong's implication for Taiwan. Beijing expects that Hong Kong's thriving after transfer will demonstrate forcefully to Taiwan, and to the rest of the world as well, that the formula of "one country, two systems" does work, and that this will considerably undermine Taiwan's resistance to unification.

Several factors led to Hong Kong's success under the British administration: the competent and virtually corruption-free civil service, respect for the rule of law and individual freedom, freedom of speech and press, and equal opportunity for all enterprises, be they native or foreign. Beijing seems to understand the value of these factors and appears ready to preserve them. The real challenge confronting Beijing is twofold: to what extent Beijing can tolerate the budding democracy in Hong Kong, and how to prevent corruption and other irregular behaviors prevailing in the mainland from spreading there.

There are no easy answers. So long as the democrats in Hong Kong do not try to attack the CCP and its leaders and challenge the CCP's hold on power, or try to get a pro-Western and anti-China government in Hong Kong, Beijing is unlikely to intervene. And, Beijing has already adopted some administrative measures to prevent privileged personnel and groups on the mainland from exploiting their power and relations in Hong Kong; given the fact that Beijing does want to preserve Hong Kong's prosperity, it would like to take even tougher actions in this regard if Hong Kong warns of the danger of the infiltration of corruption and other irregularities from the mainland. Fundamentally speaking, however, this issue must be tackled through the pursuit of the rule of law on the mainland itself.

Viewed from an economic perspective, Hong Kong's return will facilitate its economic growth. It should be much easier for Hong Kong to gain access to the low-cost labor, raw materials, and expanding market on the mainland, for example. In addition, so long as China sustains its economic growth, Hong Kong's transit business will continue to boom. As more and more economic hubs develop in China's coastal areas, competition may arise between them and Hong Kong, yet Hong Kong's unique role in China's economic development—as a center of finance, trade, and information—can never be replaced. In the foreseeable future, Hong Kong's economic prospects appear quite bright.

Hong Kong exists not only as a cash cow for Beijing. It is likely to play an important role in cross-strait relations as well as in China's process of democratization. In the current

structure of "two sides (of the Taiwan Strait) and three places (mainland, Hong Kong, and Taiwan)" (*liang an san di*), Hong Kong has close political and economic ties with both Taipei and Beijing, and is therefore able to stand as a bridge between them. Indeed, Hong Kong is not only an ideal go-between for Taiwan and the mainland, but also a place where the two sides can meet to talk. At the same time, Hong Kong is also the closest example of democracy to people on the mainland. In the information era, they will watch closely how democracy works in Hong Kong and will draw on Hong Kong's experience in advancing China's democratization.

China's March 1996 missile exercise in the Taiwan Strait and Hong Kong's return on July 1, 1997, highlighted the question of Taiwan's future. In fact, these two events portend two different approaches to the Taiwan issue: one is a military solution, and the other is peaceful unification. Basically, there are four variables affecting the future of the Taiwan issue: the internal dynamics in both the PRC and Taiwan and the shifting balance of power across the Taiwan Strait and between China and the United States.

The huge economic and political gap between the two sides of the Taiwan Strait stands as a major obstacle to unification. Taiwan's per capita income is about twenty times that of the PRC, and therefore many Taiwanese fear that the prosperous island will be submerged in a sea of poverty once unification comes. Politically, Taiwan has completed its political transformation and established a Western-style democracy, while the PRC still adheres to its authoritarian political system. Things are changing, however. The PRC's economy has experienced rapid growth for almost two decades, and it is believed that it will continue to boom well into the twenty-first century. As economic prosperity raises the people's standard of living, it makes the society more open and pluralistic, and in the post-Deng era gradual political reform will lead to growing acceptance of the rule of law and further democratization. All these will help narrow the economic and political gap between the mainland and Taiwan.

The balance of power across the Taiwan Strait is further shifting to the advantage of the PRC. In terms of both hard and soft power, the mainland takes the lead vis-à-vis Taiwan, and its lead will widen further. So far Beijing has been doing quite well in dealing with the Taiwan issue. It has succeeded in preventing the international community from recognizing Taiwan as a sovereign state. Cross-strait economic, cultural, and social links have been considerably expanded since the late 1980s. With the reversion of Hong Kong, direct commerce, communication, and transportation between Taiwan and the mainland will be unavoidable despite Taipei's resistance, and this will greatly further Beijing's objective of achieving unification through integrating Taiwan into a web of links to the mainland. From Beijing's perspective, Hong Kong's return has set in motion the process of national unification, and the template has been established for the solution of the Taiwan issue; i.e., peaceful unification in the formula of "one country, two systems." What remains undecided is when it will come about.

The United States is a crucial factor in the unification equation. Although it might be true that the United States does not really favor Taiwan's return to China, policymakers in Washington have to be realistic with regard to the changing balance of power in East Asia and America's growing stake in relations with Beijing. After all, the United States is unlikely to fight a major war with China simply for the sake of Taiwan. Furthermore, past experience indicates that if Washington finds that there are more important interests at stake in relations with Beijing than with Taipei, it is ready to compromise. And, needless to say, U.S. interests in an emerging world power far outweigh those in the island. Once Washington

finds unification both inevitable (given, for instance, Beijing's further ascendancy in the balance of power across the Taiwan Strait and the steady narrowing of the political and economic gap between the mainland and Taiwan) and acceptable (by peaceful means), then the United States is unlikely to stand in the way.

The real challenge to unification issues from internal developments in Taiwan. Recent years have witnessed declining support on the island for unification and rising preference for independence. The mainstream faction within the Nationalist Party (KMT) seems to be merging into the Democratic Progressive Party (DPP) to become an anti-unification and pro-independence force capable of dominating Taiwan's political arena. These two parties have collaborated in several legal and administrative measures, such as revoking Taiwan's provincial status and revising the constitution, aimed at strengthening the island's position as a de facto independent state. These developments seem to be drawing Taiwan away from China. What prevents Taiwan from taking the final step—declaring independence—is the likelihood that Beijing would resort to force and the unlikelihood that the United States would fight for Taiwan's independence.

Overall, with Hong Kong's return the Taiwan issue has become more salient in China's national agenda. Yet this does not mean that Beijing is going to set the timetable for unification. So long as Taipei respects the status quo in cross-strait relations and does not cross the line, Beijing will continue to concentrate on its domestic development and will not push Taiwan too hard. Should the movement in Taiwan toward independence gather momentum, however, China might be forced to a showdown. While it is unlikely that Taiwan will risk declaring independence in the foreseeable future, the prospect of unification remains remote, depending to a large extent on the PRC's social, economic, and political developments as well as the flexibility of its policy toward Taiwan.

China's Defense Modernization Drive

The PLA's recent round of modernization covers three areas: military doctrine, force structure, and weapons systems. After the Gulf War, the PLA decided that in the post–Cold War era it should be prepared to fight a limited, high-tech war conducted under modern conditions, rather than the world war or large-scale anti-aggression war for which it focused its preparations during the Cold War. In keeping with the new defense doctrine, the force was restructured in the priority order of navy, air force, and army, while in the traditional force structure priority was given to the ground forces. Efforts also have been made to develop the PLA's rapid reaction capability by building some well-equipped "first units." With regard to the upgrading of the PLA's outdated weapons systems, emphasis is placed on the development of air and naval electronic systems, improved missile and aircraft guidance systems, precision-guided missiles, the construction of communications and early-warning satellites, and in-flight refueling technology.[9] While mobilizing its own military research and development capability, China also has purchased from Russia a variety of advanced weapons, including Su-27 fighters, S-300 surface-to-air missiles, Kilo-class conventional submarines, and missile destroyers.

[9] Michael Swaine, "China," in Zalmay Khalilzad, ed., *Strategic Appraisal, 1996* (Santa Monica: RAND Press, 1996), 203–204.

Although concerns over China's military buildup are understandable, it should be kept in perspective. The PLA's weaponry is believed to be about thirty years behind that of the U.S. and Russian armies, and to a lesser extent behind that of Japan's, South Korea's, and Taiwan's forces. During the most of the 1980s, China's military modernization program gave way to economic growth and hence its defense budget experienced a relative decline. Deng Xiaoping told the PLA that it should "tolerate" the situation, yet there are limits to its tolerance. In addition, Beijing does have real security concerns that warrant modernizing its forces. It lives with more neighbors than any other state; ethnic and religious entanglements as well as border disputes strain its sense of security. The Taiwan issue remains unresolved although Beijing is committed to a peaceful solution, which can be secured only when the PRC maintains a reliable deterrent vis-à-vis Taiwan and possibly the United States as well. What concerns Beijing most are the recent developments in the United States' East Asian security strategy. The Clinton administration's decision to maintain the U.S. military presence in the western Pacific at the level of 100,000 rather than to implement the staged reduction as planned by the Bush administration and the redefinition of the U.S.-Japan and U.S.-Australian security alliances are all seen by Beijing as part of a potential U.S. strategy to contain a rising China. Finally, it is a matter of national prestige to maintain a national arsenal commensurate with China's major power status. In this regard, it is important to note how strongly the Chinese felt when the PLA's navy was described by a foreign journalist as "a heap of scrap iron" when compared with the Japanese navy. In a sense, China's military buildup is a natural and inevitable development of its emergence as a major power.

There are some limits on the PLA's modernization drive. First and foremost is the budgetary constraint. Beijing has made it clear that defense modernization should not be pursued at the expense of economic growth and, at least at the current stage, there seems to be no need for this. Although there has been a steady increase in the PLA's spending, given the low starting point and the magnitude of the army the upgrading of its weaponry has to be selective and relatively slow. In other words, the budgetary constraint affects the pace and scope of the military buildup. Second, due to limited resources as well as the need to preserve the PLA's independent weapons systems, China will rely mainly on its own defense research and development sector to improve the PLA's arsenal of weapons. Given its backward technological capability, however, there is a long way to go before the PLA can substantially narrow the gap with its counterparts in the West. Third, being aware of its neighbors' concern Beijing is unlikely to develop a strong power-projection capability. The PLA may not have an aircraft carrier in the next decade, for instance, not just because of the lack of wherewithal but also because Beijing suspects that by doing so it will increase talk of a "China threat" and alienate China from most of its neighbors, especially those in Southeast Asia.

To sum up, China's defense modernization will be a gradual and relatively slow process that is not likely to lead in the next decade to any drastic improvement in its military capability. According to Michael Swaine, China will remain militarily vulnerable two to three decades from now.[10] So long as the United States maintains its forward deployment in the western Pacific, China's military buildup is unlikely to disrupt the existing balance of power or cause an arms race in East Asia.

This does not mean, however, that the PLA's modernization drive has no impact on the regional security environment at all. The reality that a rising power is steadily strengthening

[10] Michael Swaine, *China: Domestic Change and Foreign Policy* (Santa Monica: RAND Press, 1995).

its military might certainly arouses concerns among regional neighbors. Beijing should recognize—as it does—such concerns and work to address them. To this end it is desirable that China take significant steps to increase the transparency of its strategic intent, military doctrine, weapons procurement, and defense budget.[11] It would also be useful for China to take a more active stance on cooperative security and to pursue multilateral confidence-building and preventive diplomacy, such as conducting joint military exercises or allowing the observation of its military exercises by others. Finally, there seems to be an urgent need to create a trilateral strategic dialogue mechanism involving China, Japan, and the United States, not only to improve relations among the three major players but also by so doing to provide a stable strategic framework for the entire region.

Since 1949, China's relations with the outside world have assumed three different patterns, each with different ramifications for regional security. The first is the joining of one bloc against the other, as Beijing did in the 1950s by standing with the Soviet-led communist camp against the U.S.-led capitalist camp. The second pattern is to pursue autarchy and disconnect itself from the rest of the world, as was the case in most of the 1960s and the 1970s. The third pattern is to participate in the international system, as the PRC has been doing since the 1980s. While the first two patterns of behavior exacerbated tensions, conflicts, and turmoil in East Asia, the third has contributed remarkably to regional stability. Overall, China's approach to the outside world is driven by two factors: its domestic agenda and Beijing's perception of the external threat to its national security. While China's current internal priority, economic growth, requires it to continue on the integration path, the perception of its security environment is by no means insignificant in the PRC leadership's calculus. Should the security environment remain stable and favorable, Beijing will be more confident and cooperative vis-à-vis the outside world; if the international community overreacts to China's ascendance, however, China may become hesitant, suspicious, and less predictable, and this in turn will adversely affect regional stability. Therefore, China's impact on East Asian security not only depends on its internal development, but also on the external reaction to its growing power.

[11] There has been heated discussion over the real figure of China's defense budget. The real problem here may not be so much the unwillingness of the Chinese government to tell the truth, but how to measure it. Western observers find this figure incredible because they measure it in terms of foreign exchange, and this in fact does not make much sense since most of the PLA's budget is spent within China itself, while only a small portion of it is spent abroad as U.S. dollars. The more accurate way to measure China's military allocation, therefore, is through purchasing power parity, which will triple and even quadruple the current figure, making it close to the Western estimates.

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