

东亚研究所通讯

INSIDE PAGES

...

Dangerous Relations between China and Japan

China and Japan: A Psycho- Historical Warfare

Over-Balancing towards Asia? US Options in Choppy Waters

Air Defence Identification Zone: Maritime Conflict's New Territories

Not in China's Interest to Declare Air Defence Identification Zone over the South China Sea

South Korea-Japan Relations: Reflections from a South Korean View

Cross-strait Economic Integration Proceeds with Political Uncertainties

The Third Plenum and China's Elite Politics

China's Blueprint for Social Reform

The Third Plenum Lays China's New Road-map for Economic Reforms

Dangerous Relations between China and Japan

China-Japan political relations are becoming increasingly hostile despite considerable economic interdependency

LAM PENG ER

China and Japan are playing a game of brinkmanship over the disputed Senkaku (Diaoyu) islands in the East China Sea. Bilateral relations nosedived when the Noda administration nationalised the Senkaku (Diaoyu) islands in September 2012 much to the chagrin of Beijing. Chinese maritime surveillance vessels have increasingly challenged Tokyo's claim of sovereignty and effective control of the Senkaku (Diaoyu) islands by making its periodic presence felt in that vicinity. Though the "game of chicken" in the disputed islands is played by the Japanese coast guard and the Chinese maritime surveillance vessels and not by their respective navies, an accidental collision even by non-military ships will inflame national passions and further damage Sino-Japanese relations.

Even more troubling is the game played in the airspace of the disputed islands because Tokyo has scrambled its military aircraft to intercept Chinese planes entering the vicinity of the Senkaku (Diaoyu) islands. Any mid-air collision (even if it is accidental) will be a disaster for bilateral ties. Apparently, Prime Minister Abe Shinzo has also authorised the shooting down of unmanned Chinese drones in the vicinity of the Senkaku (Diaoyu) islands if necessary but a Chinese official spokesman warned that such a hostile action is tantamount to an act of war. Beijing has also upped the ante by declaring its ADIZ (Air Defence Identification Zone) in the East China Sea and over the disputed islands.

Even though China and Japan enjoy considerable economic interdependency, their political relations are becoming increasingly hostile. Unfortunately, their festering territorial dispute and competing narratives of history have poisoned the outlook of Chinese and Japanese public opinion towards each other. According to a joint 2013 poll by the *China Daily* and the Japanese Genron NPO, around 90% of the masses on both sides have a negative view of their neighbouring country. Top Chinese political leaders also refused to hold a summit with Prime Minister Abe even before his December 2013 visit to the Yasukuni Shrine (a symbol of Japanese imperialism and militarism to the Chinese and Koreans). The Chinese reiterated that Abe has "closed the door" to a summit by visiting Yasukuni Shrine where the souls of 14 Class A war criminals are reposed.

The puzzle is why did Abe wilfully go to the Yasukuni Shrine even though it would greatly offend and infuriate the Chinese and damage bilateral relations? According to Abe, he went to Yasukuni to honour the victims of war and pray for world peace. Abe's true intentions are of course known only to himself. But Abe did mention that it was his great regret not to visit the Yasukuni Shrine during his first stint as prime minister between 2006 and 2007. Obviously, a Yasukuni Shrine visitation is Abe's ideological credo as a rightwing nationalist. While Abe's visit to the Yasukuni Shrine resonated with some of his Cabinet ministers, MPs of the ruling Liberal Democratic Party and almost half of the Japanese public, there is no international support for this visit even from Japan's American ally.

There is also the view, rightly or wrongly, that Abe went to the Yasukuni Shrine

continued on page 15

Asia's Paradox: Antagonism despite Interdependency

South Korean President Park Guen-hye remarked in May 2013: "The region's economies are gaining even greater clout and becoming more and more interlinked. Yet, differences stemming from history are widening ... Asia suffers from what I call 'Asia's Paradox'—the disconnect between growing economic interdependence on the one hand, and backward political, security cooperation on the other".

In actuality, the 10 countries in Southeast Asia are poised to become an ASEAN political, economic and social community by 2015. But Northeast Asia suffers from an "institutional deficit". Indeed, no regional institution exists in Northeast Asia which integrates China, Japan and South Korea together as a community with a common vision and destiny, and shared values.

Though the three Northeast Asian neighbours are becoming more integrated in an Asian production network (with parts sourced from different East Asian countries and final assembly in China), China and South Korea are becoming more estranged from Japan over competing narratives of history and territorial disputes. Especially troubling is the escalation of tension between Beijing and Tokyo over the disputed Senkaku (Diaoyu) islands. By "playing chicken" at sea and in the air in the vicinity of these disputed islands, both China and Japan may trigger an accidental conflict. Unfortunately, the top political leaders of both countries are not holding a summit to discuss their common problems, establish a hotline or consider a crisis management system. Dialogue and reconciliation became even more elusive when Prime Minister Abe Shinzo wilfully went to the Yasukuni Shrine (the symbol of

Japanese imperialism to the Chinese and Koreans) in December 2013. Despite Abe's claims that he went to Yasukuni to honour the victims of war and to pray for peace, this act greatly offended the Chinese and Koreans because the souls of 14 Class A war criminals are reposed at Yasukuni.



Professor Zheng Yongnian
EAI Director

Arguably, the mostly likely candidate for war in East Asia is probably the Korean peninsula. The Six-Party Talks have gone nowhere. Pyongyang is suspected of possessing a few nuclear warheads and its regime is opaque, appears unstable and is perhaps the last totalitarian system in the world based on the adoration of a single leader, single ideology and indoctrination, mass mobilisation and militarisation. But it is not inconceivable that in East Asia today, conflict (accidental or otherwise) may break out in areas beyond the Korean peninsula. Potential areas of conflict may be in the Taiwan Strait, East China Sea and the South China Sea. This issue of the *EAI Bulletin* examines the paradoxical and contradictory features of conflict and cooperation between different sets of East Asian states. On behalf of the Institute, I wish all readers a belated Happy Year of the Horse. ■

EDITORIAL COMMITTEE

Prof Zheng Yongnian
eaizyn@nus.edu.sg

Dr Lam Peng Er
eailampe@nus.edu.sg

Ms Jessica Loon
eailmh@nus.edu.sg

EAI Bulletin is published twice yearly by the East Asian Institute (EAI), an autonomous research organisation set up in April 1997 under a statute of the National University of Singapore. EAI succeeds the former Institute of East Asian Political Economy (IEAPE).

All rights to the materials in this newsletter belong to EAI. The views expressed in this newsletter are those of the authors and do not necessarily reflect the views of EAI. The Institute welcomes contributions and comments from readers.

Please address all correspondence to: **Mr James Tan**, East Asian Institute, 469A Tower Block #06-01, Bukit Timah Road, National University of Singapore, Tel: (65) 6779 1037 • Fax: (65) 6779 3409 • Email: eaitanj@nus.edu.sg.

<http://www.eai.nus.edu.sg>

China and Japan: A Psycho-Historical Warfare

Japan's escalation of the tension in the East China Sea is targeted at the United States: It wants to regain the status of a "normal state" from America before China becomes too powerful

LANCE L P GORE

The rocky relations between China and Japan in the last couple of years are symptomatic of a long and complicated historical struggle that is pressing for resolution. Japan has enjoyed peace and prosperity under America's protective wings since the end of World War II but that comes with a cost—Japan being “an abnormal” nation in the sense that its security dependence on the United States has deprived it of the role as a major political power befitting the size of its economy.

Given its economic strength and technological prowess, Japan is entirely capable of defending itself, which makes the dependence seem an uncomfortably forced one.

Now that China has replaced Japan as the world's second largest economy and is on course to become the largest, the window is rapidly closing for Japan to become a political power to be reckoned with. Japanese Prime Minister Abe is seizing this closing window of opportunity, and that is the root cause of the current tension between Japan and China.

History is the key in this monumental struggle between the two long-term rivals. China attempts to hold a psychological edge over Japan by bringing up at every opportunity the aggressions and war-time atrocities committed by Japan, and by painting the Japanese as unrepentant militarists.

To overcome that advantage Japan has pursued a revisionist line to recast history in a different light under which Japan appears less sinister and more of a victim. Indeed deep down many Japanese, especially among its ruling elite, consider Japan to be a victim of World War II; they harbour the grudge against the “American genocide” in the Tokyo fire-bombing and the atomic explosions at Hiroshima and Nagasaki.

The shrine visit, the attempts to paper over its wartime atrocities and the denial of the “comfort women” record, the revision of history textbooks, the drive to revise the pacifist constitution written by the Allied Supreme Command under General McArthur during post-War occupation etc all reflect a drive to become a “normal nation” unburdened by historical guilt.

However, to normalise Japan will have to tackle the “American problem”. Unlike that between Germany and the United States, culturally the US-Japan alliance is an unnatural one. The occupier-turned ally is to be utilised but not trusted, especially when the United States needs the cooperation of China in dealing with so many world affairs. Being a junior partner militarily dependent on the United States is the ultimate reason why Japan is not a “normal” nation.

Japan's seemingly deliberate escalation of the Diaoyu/Senkaku conflict towards a showdown that involves the

United States is to create the conditions for gaining greater space of manoeuvre from the American leash—to expand its military, to gather support for revising the pacifist constitution and eventually to gain full sovereignty. A constitution written by foreigners has to be a shame on the national psyche.

With relative decline of national power that is spread increasingly thin with policing the world, the United States needs a stronger Japan as a counterbalance to a rising China. However, it needs Japan as a junior partner kept under tight leash. There is a fine line with which the United States must maintain a delicate balance between these two objectives. The determined effort by Abe to “normalise” Japan threatens to tip that balance.

Abe's revisionism antagonises Korea and is sabotaging US efforts to build a tripartite alliance of the United States, Japan and Korea to present a united front to a more confident China, while also trying to avoid antagonising the Chinese.

As a giant that for millenniums was the preponderant if not the sole power on the Western Pacific, China has a psychological propensity to regain that historical status. That entails the psychological and symbolical, if not physical, re-subjugation of Japan. Short of that China will not be able to wash away the shame inflicted upon it by Japan in two previous wars.

Hence China and Japan are on a psycho-historical collision course with a high degree of inevitability. In the long run the Sino-Japanese rivalry is likely to end in China's favour—even if only symbolically, simply because China is so much bigger and on an ascending trajectory while Japan is on slow but steady long-term decline.

And unlike France and Germany that had co-existed for a long time as relative equals before the War, China and Japan had never in history entered into such a relationship. They are psychologically incapable as yet of treating each other as equals. In fact they look down upon each other.

America plays a crucial role in this rivalry but has little appreciation of the Eastern psycho dynamics that are going on in this region. Japan and China can only begin to learn to get along when they move away from mutual demonisation to developing mutual respect. Japan does not respect China because it considers itself defeated by America, not by China, in World War II.

However, if by treaty obligation the United States helps Japan to defeat China this time, it will not induce respect for Japan from China; it will only reset the contest and start the rivalry anew. America is keeping both Asian nations from maturation. ■

Lance L P Gore is Visiting Senior Research Fellow at EAI.

Abe's revisionism antagonises Korea and is sabotaging US efforts to build a tripartite alliance of the United States, Japan and Korea to present a united front to a more confident China.

Over-Balancing towards Asia? US Options in Choppy Waters

Is China a competitor with whom the United States can negotiate or is it a challenger that the United States should counter?

BRANTLY WOMACK

US Secretary of State Hillary Clinton's announcement in November 2011 of a "pivot" towards Asia was literally a qualified success. American actions stirred Asian hopes for a greater and more stable US presence, but some, especially China, were concerned about a possible anti-China angle to the initiative. Thus it was re-baptised as a "rebalancing" towards Asia by Defence Secretary Leon Panetta in December 2012, and President Barack Obama and President Xi Jinping met in an informal summit in June 2013. Nevertheless a fundamental ambiguity remains in American strategic diplomacy: Is China a competitor with whom the United States can negotiate or is it a challenger that the United States should counter?

The dilemma is sharpened in 2014 by the prospect of confrontation in the East China Sea. Although the Senkaku/Diaoyu islands are insignificant in themselves, the diplomacy of both sides has created a face-off with no easy exit, and the militarisation of the area has created the possibility of an unplanned military incident creating an acute and rapidly moving crisis. Moreover, even without a crisis relations between China and Japan are likely to explore new depths of hostility over the next few years.

The proximate question for the United States is how far is it willing to go in supporting Japan in the event of a crisis. To a great extent the decision will hang on the American judgement of the incident (if there is one) and its consequences. However, the US-Japan Security Treaty commits both sides to cooperate in the event of "an armed attack against either Party in the territories under the administration of Japan". Although the islands were not under the administration of Japan when the Treaty was ratified in 1960 they were transferred to Japanese control in 1971. Of course, the obligation is not specific and presumably if Japan did not need American defence presence it would not be requested. Certainly the United States would not be eager to confirm a hostile attitude towards China, but the credibility of its alliance commitments might be tested. Thus the United States has an interest in avoiding a crisis and an even greater interest in discouraging its escalation.

Even without a crisis, tension between China and Japan sharpens the American dilemma in Asia. Some American analysts have long supported a militarised "normal" Japan and the redirection of the American alliance system against China. They expect that when China reaches parity with the United States in gross domestic product a confrontation is inevitable. Others point out that the attempt to contain

China would be expensive and a self-fulfilling prophecy of conflict. Moreover, "parity" is an illusion. China's power is demographic—four times the population. The US power is technological—four times the productivity per capita. Besides the likely economic costs, the United States would lose leverage with China on a broad range of issues. And unlike the Cold War days the globalised world cannot be divided into exclusive camps. The Soviet Union isolated itself; China is present everywhere. Even if China and the United States called for camp followers the rest of the world has options of direct connection that go around both superpowers. In the long term, re-balancing against China is over-balancing; re-balancing with China is a better option.

Despite the loud noises of extremists, opinion polls in both the United States and China show that only a small minority of elites and the general public consider the other as an enemy. A decisive war between China and Japan is unthinkable, much less one between China and the United States. What lies behind the option of countering China is the inertial anxiety of losing a power advantage rather than a feasible strategic vision of the future. But strategy based on fear of the unknown produces an even less knowable future.

The decision-point presented to the United States by the current face-off between China and Japan is not that of choosing one or the other, but rather one of holding on to an increasingly unrealistic notion of American unilateral supremacy or accepting China as a negotiating partner. Interests differ between the United States and China and continuing rivalry is inevitable. However, on a range of issues including cyber security, weaponisation of space and activities in China's coastal waters, the American idea of security will have to be adjusted. As the only superpower after the Cold War, the United States became accustomed to equating its security with invulnerability. But increasingly it must rely on negotiated limits and protocols. The United States is still in a strong position for negotiation. As for containing China, it passed the point of no return long ago.

Japan will also have to live with China regardless of what happens in the disputed islands. If the United States cannot contain China, certainly Japan cannot either. And China will have to live with Japan. If the United States resolves its dilemma and decides to live with China it can do so side by side with Japan. ■

Brantly WOMACK is Visiting Professor at EAI.

Even if China and the United States called for camp followers the rest of the world has options of direct connection that go around both superpowers. In the long term, re-balancing against China is over-balancing; re-balancing with China is a better option.

Air Defence Identification Zone: Maritime Conflict's New Territories

China is changing the Cold War legacy of the US-centred Air Defence Identification Zone status quo

YOU JI

China's Air Defence Identification Zone (ADIZ) announcement in 2013 seemed to be untimely. Yet for such a revisionist move there can never be good timing – the waves of criticism would be well expected. Still allied reaction may be much stronger than Beijing's anticipation: It is similar to that experienced by the People's Liberation Army (PLA) missile tests in 1996. Now Beijing is still busily absorbing the negative ADIZ impact.

WHAT IS CHINESE ADIZ ABOUT?

China's President Xi Jinping assured US Vice President Biden in their long close-door meeting that China's ADIZ is not meant to challenge the US-centred status quo in Asia, but mainly aimed at Japan's ADIZ that extends close to Chinese boundaries. Yet this is not Beijing's primary purpose of setting the ADIZ. China's ADIZ initiative can be defined in both narrow and broad terms. The former expresses its declared meaning, namely enhancing early warning time for homeland air defence. The latter conveys a revisionist attempt against the Cold War ADIZ legacy, a part of the US-centric security order in Asia, for which strong US criticism is understandable.

The immediate aim of the Chinese ADIZ is largely tactical: countering US aerial-spy activities near the PLA's coastal bases. Such activities violate China's core national interests as it may negatively affect PLA's capacity to win in future wars. The painful lesson of EP-3 demonstrates that the PLA had no effective way to deal with US aircraft in China's adjacent airspace except for citing EEZ concept as bases for complaints. Yet the United States never recognises EEZs and its insistence on freedom of aviation in international space cannot be legally rebuked. A Chinese ADIZ based on US practices is a viable way to justify edging US spy planes away from Chinese airspace. The ADIZ was thus not a prompt act but one made after serious assessment, according to Xi.

To counter Japanese Air Self Defence Force's tailing of PLA aircraft was the second reason for a Chinese ADIZ. Tokyo's regular announcements of Chinese planes in Japan's ADIZ put China on the defensive. While the PLA follows Russians' way of disregarding Japan's ADIZ, its own ADIZ was a copy of the Air Self-Defence Force formula.

Thus Chinese ADIZ was derived more from a battle-field calculus than from a geo-strategic assessment. This may be a miscalculated move, given its impact on the ADIZ status quo. However, China's ADIZ is about having a mechanism of crisis control, not one of sovereignty imposition. Surely territorial factor is relevant vis-à-vis the coverage of the Senkaku/Diaoyu (S/D) in Japan's ADIZ. China's inclusion of the area is more of a political gesture largely for domestic consumption.

Here the real test is whether Beijing will enforce the ADIZ in the S/D area. It is not likely. One of Xi's 5-nos in regard to China's management of the S/D dispute is no military aircraft to patrol the area, a proportional response to Japan's S/D nationalisation. If PLA aircraft is dispatched to the area for ADIZ enforcement, it will escalate the dispute to a military level. Beijing is very cautious about these brinkmanship acts and there has so far been no Chinese ADIZ enforcement in the S/D area. To some extent the fundamental status quo has not been upset with the ADIZ announcement, at least not for now.

COPING WITH GRAVE FALL-OUT FROM THE ADIZ INITIATIVE

The ADIZ promulgation raised the level of security worries of Asian states in territorial tension. Although the required overflight report through the zone enroute to China is standard ADIZ provisions, it is an irritant for some state with its sovereignty connotations. The unspecified "emergency defensive measures" may not be a cause of war but may increase chances of mid-air standoffs, especially in the overlapped ADIZs in the East China Sea. The intentional ambiguity to cope with US spy planes leaves much space for misunderstanding or misinterpretation.

Behind-the-door diplomacy between Xi and Biden resulted in bilateral acquiescence on continuing existing rules of engagement (no PLA expulsion of US aircraft) and softer US opposition to the ADIZ. Beijing saw it as an "agree to disagree" understanding. The South China Sea (SCS) ADIZ presents a new challenge. Sino-Japanese political impasse prevents the two countries from formulating mutually acceptable rules of engagement over their overlapped ADIZs, signalling danger ahead.

The strategic after-effect of the ADIZ is America's conclusion that China is altering the existing world security order. Changing the status quo has now become a serious "crime" in international politics. US pivot will accelerate in the form of troop redeployment and allied cooperation. On the other hand, for Beijing, the previous ADIZ status quo strongly hurt its security interests and it could not sit idle about it forever. China will continue to challenge existing ADIZ arrangements, e.g. announcing a SCS ADIZ in due time despite its awareness of its consequences. As pointed out by General Qian Liang, China's ADIZ imposition is natural behaviour of top powers. Eventually other states will have to get used to it. ■

You Ji is Visiting Senior Research Fellow at EAI.

Not in China's Interest to Declare Air Defence Identification Zone over the South China Sea

China has much to lose if it declares an Air Defence Identification Zone over the South China Sea

LYE LIANG FOOK

There have been speculations that China will soon declare an Air Defence Identification Zone (ADIZ) over the South China Sea (SCS) following the ADIZ it has announced in the East China Sea. The SCS is an area that encompasses overlapping claims by China, Taiwan and four other ASEAN claimant states of Malaysia, Brunei, Vietnam and the Philippines.

This article argues that declaring an ADIZ over the SCS is an entirely different proposition from the ADIZ over the East China Sea. While the ADIZ in the East China Sea primarily pits China against Japan and to some extent the United States, an ADIZ in the SCS will essentially set China against much smaller states. This will severely dent China's peaceful development message and undermine its efforts to strengthen ties with these countries.

CHINA'S RIGHT TO DECLARE ADIZs

Immediately after China announced its ADIZ in the East China Sea on 23 November 2013, its defence ministry spokesman Yang Yujun stated that China will establish other ADIZs at "an appropriate time after completing preparations". A few days thereafter, China's foreign ministry spokesperson Qin Gang reiterated the same line that China will establish other ADIZs in "due course after completing relevant preparations". What can we gather from these statements?

China is stating that it reserves the right, as a sovereign country, to declare other ADIZs in line with its national interests. This interpretation seems in line with China's argument that since the 1950s, more than 20 countries including some big powers and China's neighbouring countries have set up similar ADIZs. Based on this logic, China certainly has the right to set up an ADIZ over the SCS if it deems it in its national interests to do so.

Citing Chinese government sources, an article carried by *Asahi Shimbun* in January 2014 disclosed that working-level air force officials have already worked out a draft plan for another ADIZ which, at the very least, would include the airspace over the Paracel Islands which China calls Xisha in Chinese. The air zone could also be extended to cover the entire SCS. The sources further added that the draft was submitted to senior military officials in May 2013. If this is true, one can reasonably conclude that China already had a few ADIZ proposals on its table including one over the SCS. In the event, it chose to first make public its ADIZ in the East China Sea.

REACTIONS OF OTHER COUNTRIES

Several countries have spoken up against China's declaration of an ADIZ over the SCS. The Assistant Secretary of State for East Asian and Pacific Affairs Daniel Russel, a senior US diplomat who testified before a congressional committee in early February 2014, reportedly said that the United States neither recognises nor accepts China's declared ADIZ, and that the United States has no intention of changing how it operates in the region. He added that the United States has "made clear" to China that the latter should not attempt to implement the ADIZ and should "refrain from taking similar actions elsewhere in the region". Without being explicit, Russel was cautioning China against implementing an ADIZ in the SCS.

Likewise, during his visit to China in mid February 2014, US Secretary of State John Kerry warned Beijing against any move to declare an ADIZ over the SCS. He reportedly said that a "unilateral, unannounced, unprocessed initiative like that can be very challenging to certain people in the region, and therefore to regional stability". He added that any future such moves should be done in an "open, transparent and accountable way" and that China should meet the "highest standards of openness" to "reduce any possibilities of misinterpretation".

Among ASEAN countries, the Philippines has been the most vocal against what it perceives as China's creeping encroachment in the SCS. It appears to have lost out to China in the April 2012 Scarborough Shoal stand-off. China is reportedly now in control of access to the shoal and has even erected concrete blocks, widely seen as paving the way for permanent structures to be built in the area. The Philippines was also conspicuously left out of the itineraries of Chinese leaders during their Southeast Asian tour in October 2013. This was seen as a reprisal to the Philippines' decision to initiate arbitral proceedings against China's claims in the SCS in January 2013.

In November 2013, Philippine Foreign Secretary Alberto del Rosario reportedly criticised China's ADIZ in the East China Sea as transforming an entire air zone into China's "domestic air space". He further expressed concern that China would go a step further to control the air space over the SCS. Separately, Philippine President Corazon Aquino reportedly called on the international community in early February 2014 to stand by the Philippines to resist China's expansionism in the SCS. He likened the Philippines' present

China's declaration of an ADIZ over the SCS is an entirely different proposition from the ADIZ over the East China Sea. While the ADIZ in the East China Sea primarily pits China against Japan and to some extent the United States, an ADIZ in the SCS will essentially set China against much smaller states.

continued on page 15

Cross-strait Economic Integration Proceeds with Political Uncertainties

Taiwan's rising economic dependence on China, rather than vice versa, has already put the island in a disadvantageous position in future political negotiation with China.

CHIANG MIN-HUA

Cross-strait relations have entered a new and peaceful stage after Ma Ying-jeou took office in 2008. Unlike former President Chen Shui-bian (2000-2008), President Ma's emphasis on Chinese ethnicity and Chinese identity won much applause from China. As a result, government-to-government cooperation on cross-strait affairs since 2008 have developed quickly, covering a variety of issues, from food security and joint crime fighting to more economic opening up between the two sides. Representative of the progress in institutionalised cross-strait economic relations was the signing of the Economic Cooperation Framework Agreement (ECFA) in June 2010 to eliminate barriers to trade and investment across the strait.

While Taiwan has much expectation that ECFA would revive the island's economy, so far, the result from the deeper economic integration with China has been frustrating. After a sharp decline in 2012 with 1.5% of economic growth rate, Taiwan's economic recovery momentum had been slow in 2013 (2%). The soft external demand from Western countries is only partially responsible for Taiwan's slow growth as major export-oriented countries in East Asia registered a more robust growth than Taiwan's. Indeed, Taiwan's economic stagnation signalled the declining competitiveness of its export sectors and industry that still dominate the whole economy. However, as China is transforming from the "world factory" to the "world market", Taiwan's dependence on exporting intermediate goods to China for its economic survival is no longer workable. More importantly, Taiwan's long term reliance on original equipment manufacturing which emphasises cost saving, instead of innovation, explains its incapability to upgrade its industry rapidly. Consequently, the technology gap with China is narrowing.

Beyond the uncertain economic benefits from deeper integration with China, another critical question for many Taiwanese people is: Will Taiwan maintain its political independence following the intensifying cross-strait economic integration? The optimists believe that the growing economic interdependence between Taiwan and China will promote peaceful political relations and further enhance regional stability. Others point out that in the absence of mutual political understanding, economic integration will be developed with constraints. The fact is that China's economic rise has given it much confidence to push forward with cross-strait talks from economics to politics. During the Asia Pacific Economic Cooperation Summit in

October 2013, China's President Xi Jinping told Taiwan's envoy at the meeting that "a political solution to a standoff over sovereignty lasting more than six decades cannot be postponed forever". Although Ma Ying-jeou has the "Chinese reunification" mindset, with his current low popularity, he would be concentrating more on getting as many economic agreements with China as possible so as to solidify the ruling party's credentials as a defender of Taiwan's interests ahead of the 2016 presidential election.

Even though political reconciliation cannot be carried out without mutual consensus, Taiwan's rising economic dependence on China, rather than vice versa, has already put the island in a disadvantageous position in future negotiations with China. The trade figures indicate China's growing importance in Taiwan's overall trade while the share of Taiwan in China's external trade is on the decline. Therefore, the harm from the loss of China's market for Taiwan would be greater than the loss of imports from Taiwan for China. Some believe that Beijing is not likely to impose economic sanctions on Taiwan as it will also harm China's economy given the close ties in the cross-strait division of labour. However, in comparison with Taiwan, China's greater economy can better support itself in an economic crash. In recent years, many Asian economies have also turned their trade dependence from the United States to China. The difference with Taiwan is that their economic dependence on China will not undermine their political sovereignties.

From a positive point of view, while reunification remains the main objective of China's policy towards Taiwan, as long as Taiwan keeps itself politically low key, in the next few years, cross-strait relations are likely to proceed within the economic framework. In addition, China's frequent territorial disputes with its neighbouring countries along the island chain in East Asia, including with Southeast Asian countries on the South China Sea issue and with Japan on Diaoyu Islands, have made peaceful relations with Taiwan quite essential. China will also need an active involvement in free trade agreements with many regional economies, including Taiwan, to help ease "China threat" concerns and facilitate China's "peaceful rise" policy in the region. Overall, China is not likely to risk tarnishing its image as a "peace defender" though the political goal of reunification with Taiwan continues to be one of China's vital national interests. ■

...while reunification remains the main objective of China's policy towards Taiwan, as long as Taiwan keeps itself politically low key, in the next few years, cross-strait relations are likely to proceed within the economic framework.

Chiang Min-hua is Visiting Research Fellow at EAI.

Recent Staff Publications

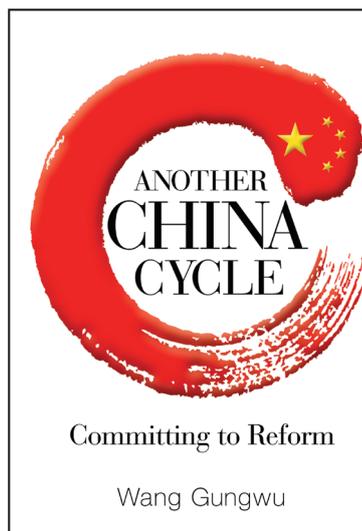
Books

Another China Cycle: Committing to Reform

Author: Wang Gungwu

Publisher: World Scientific Publishing

Year of Publication: 2014



This book traces the choices that three generations of Chinese leaders, from Deng Xiaoping to Jiang Zemin and Hu Jintao, had made to rebuild China and consolidate the reforms introduced in the late 1970s. It also examines how Chinese leaders are trying to restore China's position in the region; how they are re-connecting with the country's history and re-defining the nationalism it wants, and also how

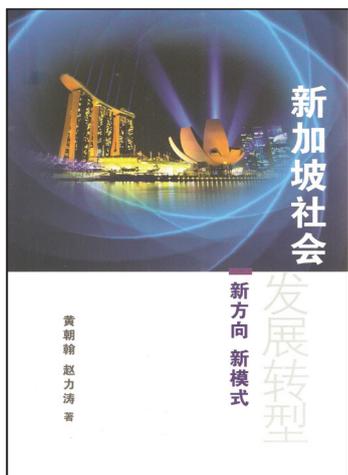
they hope to establish what they consider to be China's rightful place in the international order.

Changing Trends in Singapore's Social Development

Authors: John Wong and Zhao Litao

Publisher: World Scientific Publishing

Year of Publication: 2014



This book provides an update on Singapore's development experience in not only explaining how Singapore succeeded in the past in achieving remarkable economic and social development, but more importantly describing how Singapore seeks to strike a new balance between the long-held political philosophy and the new reality of slower economic growth and an ageing population.

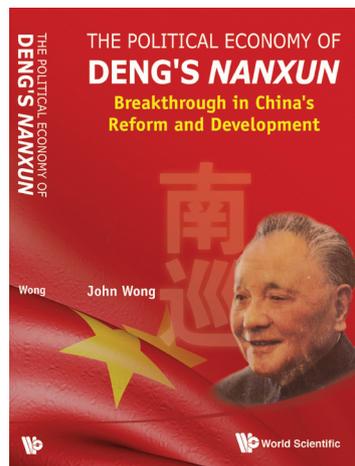
It provides a detailed account of Singapore's new development agenda: economically, the government is pursuing "quality growth"; socially, it is seeking to build "an inclusive society".

The Political Economy of Deng's Nanxun: Breakthrough in China's Reform and Development

Author: John Wong

Publisher: World Scientific Publishing

Year of Publication: 2014



The chapters in this volume were originally "policy reports" on China, meant for the Singapore government. These reports were written based on the information available at that time and reflected the prevailing political mood. Each chapter is accompanied by a detailed introduction that is aimed at providing a broad background for readers to better

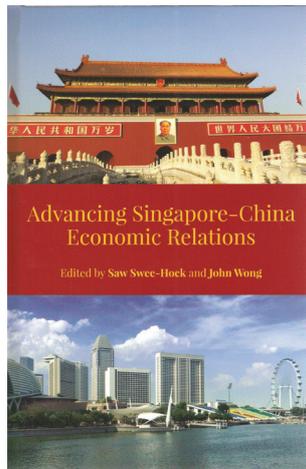
understand the Nanxun period. The introduction also serves as a post-evaluation of the events based on new information and shows how those events have evolved over the years. In combination, these chapters should piece together a reasonably realistic picture of the basic politics and economics of the crucial Nanxun period.

Advancing Singapore-China Economic Relations

Editors: Saw Swee Hock and John Wong

Publisher: ISEAS Publishing

Year of Publication: 2014



The development of strong and substantive economic relations between Singapore and China since the establishment of diplomatic times in October 1990 is detailed in this book. The chapters provide a comprehensive discussion of the main areas of cooperation, such as the institutional framework for pursuing economic links, the Suzhou Industrial Park, the Sino-Singapore Tianjin Eco-City, investments, trade, finance,

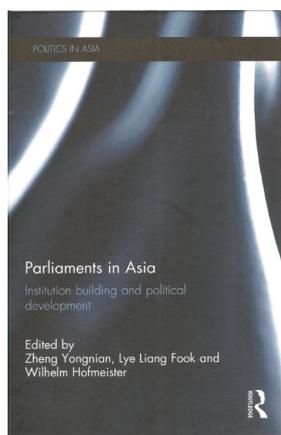
tourism and education. The economic opportunities and challenges in these economic sectors are presented in the context of the profound political and social changes taking place in China and the globalisation of the world economy.

Parliaments in Asia: Institution Building and Political Development

Editors: Zheng Yongnian, Lye Liang Fook and Wilhelm Hofmeister

Publisher: Routledge

Year of Publication: 2014



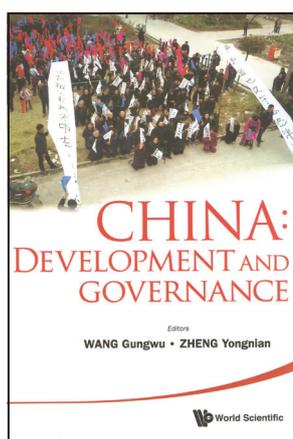
This book examines the role that parliaments play in East, Southeast and South Asia including Taiwan and Hong Kong. It also considers how new media such as the Internet and other social platforms, through providing avenues for individuals to articulate their views separate from official channels, are influencing the ways parliaments work. Parliamentarians also need to engage them in fine-tuning policies.

China: Development and Governance

Editors: Wang Gungwu and Zheng Yongnian

Publisher: World Scientific Publishing

Year of Publication: 2013



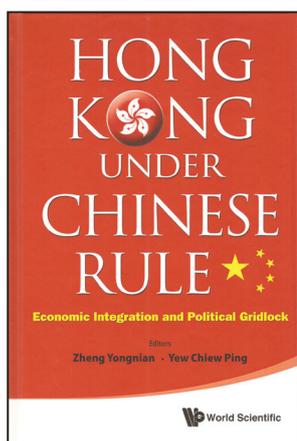
This 541-page book comes with 57 short chapters based on up-to-date scholarly research. China faces a host of pressing challenges that include the need to rebalance and restructure the economy, the widening income gap, the poor integration of migrant populations in the urban areas and the seeming lack of political reforms and environmental degradation.

Hong Kong under Chinese Rule

Editors: Zheng Yongnian and Yew Chiew Ping

Publisher: World Scientific Publishing

Year of Publication: 2013



This edited volume is a compilation of the analyses written by East Asian Institute experts on Hong Kong since the handover. It covers most of the important events that have taken place since 1997, including its economic integration with China, its governance conundrums, the Hong Kong identity and nation-building, the implementation of the minimum wage and the 2011 to 2012 elections.

As Book Chapters

“Paths to the Top Leadership in China: The Case of Provincial Leaders”, in Chien-wen Kou and Xiaowei Zang, (eds), *Choosing China's Leaders* (London and New York: Routledge), pp. 65-96

By Bo Zhiyue

“Growth of Tourism between China and Singapore”, in Saw Swee-Hock and John Wong (eds), *Advancing Singapore-China Economic Relations*, Institute of Southeast Asian Studies, Singapore, pp.216-263.

By Chiang Min-hua

“China's Centrally-managed State-owned Enterprises: Dilemma and Reform”, in Kjeld Erik Brødsgaard (ed), *Globalization and Public Sector Reform in China*, Routledge: London and New York, April 2014. pp.124-143.

By Huang Yanjie (with Zheng Yongnian)

“State power and governance structures,” in Chris Odgen, (ed), *Handbook of China's Governance and Domestic Politics* (London and New York: Routledge), 2013, pp. 12-26.

By Bo Zhiyue

In Journals

“The Ascendancy of State-owned Enterprises in China: Development, Controversy and Problems,” *Journal of Contemporary China*, 23:85, pp. 161-182.

By Yu Hong

“Industrial Upgrading in Guangdong: How Well is it Performing?” *China: An International Journal*, vol. 12, no. 1, April 2014, pp. 108-131.

By Yu Hong

“Provider Behaviors under Administrative Cost-containment Policies in Urban China: the Case of a Provincial Health Policy Intervention”, *The China Quarterly*, 216, 946-49, 2013.

By Qian Jiwei (with Alex He Jingwei)

FORTHCOMING

Comparative Study of Child Soldiering on Myanmar-China Border (SpringerBriefs in Criminology)

By Chen Kai

“Political Leadership in China” in Rod Rhodes and Paul 't Hart (eds), *Oxford Handbook on Political Leadership* (Oxford University Press)

By Bo Zhiyue

The Third Plenum and China's Elite Politics

China has entered the Xin Jinping era after the 18th National Congress of the Chinese Communist Party. Xi subsequently consolidated power by eliminating the influence of retired politicians and placing his own people in key positions. However, it is not very clear what he is going to do for China.

BO ZHIYUE

One of the big problems for Hu Jintao between 2002 and 2012 was his failure to dislodge his predecessor, Jiang Zemin, from politics. Reluctant to relinquish his power completely, Jiang chose to interfere with the operation of his successor on all important matters.

At the 16th Party Congress in 2002, Jiang decided to stay on as chairman of the Central Military Commission (CMC). After his retirement from the CMC in September 2004, he continued to influence the decision-making of the new leadership. He initially played funeral politics by having his name appear in the list of mourners for dead politicians but later inserted himself as the second most powerful leader of China after Hu Jintao in the official lineup of the incumbent leaders on important occasions. With Jiang as the ultimate power holder, Hu's power was seriously compromised.

With Hu Jintao's assistance, Xi gradually disengaged Jiang Zemin, putting an end to the practice of "old men politics". First, the "Friends of Music Lovers", an unofficial club of high-ranking officials, senior intellectuals and high-ranking military officers under Jiang Zemin and Li Lanqing, was disbanded in December 2012. Second, Jiang Zemin was forced to declare in January 2013 his complete retirement from politics in a note to the new leadership under Xi Jinping, saying that his name should be listed along with "other old comrades" in official publications in the future. Third, Jiang made it clear in a report on his meeting with Henry Kissinger in July 2013 that he would support Xi Jinping's leadership.

Instead of a collective leadership, Xi Jinping has made attempts to establish his own authority over those of his colleagues in the Politburo Standing Committee. He has placed his former classmates and colleagues in key positions in the General Office of the CCP Central Committee, the Central Organisation Department and the Central Propaganda Department. Consequently, Xi wields more power than that of his immediate predecessors such as Hu Jintao and Jiang Zemin in their first year in office.

THE THIRD PLENUM: MORE SLOGANS THAN ACTIONS

The Third Plenum, held in November 2013, witnessed the consolidation of Xi Jinping's power as the paramount leader of China in politics, economic and military and security affairs. In a major departure from the previous Third

Plenums in which the premier played a prominent role as the head of a small group in the drafting of the decision of the plenum, Xi decided to head the group for the Third Plenum of the 18th Central Committee with Liu Yunshan (a member of the Politburo Standing Committee and president of the Central Party School) and Zhang Gaoli (another member of the Politburo Standing Committee and executive vice premier of the State Council) as his assistants. In an official report on the production of the Third Plenum Decision by Xinhua News Agency, Xi's name was mentioned 14 times but Premier Li Keqiang, No. 2 ranking member of the Politburo Standing Committee, was not mentioned at all.

The Third Plenum established two new organs of great significance: State Security Commission and Small

Leading Group on Comprehensive Deepening of Reforms. The former aims to integrate leadership over domestic and external security issues, with the latter providing leadership over reform programmes in all areas.

The reform programme produced by the Third Plenum, however, is filled with more slogans than detailed action plans. There is no fundamental overhaul of the current system. The Decision promises to allow the market to play a "decisive" (instead of a "basic") role in allocating resources while insisting on the dominant role of state-owned enterprises in the Chinese economy.

The reform programme produced by the Third Plenum, however, is filled with more slogans than detailed action plans. There is no fundamental overhaul of the current system. The Decision promises to allow the market to play a "decisive" (instead of a "basic") role in allocating resources while insisting on the dominant role of state-owned enterprises in the Chinese economy.

XI JINPING'S CHINESE DREAM AND CHINA'S REALITIES

Xi Jinping's signature slogan is the Chinese Dream. He calls for the Party and the people to rally behind his leadership to realise the dream of making China prosperous and strong again. On the one hand, China strives to become a moderately prosperous society in all aspects by 2020. On the other hand, China endeavours to safeguard its territorial integrity and national sovereignty. Yet this dream offers no solution to more urgent problems of a yawning gap between the rich and the poor, rampant corruption, and serious air, water and soil pollution that threaten to make parts of China uninhabitable. ■

Bo Zhiyue is Senior Research Fellow at EAI.

China's Blueprint for Social Reform

China's new leadership is determined to rebuild the momentum of social reform.

ZHAO LITAO

More affluent yet more stratified, China has reached a new stage of development. The previous Hu-Wen government responded with a shift in focus to social reform. Many new programmes were established to cover previously excluded groups. While this is a remarkable achievement, the reform is not finished yet. The Hu-Wen leadership added new programmes without changing the old ones, leaving the new Xi-Li leadership with a difficult job of reforming the system for greater equity, portability and sustainability.

The Third Plenum of the 18th Party Congress is determined to deepen reform in a wide range of areas. On the social front, three broad areas have received substantial attention. One is the urbanisation programme, or integrated rural-urban development; the second is the development and reform of “social sectors”, a broad term encompassing education, employment, income distribution, social security, healthcare and population policy; and the third is the innovation of “social governance”.

THE URBANISATION PROGRAMME

The urbanisation programme started out as an economic programme. In search for new engines of economic growth, urbanisation came out top on the list. Since late 2010, over a dozen ministries have been involved in drafting the Medium- and Long-Term Outline for Urbanisation and Townisation. In the process, it became increasingly clear that if not managed well, local governments could turn the urbanisation programme into real estate frenzy.

A 2013 government review of local plans found that among the surveyed 144 prefecture-level cities, 133 had plans to build nearly 200 new cities or city districts. Regardless of the needs, conditions or capacity, many cities proposed to build country-leading or world-leading eco cities, wisdom cities, or high-tech cities. Aware of the risk of building “ghost cities” and exacerbating local government debts, the central government tried to reorientate the programme towards “people-centred” urbanisation. Integrating migrant workers into city life, connecting cities through extensive transportation and information networks, sustaining urbanisation through viable industries and services, and promoting rural-urban integrated development have been identified as key areas of Premier Li Keqiang’s “new type of urbanisation”.

REFORM IN “SOCIAL SECTORS”

In broad terms, the new leadership reaffirms the commitment to (i) deepen overall education reform, (ii) improve the institutions and mechanisms of employment and starting business, (iii) build a fairer and more sustainable social security system, and (iv) deepen reform of the healthcare system. The four areas of education, employment promotion, social security and healthcare constitute the “social sectors”.

For healthcare and education, China already announced the reform road-map up to 2020 in 2009 and 2010, respectively. The new leadership needs to continue the unfinished business of building a high quality, accessible and affordable healthcare and education system.

One notable change is the relaxation of the birth control policy. China introduced the “one-child policy” in 1980 to keep population growth in check. This policy easily turned out to be the most controversial and resented social policy. In recent years there was a relaxation to allow urban couples to have two children, if they are both the only child. From 2014, they can have two if one spouse is an only child. As China’s total fertility rate had dropped to below 1.2 according to the 2010 Census Data, a baby boom is unlikely down the road.

Pension is likely the area to have a major breakthrough. The central government has solicited parallel studies by different think tanks. Reportedly some broad consensus has emerged regarding the direction and road-map of the reform. Much needs to be done to ensure the equity, portability and sustainability of the system. Equity is currently the central issue. China has different pension schemes for different categories of population. Civil servants—10 million in total—on average are paid twice as much as enterprise employees after retirement, though they (and nearly one third of 30 million employees in public-service units) never make pension contributions unlike enterprise employees. There has been a strong sense of unfairness among the public. In early 2014, the central government announced the plan to unify the pension programme for rural residents and non-working urban residents, raising the hope that this is the first step to a fully unified system.

INNOVATION OF “SOCIAL GOVERNANCE”

Under the Hu-Wen leadership, “social management” emerged as a new approach to maintaining social stability and managing social complexity. The new leadership endorsed the new term of “social governance”. Along with this change came new initiatives to reform the petitioning system, abolish the Re-education through Labour Education System, lift restrictions on non-governmental organisation (NGO) registration and form partnership with NGOs in social service delivery.

In the name of innovation, more reform initiatives are possible in areas carefully carved and monitored by the Party. However, in areas where there are real or perceived threats to national security and social stability, a hard-line approach will continue and is likely to be even harder. The newly formed National Security Council (or State Security Committee) reflects Xi Jinping’s efforts to concentrate and enhance the power of dealing with both external challenges and internal “social governance” issues. ■

Zhao Litao is Senior Research Fellow at EAI.

The Third Plenum Lays China's New Roadmap for Economic Reforms

The Decision is ambitious in its objectives and comprehensive in coverage, with a paramount emphasis on the economy.

SARAH Y TONG AND YAO JIELU

The Chinese Communist Party (CCP) held its third plenary session of the 18th Central Committee in November 2013. The four-day meeting produced a strong 20,000-worded "Decision on Major Issues Concerning Comprehensively Deepening Reforms". With 16 sections and 60 items, the Decision which aims to lead China towards becoming a powerful and prosperous country in the coming decade covers almost all the important issues and challenges it faces.

Among seven plenary sessions in each Central Committee's five-year term, the Third Plenum usually matters the most as it is often the time for ambitious leaders to unveil substantial reforms, particularly when it involves a major leadership reshuffle. Indeed, the recent meeting was intended to be another milestone Third Plenum in the party's history, much akin to the 11th Central Committee in 1978 when Deng Xiaoping came back to power and ushered profound reforms that turned China into the world's second-largest economy.

While the Decision addresses many issues, the paramount focus of the Decision is to carry out further economic reforms and to allow the market to play a "decisive role" in the allocation of resources. The Party also pledges to reduce the government's excessive intervention in the economy, strengthening its role of regulation and supervision, and enhancing its responsibility of providing public service and ensuring macroeconomic stability.

Interestingly, the Decision defines China's basic economic system as one "with public ownership serving as its main body but allowing for the development of all types of ownership", thus reaffirming the leading role of the state sector. Nonetheless, from the document, the Party seems to indicate an intention to shift its focus from a more direct asset management to a somewhat indirect capital management in state asset supervision. Many see signs that China is following Singapore's Temasek model which "allows the state to distance itself from management of its enterprises without relinquishing ownership".

To enhance the market's role in resource allocation, the leadership recognises the importance of market reforms for key inputs, such as those for labour, land, energy and capital. On land, the Decision declared that collectively owned rural lands for non-agricultural uses will be allowed to enter the land market under the same conditions as state-owned urban land. Related to labour, the Decision effectively puts an end to China's outdated one-child policy by allowing families to have

two children as long as one parent is a singleton, a policy shift that will have significant impact on China's medium to long-term labour supply.

Perhaps most significantly, the Decision affirms the continuation of reforms in the financial sector that were launched prior to the Third Plenum, as well as to institute new initiatives. The leadership pledges to introduce more competition to the sector by allowing qualified private capital to set up financial institutions such as small and medium-sized banks. Particularly, the government has launched the sale of negotiable certificates of deposit in the interbank market, providing benchmarks for deposit rates in the future.

The Decision also highlighted the significance of reforming the budgetary system, focusing on restructuring government spending. The reforms aim to establish a multi-year fiscal system, replacing a yearly budget target linked to fiscal revenue or gross domestic product (GDP), making the budget more sustainable and proactive. A comprehensive debt-management system will also be set up to reduce the risks associated with government borrowing.

Moreover, to strengthen public finance, the Party pledges to improve intergovernmental fiscal relations by "establishing a system that the government's administrative authority commensurate with its spending responsibility". This means that the central government may recentralise some of local governments' spending responsibilities to address the mismatch between fiscal capacity and spending responsibilities at the local levels. Local governments will also be officially allowed to issue municipal bonds to support local infrastructure development.

Strong emphasis was placed on further economic opening to help further China's unfinished domestic reforms including lower entry barriers for overseas investors and encourage Chinese enterprises to invest overseas. In addition to establishing more free trade zones and ports alongside the Shanghai Free Trade Zone, the Party will also open China's western frontier to forge "foreign economic corridors", "silk road economic belt" and the "sea silk road".

To steer the Party's reform crusade, the Decision announced the establishment of a new committee, the Central Leading Group on Comprehensively Deepening Reforms chaired by Xi Jinping, to advise the Party Politburo on reforms and to coordinate the implementation of policy initiatives. Such groups are necessary to help break down

The Party pledges to reduce the government's excessive intervention in the economy, strengthening its role of regulation and supervision, and enhancing its responsibility of providing public service and ensuring macroeconomic stability.

continued on page 15

EAI International Conference

EAST ASIA OUTLOOK 2014



From left: Prof Wang Gungwu, panelists at the roundtable session and Professor Zheng Yongnian

East Asia Outlook 2014, organised by the East Asian Institute (EAI), was held on 17 January 2014. Heavy discussion topics on important and emerging political issues and socio-economic trends in East Asia, as well as developments in major foreign policy of China, Japan and Korea took centre stage at the full-day forum, which was well attended by representatives of foreign embassies, Singapore public sector and think-tank scholars, etc.

Chairman of EAI Professor Wang Gungwu enlivened the forum in his brief welcome address on “dreams”. Professor Wang said that the “Chinese dream” has become the rhetoric of the new Chinese leadership, making headlines in newspapers and various media since 2012. He further added that every country has its own specific dream — e.g. Japanese dream, Korean dream and notwithstanding the Chinese dream — that often takes on a recurring theme. The Japanese dream and Korean dream, which reflect how they transform relations in the region, are just as important as the Chinese dream.

Professor Wang said that Chinese dream in the plural sense does not mean many dreams but rather there are different groups in China each harbouring its own dreams. China’s sheer geographic vastness and the fact that it is increasingly powerful and affluent mean that the Chinese dream will have far significant impact on other countries in the region than in the past.

What had impressed Professor Wang about China’s opening-up in the last 35 years is that the Chinese have stayed true to their tradition of pragmatism, not blindly acceding to ideologies when dealing with the real world. The current leadership has retained the old dream that CPC is China; however, Professor Wang stressed that the implication is not quite the same as saying that China is CPC because the Kuomintang (KMT) was also recognised as key to China’s future when it was in power then. In short, it is part of China’s long tradition that whoever is in charge of the Chinese state will represent China.

Professor Wang said that there are three forces acting on the Chinese dream — namely the heritage of Marxism and Maoism, the nation’s wealth, the global market economy, and inspirations of its own past — and he was uncertain how

these actors would affect China’s policies and plans for the future. But Professor Wang offered a glimmer of optimism by concluding that the thinking process is now very much part of the ferment going on today in China in the minds of the leaders and decision-makers.

OUTLOOK FOR CHINA

EAI Director Professor Zheng Yongnian extended the “dream” rhetoric in his presentation on China’s elite politics, alluding to the 2013 Third Plenum’s ambitious plan of reforms as “Xi Jinping’s dream”. The establishment of the National Security Council (NSC) and the Leading Small Group for Comprehensive Deepening of Reforms signals a major shift from “collective leadership” to “strongman politics” as Chinese President Xi Jinping heads both bodies.

Professor Zheng explained that the rationale of setting up the small leading group was to centralise all powers in Xi’s hands. The collective leadership mechanism of the current seven-member Standing Committee of the Political Bureau is characterised by internal pluralism, with Xi as the first among equals but that does not mean that Xi is the strongman in the group because each Standing Committee member can make his own decision. Consolidating his power in the small leading group could help Xi change the “no reform” situation and expedite the process.

The formation of the Xi leadership instead of one that gears towards Xi-Li leadership (Li being Chinese Premier Li Keqiang) would be seen as a threat to the interests of other strong leaders particularly those in the Standing Committee. In the road ahead, Xi has to solicit cooperation from other leaders, otherwise it would be difficult for him to get things accomplished. With greater power on hand, Xi has the utmost responsibility to check that it will not be relegated to personal or political dictatorship and importantly, he must prove his worth to deliver the reforms as Chinese society is increasingly becoming impatient.

On China’s economic outlook in 2014, EAI Professorial Fellow Professor John Wong said China is entering into the “new normal” of stable growth with no big fluctuations and the official expected growth is about 7.5%, similar to that in 2013. Xi needs such stability to enable him to push ahead

with economic rebalancing as well as reform. Professor Wong reiterated that the Chinese government has in fact embraced a slower but moderate economic growth, contrary to the interpretation of other experts as a sharp slowdown in the Chinese economy.

On the social front, EAI Senior Research Fellow Dr Zhao Litao said that the Xi administration had identified three main areas — integrated urban-rural development, reform in the social sectors (which encompass education, employment, health care, income distribution and social security) and innovation of social governance. Dr Zhao highlighted the relaxation of birth control as a breakthrough in 2014 in China's one-child policy. A couple is allowed to have two children now if one spouse is an only child — this is a change from the old policy that required both husband and wife to be an only child.

The central government will focus on “people-centred urbanisation” as the core concept in the implementation of the much delayed Medium- and Long-Term Outline for Urbanisation and Townisation in the first half of 2014. The Chinese government faced new challenges of social instability with reported cases of explosions launched by discontented individuals. It also employs dual strategies of repression and liberation to maintain social stability.

EAI Assistant Director and Research Fellow Mr Lye Liang Fook said that in 2014, China will continue to build on its strategic ties with the major powers. It is also expected to champion the interests of developing countries by pushing for greater representation and voice at international foras and regional bodies. With ASEAN, China will focus on developing ties and cooperation that generates mutual benefits though the South China Sea dispute remains a contentious issue with some ASEAN nations.

OUTLOOK FOR TAIWAN AND HONG KONG

The outlook for Taiwanese President Ma Ying-jeou's administration remains unpropitious in 2014, as analysed by EAI Research Associate Dr Katherine Tseng. Ma's approval rate suffered a beating over misgovernment in his administration on the military trial system, reviving the fourth nuclear plant construction plan, the illegal wiretapping in the Legislative Yuan and the intra-party fighting of the Kuomintang and other issues. Chinese President Xi, unlike his predecessor, has adopted a tougher stance on Taiwan and pushes for talks on political issues.

EAI Visiting Research Fellow Dr Chiang Min-hua outlined six major trends in Taiwan's economy in 2014. First, at 1.7% GDP growth, Taiwan has entered into the phase of slow economic growth. The second points to a disequilibrium in Taiwan's labour market — an oversupply of highly educated labour force when the actual labour demand is for more lower-skilled labour. The third is China's growing influence in Taiwan's trade, inward investment and tourism industry. The fourth is the incongruity between economic and financial market performance. Fifth, the impact of the US tapering of quantitative easing on Taiwan's economy is uncertain though Asia responded with currency depreciation.

Sixth, the Ma administration will move towards greater economic liberalisation to attract inflow of white-collar

workers, financial capital and goods from foreign countries into its free economic pilot zone.

On Hong Kong, EAI Research Fellow Dr Yew Chiew Ping said that political parties in Hong Kong splintered into factions and the 70-seat Legislative Council is represented by more than 17 political parties, groups and a number of independents. The recent Hong Kong TV licensing controversy has sent a clear signal of a disunited Hong Kong government. Opinion polls have shown that more young Hong Kongers are identifying themselves with Hong Kong rather than China. The plan to hold the Occupy Central campaign in summer 2014 is to pressure Beijing into granting Hong Kong genuine universal suffrage.

OUTLOOK FOR JAPAN AND THE KOREAN PENINSULA

EAI Senior Research Fellow Dr Lam Peng Er said that Japanese Prime Minister Shinzo Abe's bold moves and manoeuvres in 2013 support Abe's confident declaration that he is back and so shall Japan be. Nevertheless, the Abe administration will face major challenges in 2014 on both domestic and international fronts. For example, Japan will continue to be confronted with the dilemma of managing Sino-Japanese relations. In addition, that Abe and Japan are back coupled with a Xi Jinping-led China may well be a harbinger of intensifying rivalry, tension and instability in East Asia in the near future.

Professor Yoshihisa Godo of Meiji Gakuin University, also a visiting scholar at EAI, referred Abenomics metaphorically as the Abe dream, which is essentially about “a dream to dream” rather than “a dream to achieve”. Professor Godo said that it is uncertain about the effectiveness of Abenomics in contributing to Japan's current economic boom as there are various attributing factors. However, it is quite certain that Abenomics has worsened the financial condition of the government, which is already struggling with dangerous budgetary problems.

Professor Kim Sung Chull, from the Institute for Peace and Unification Studies at Seoul National University, shed light on the execution of Jang Song-Thaek in December 2013 in the context of group politics and competition for economic interests. The December incident is interpreted as the promotion of Kim Jong Un's personality cult and consolidation of Kim's power base. Professor Kim concluded that more purges and executions will continue albeit with different political implications, thus depleting the existing regime's resources and institutional credential.

South Korean President Park Geun-hye had a stellar performance in her first year at the helm. Chinese foreign policy Professor Choo Jaewoo from Kyung Hee University attributed her high approval rating to her diplomatic success with the United States and China, her successful diplomacy and her tough stance on North Korea, and her non-involvement in political issues. Park will however be challenged by two issues in 2014 — privatisation of state-run enterprises and medical service and securing budgets for national pension programmes without raising tax. On foreign diplomacy, South Korea's relations with the United States and China will remain strong in the midst of growing uncertainties in Pyongyang. ■

continued from page 1

Dangerous Relations between China and Japan

because he made a cunning calculation to bait and egg on the Chinese to overreact. What is even more important to Abe than the feelings of the Chinese or better Sino-Japanese relations is his “life mission” to change the US-imposed, pacifist constitution especially Article 9 (the famous no-war clause) which has emasculated postwar Japan by making it less than a “normal” country. To Abe, Japan should not only engage in “collective security” but also revise the US-drafted constitution for pride and national identity. A ferocious response from China to his Yasukuni Shrine visit and other bilateral disputes will simply harden the attitudes of more Japanese and convince them that “collective security” and constitutional revision to become a “normal” state is necessary for national defence. Simply put, bad Sino-Japanese relations are good for constitutional revision.

In this regard, Beijing seems to be in a dilemma. It would be difficult for the nationalistic Xi Jinping leadership not to respond to Abe’s provocation. But a fierce response (such as massive and violent anti-Japanese demonstrations in many Chinese cities) will play into the hands of Abe and his supporters. While anti-Japanese demonstrations did not break out in China when Abe visited the Yasukuni Shrine in December 2013, such demonstrations cannot be ruled out if Abe were to visit the Shrine again in 2014.

Sino-Japanese relations today suffer from a lack of trust and goodwill. Presumably, the US superpower has no wish to be sucked into the vortex of a Sino-Japanese armed conflict (accidental or otherwise) over uninhabited rocks in the East China Sea. But can the United States really restrain Beijing and Tokyo locked in a dangerous tango with potentially calamitous results for East Asia and beyond? ■

Lam Peng Er is Senior Research Fellow at EAI.

continued from page 6

Not in China’s Interest to Declare Air Defence Identification Zone over the South China Sea

situation to that of the allied powers granting Sudetenland to Germany in an attempt to appease Hitler to prevent World War II. This gesture of appeasement eventually proved futile.

Indonesia, the largest and most influential member of ASEAN and a non-claimant state in the SCS, has also expressed reservations with a Chinese ADIZ over the SCS. Indonesian Foreign Minister Marty Natalegawa reportedly told an Indonesian parliamentary committee hearing in February 2014 that Jakarta has firmly conveyed to Beijing that it would not accept an ADIZ over the SCS. He further reportedly said that the signal thus far is that China does not plan to adopt a similar zone in the SCS.

ARGUMENTS AGAINST AN ADIZ IN THE SCS

There are three key reasons why it is not in China’s interest to have an ADIZ over the SCS. First, doing so would undermine Beijing’s emphasis under the Xi Jinping’s leadership to strengthen ties with its smaller neighbours. When President Xi Jinping and Premier Li Keqiang visited Southeast Asia in October 2013, they made a number of suggestions to elevate China’s ties with ASEAN. These included proposals to upgrade the China-ASEAN Free Trade Agreement, create a Maritime Silkroad of the 21st century, establish an Asian Infrastructure Investment Bank, sign a Treaty of Good Neighbourliness, Friendship and Cooperation, and institutionalise a meeting of defence ministers from China and ASEAN. Many details behind these proposals have to be worked out and implemented to lend further substance to China-ASEAN ties.

Second, establishing an ADIZ in the SCS would run counter to Xi Jinping’s Chinese dream for countries in the region to pursue mutually beneficial cooperation by riding on the opportunities provided by China’s development. Furthermore, a key principle undergirding the Chinese dream is for countries to accord mutual respect to each other regardless of their size. Imposing an ADIZ in the SCS would mean that China, the much bigger country, is bent on riding roughshod over the interests of smaller countries in the region. Such a move hardly qualifies as mutual respect.

Third, setting up an ADIZ in the SCS would contravene the spirit and letter of the Declaration of the Conduct of Parties in the SCS (DOC) signed by China and ASEAN in 2002. In the DOC, the parties reaffirmed their “respect for and commitment to the freedom of navigation and overflight above” the SCS. The DOC further called on parties to “exercise self restraint in the conduct of activities that would complicate and affect peace and stability” and that pending the peaceful settlement of territorial and jurisdictional disputes, the parties would intensify efforts to build “trust and confidence” between and among them. Having an ADIZ over the SCS would go against these DOC terms. It would also likely put a dampener, if not a premature end, to consultations among China and ASEAN countries on a Code of Conduct of Parties in the SCS that China hosted in Suzhou in September 2013. ■

Lye Liang Fook is Assistant Director at EAI.

continued from page 12

The Third Plenum Lays China’s New Road-map for Economic Reforms

existing bureaucratic deadlock and push through difficult reforms. The formation of a powerful leading group clearly shows the importance that the Party has attached to its reform agenda and the enormous political clout that the top leader has committed to the difficult task. ■

Sarah Y Tong is Senior Research Fellow at EAI. Yao Jieli is Research Assistant at the same institute.

Some Highlights at EAI



Above (from left): At EAI Distinguished Public Lectures: Professor Carsten Holz talks on "The Quality of China's Gross Domestic Product Statistics" and Professor Wu Yu-Shan speaks on "Cross-Strait Rapprochement and its Staying Power".



Above: At the international symposium jointly organised by EAI and Centre for Asian Legal Studies, Faculty of Law, National University of Singapore on "Judicial Reform and Political Development in China".

Below: EAI scholars in meetings with overseas delegates.



CHINA IN WORLD POLITICS: IS CHINA A STATUS QUO POWER?

- China's Version of World Order
- Geopolitics and China's Inter-state Relations
- Responding to a Global China
- China's Asymmetric Foreign Relations
- Foreign Policy Actors in China
- State Security Committee
- The PLA in China's Foreign Policy
- China's Military Modernisation
- China's Crisis Management
- China and Global Governance
- China in WTO
- China and Non-traditional Security
- China and the EU
- China and ASEAN
- China in the Shanghai Cooperation Organisation
- China-US Relations
- China and the South China Sea Disputes
- The Korean Peninsula
- China and the Middle-East

Organised by
East Asian Institute, National
University of Singapore

25 AND 26 SEPTEMBER 2014

FOR EVENT DETAILS, PLEASE CONTACT

JAMES TAN

TEL: (65) 6779 1037

EMAIL: eaitanj@nus.edu.sg