



The
CIIS Blue Book
on
International Situation and China's Foreign Affairs
(2010/2011)

China Institute of International Studies

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图书在版编目 (CIP) 数据

国际形势和中国外交蓝皮书 (2010 ~ 2011) = The
CIIS Blue Book on International Situation and China's Foreign
Affairs. 2010 ~ 2011: 英文/中国国际问题研究所著.
—北京: 时事出版社, 2011. 7
ISBN 978 - 7 - 80232 - 458 - 9

I. ①国… II. ①中… III. ①国际形势 - 白皮书 -
2010 ~ 2011 - 英文 ②外交关系 - 白皮书 - 中国 -
2010 ~ 2011 - 英文 IV. ①D5 ②D822

中国版本图书馆 CIP 数据核字 (2011) 第 136229 号

出版发行: 时事出版社
地 址: 北京市海淀区万寿寺甲 2 号
邮 编: 100081
发行热线: (010) 88547590 88547591
读者服务部: (010) 88547595
传 真: (010) 68418647
电子邮箱: shishichubanshe@sina.com
网 址: www.shishishe.com
印 刷: 北京昌平百善印刷厂

开本: 787 × 1092 1/16 印张: 36 字数: 518 千字

2011 年 8 月第 1 版 2011 年 8 月第 1 次印刷

定价: 90.00 元

(如有印装质量问题, 请与本社发行部联系调换)

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Highlights of the International Situation and China's Diplomacy in 2010

In 2010, the overall international situation was characterized by interlocking circumstances, accelerating interplay of various strategic forces, more intertwining interests among nations, and evolving multi-polarization of the world structure; the world economy was recovering slowly, unevenly, and with some uncertainties. The US was beset with difficulties both at home and abroad, and the Obama administration could not but readjust the US global strategy. Restrained by the sovereign debt crisis, the EU and Euro-Zone countries were compelled to redefine their domestic and external strategies, in an attempt to turn the crisis into an opportunity. Russia formulated its modernization strategy based on the rethinking of the drawbacks of its traditional development modality, and intensified its diplomatic efforts, in an effort to expedite its economic growth and modernization. Overhaul of the global economic governance regimes was proceeding in depth as developing countries were more engaged with a bigger say in the international economic and financial institutions. The international security situation became more severe with challenging issues, traditional and non-traditional. China was proactive in its foreign policy, playing a universally acknowledged unique role in terms

of world economic recovery, global governance and regional stability.

I. International Balance of Power Was Changing in Favor of the New Emerging Countries, and Multi-polarization Trend in International Relations Was More Salient

In 2010, new emerging countries continued to grow in strength and were the main driving force in transforming the international balance of power, which was manifested as follows:

First, the emerging economies accounted for a larger share in terms of the global GDP and trade totals whereas the developed economies' share was reduced. For example, according to the statistics released by the International Monetary Fund, the share of the "BRIC" countries in the world GDP total in 2009 increased to 16.7% from 13% in 2007 before the global financial crisis, and their share of the international trade went up from 29% to 34.5% in the corresponding period; and China became the world's largest commodity exporter and second largest commodity importer. In contrast, the share of the developed economies in the world GDP decreased from 65% to 53.8%. The US share of the world GDP was reduced from 25% to 20.4%. The changing balance of the economic strength was all the more distinct in 2010. In medium and long terms, the emerging economies are expected to grow sustainably.

Second, the emerging economies and major developing countries evidently played a more important role in the reform of the international economic system. The G20 Summits were in transition from a crisis management regime to one for long-term

economic governance, and as such, its role and influence aroused great attention across the world. Half of the G20 members are emerging economies, namely China, India, Brazil, Russia, South Africa, Mexico, Argentina, Saudi Arabia, Turkey and Indonesia, whose positions have directly affected the results of all previous G20 summits. At the G20 Seoul Summit in November 2010, participants from the major developing countries and developed countries, proceeding from the principle of seeking common ground while reserving differences, came to a four-point agreement: Strengthening the role of G20 and promoting sustainable and balanced global economic growth with joint efforts; further deepening the reform in international financial institutions; setting the development issue as a long-term agenda item of the G20 Summit with a view to creating conditions for reducing the North-South gap and alleviating the disparity between developed economies and developing economies; and taking additional measures to tighten international financial supervision and managing trade protectionism.

Third, the emerging economies and major developing countries gained stronger position and influence in reforming the International Monetary Fund and the World Bank. The IMF President Strauss-Kahn announced on November 5, 2010 that the IMF reform would come to an end before October 2012, by which the IMF would have transferred 6% of its voting rights to the emerging economies. China's share of voting rights would increase from 3.65% at present to 6.07% in 2012, ranking up to No. 3 from No. 6. China's influence will be only next to that of the United State and Japan. Meanwhile, the shares of the voting rights of India, Brazil, Russia and Turkey would also increase by different proportions. The World Bank Development Committee adopted the reform program at its spring session on April 25,

2010, under which the developed countries agreed to transfer more voting rights to the developing countries. China's share of voting rights increased from 4.42% from 2.77%, becoming the third largest investment holder, next only to the US and Japan. During the current reform, the developed countries have transferred 3.13% more voting rights to the developing countries whose aggregate share of the voting rights has increased from 44.0% to 47.19%; in addition, decision was made by the International Finance Corporation to raise the share of voting rights and a special investment input to the amount of US\$ 200 million. As a result, the combined voting rights of the developing countries in the Corporation increased from 33.41% to 39.48%.

II. World Economy Recovered Slowly with Ensuing Profound Impacts of the International Financial Crisis

Main features of the world economic performance in 2010, among other things, were: First, recovery proceeded at a slow pace. According to an IMF estimate, global GDP increased by 4.8% in 2010, up about 0.5% from 2009. Second, the emerging economies became the main driver of the recovery. Economic recovery was faster in China, India, Brazil and the ASEAN countries than in the US, Europe and Japan. Chinese, Indian and Brazilian economies grew by 10.5%, 9.7% and 7.5% respectively against an average growth rate of 2.7% among developed economies. Third, recovery lacked the sustaining power with the risks of crisis resurgence. Sovereign debt crises in Europe continued to spread. In the wake of the debt crisis in Iceland, Greece and Ireland followed the suit as it appeared that Italy, Spain and Portugal would be the next in line. At the urge of the EU Council, the European central banks

rushed to make rescue efforts by injecting a large amount of funds, which was adding up as much as Euro 860 billion for Greece alone, sapping the economic vitality of the EU as a whole. The governments of the major economies, and especially that of the United State, EU countries and Japan, were divided on the exit strategy on rescue efforts, and were torn between exiting earlier or later, both with potential risks. Finally, trade protectionism was resurging with interlocking of trade wars and exchange rate wars between the developed economies and emerging economies, and between developing economies themselves, which was never seen in the past.

Under the severe economic and financial distress, governments in major economies were trying to find new strategies for economic reinvigoration. Economists in Europe and the US had a debate on the need for “re-industrialization”. The Obama administration formulated a “National Innovation Strategy”, calling for “re-balancing” the world economy at the G20 Seoul Summit. Obama was actually pressing other G20 countries to give special care to the US interests in shaping a proper global economic environment favorable to the US. The EU and Japan worked out the “Roadmap to 2050” and the “Strategy 2015” respectively, focusing on the creation of an “era of green economy” based on the low-carbon technologies. China, India, Brazil, South Africa and other emerging and developing countries made vigorous efforts to expand domestic needs, optimize the industrial structure and accelerate the transformation of economic growth mode.

III. The US Tilted Its Global Strategy to Asia-Pacific and the Situation in Northeast Asia Became More Complicated

Being overstretched in its global engagement and its dwindling capability, the US was compelled to readjust its global strategy. By August 2010, it had pulled out all its combat forces from Iraq, and it reiterated the schedule of its troop withdrawal from Afghanistan so as to reinforce its involvement in Asia-Pacific affairs. Taking advantage of the Cheonan incident and the dispute over the Diaoyu Islands between China and Japan, the US strengthened its alliances with the Republic of Korea and Japan respectively. In view of the Cheonan incident, the ROK government decided to defer the takeover of “war-time command” of its units in the ROK-US joint forces; the US, taking advantage of the Futenma Airbase issue, frustrated attempts by the younger Japanese politicians to drift away from it; taking advantage of the Sino-Japan ship collision in and around the Diaoyu Islands and the fact that the Russian President set foot on the Kuril Islands, reminded Japan of the importance of the US-Japan alliance; and taking advantage of the inter-Korean bombardment exchange in November, it again let the ROK know that the US-ROK alliance was indispensable.

Moreover, the US became more involved in the disputes over the South China Sea islands, and seized every opportunity to sow discords in relations between China and Southeast Asian countries; the US began to participate in the East Asia Summit as an Asia-Pacific power and highlighted its leadership role in regional affairs; the US and the ASEAN held the second round of “10 +

US" leaders' meeting, and the US persuaded the ASEAN side to insert the maritime security issue in the joint statement released after the meeting; and the US tried to push for the enlargement of Trans-Pacific Strategic and Economic Partnership (TPP) by admitting East Asian countries as new members, taking Viet Nam, Malaysia, the Republic of Korea and Japan as priority candidates, in an attempt to pursue a policy of hollowing out or weakening the APEC.

The US-led NATO advanced a "new strategic concept" and expanded the scope of its "security threats". This is also a major component of the US global strategic readjustment. While reaffirming its "area defense" in Europe, the NATO emphasized that it was confronted with global security challenges; the NATO reiterated that it had no intention to challenge the leadership role of the United Nations in international security affairs, but at the same time stressed the NATO-UN complementarities in addressing security issues; while recognizing that the NATO is not confronted with "immediate and massive " security threats as it was during the Cold War, it is mandated with a new security mission of countering threats of the cyber attacks, energy security and climate change; while recognizing peaceful rise of new emerging forces, the NATO is "seriously concerned" over regional hotspots or potential conflicts, and especially over the situation in Afghanistan and Northeast Asia. All this prepares the legal ground for the NATO to take actions out of its traditional defense areas in response to the non-traditional security issues of all descriptions around the world.

IV. Russia Was Proactive in All-Directional Diplomacy and Markedly Improved Its Relations with the US and Europe

The international financial crisis produced profound impacts on the Russian economy and made Russia aware of the drawbacks of its resource export-oriented economy. Therefore, Russia decided to transform its resource-oriented economy into an innovation-based economy. To this end, the Russian government realized more keenly that diplomatic work must serve the purpose of economic modernization. Hence, Russia proposed to form “a special alliance for modernization” with Germany, France, Italy, other EU countries and the US.

Russia improved relations with the West in all areas. It seemed that the chill in Russia-Euro/Atlantic relations following the Russo-Georgian crisis in 2008 was basically over. After the Russia-EU Summit in June 2010, the two sides decided to launch the “modernization partnership” as proposed by President Medvedev so as to strengthen the bilateral economic cooperation. The US and the EU commended Russia as the latter signed the new START treaty, completed the WTO membership negotiations with the US and changed its position on sanctioning Iran on the nuclear issue. At the NATO Summit in Lisbon, President Medvedev took a positive approach to the NATO proposal for a Russia-NATO joint deployment of ballistic missile defense system and agreed on better cooperation with the NATO on Afghanistan by providing conveniences for transshipping materiel to the NATO forces in Afghanistan. He promised to supply helicopters and train the Afghan Army.

Moreover, Russia attached greater importance to the Asia-Pacific region on its diplomatic agenda. In his speech delivered at a meeting of heads of Russian diplomatic missions overseas, President Medvedev unprecedentedly placed Asia and the Pacific region on top of the CIS in Russia's foreign policy, up to No. 2 from No. 3 in terms of importance. Russia further enhanced its partnership of strategic coordination with China, as bilateral cooperation in all areas was proceeding in depth. Both Russia and the US became members of the East Asian Summit (EAS); Russia and India jointly held counterterrorism exercises; Russia and Viet Nam signed a nuclear agreement on investing more than EUR 4 billion, and the Russian naval force might be back at Cam Ran Bay on a lease contract; the Russian President set foot on the Kuril Islands for the first time as a gesture both to show Russia's resolve to Japan and to prepare for exploiting natural resources there in future.

V. The International Security Situation Was More Severe; Traditional and Non-Traditional Challenges Increased

First, nuclear proliferation risks were not diminished. The DPRK and Iran were unyielding to the US over their nuclear programs, which might be a spur to other "sensitive countries" in terms of developing nuclear technologies. After the inter-Korean exchange of bombardments and in view of the looming upheavals in West Asia and North Africa at the end of 2010, the DPRK and Iran took an even firmer stance on their nuclear programs and were tougher toward the US. In view of the fact that the US had failed to hold back the North Korean and Iranian nuclear programs,

Syria and Libya and other nuclear-aspirant countries were more strongly urged to seek nuclear technology through cooperative efforts. Syrian and Libyan Leaders believe that they assume unshakable responsibilities for resurgence of the Arab world. As Iran rejects the legitimacy of Israel as a sovereign state, Israel uses this as an excuse for acquiring nuclear weapons as the “last resort” to ensure its national survival. Nuclear cooperation agreements the US signed with India and Viet Nam serve to abet the latter's regional ambition. Prior to the upheavals across West Asia and North Africa, Egypt, the GCC countries and Turkey were redoubling efforts for “their peaceful nuclear energy programs”, which had aroused deep concern of both Iran and Israel.

Second, despite the serious impacts of the international financial crisis, many countries continued to build up their conventional forces. India, Viet Nam, the DPRK, Iran and Indonesia greatly increased their military expenditures. Singapore, Saudi Arabia, the United Arab Emirates (UAE), Syria, Kuwait, Egypt and Turkey purchased large quantities of weapons. In 2010, Saudi Arabia and the UAE spent more than US\$ 100 billion on weapons and military equipment.

Third, the flash spots, none of which had disappeared, continued to affect regional stability and relationship between major powers. The Cheonan incident and the inter-Korean bombardments heightened tensions on the Korean Peninsula in particular and in Northeast Asia at large. The DPRK's policies toward the US, the ROK and Japan tended to be tougher. After the US combat forces were pulled out of Iraq, the security situation in the country became still worse; the new Iraqi government was barely formed six months after the national

election. In Afghanistan, there was no hope for reconciliation; violence and terrorist attacks were frequent; and the Karzai government could hardly keep the situation under control. In Pakistan, the floods aggravated domestic instability and undercut public support for the government; Pakistan-based Taliban agents became more active. The Palestinian - Israeli talks were in stalemate over the dispute settlement with negative impact on stability in the Middle East. The contention among major powers on the aforesaid flash points continued. Given the turbulent situation in West Asia and North Africa, there was less hope for resolving any of these hotspot conflicts.

Fourth, the “three evil forces” were running amuck. Taking advantage of the floods in Pakistan, the weak public support of the Afghan government, the US troop withdrawal from Iraq and the logjam of Palestinian-Israeli talks, the Al Qaida pursued a “localized” strategy in Central Asia, the Middle East and North Africa, resulting in deterioration of the security situation in a number of countries. Governments of some Arab countries were unable to cope with the world financial crisis, people's livelihood was harsher with more social injustices, which enabled Islamic fundamentalism to garner more public support in these regions and added fuel to the outbreak of upheavals in the Middle East and North Africa in 2011. Secessionist organizations, such as the Kurds Workers' Party, “East Turkish Group” and the Chechnya insurgents, received foreign assistance from many quarters, boosting their activities for “independence” via the terrorist attacks and violence. For instance, secessionists in Northern Caucasus launched terror attacks in the Dagestan Republic of Russia and Moscow. The Fergana Valley in Central Asia again became the breeding ground of forces of terrorism, separatism and

extremism. Pirates in the Somali waters seized a number of international cargo ships and oil tankers and raised their tactical ability in dealing with international escort convoys.

VI. China's "Summit Diplomacy" and "World Expo Diplomacy" amidst the Complex International Situation

In the midst of complex and profound changes of the international situation, China made giant strides in its diplomacy by adapting to both domestic and international circumstances and defying all hardships. Major accomplishments are as follows:

First, summit diplomacy played a key role in China's foreign relations. China became a major player on the world arena, actively participating in and forging the reform of international systems. President Hu Jintao attended a number of important conferences, including the International Nuclear Security Summit, the Second Formal Meeting of the "BRIC" countries, the 10th Meeting of the SCO Heads of State Council, the 4th and 5th G20 Summit Meetings, and the 18th APEC Leaders' Informal Meeting. As proposed by China, development was for the first time on top of the G20 Summit agenda and consensus was reached; China successfully counteracted the US proposals targeted against it on the RMB exchange rate, quantitative indicators of the disequilibrium of current accounts and other related issues. At the APEC Leaders' Informal Meeting held in Yokohama, Japan, China proposed that all parties should adhere to the principle of "balanced, inclusive, innovative, sustainable and secure recovery" in the world economy, which was written into the final document. At the Climate Change Conference in Cancun, Mexico, the Chinese delegation took a clear-cut stand on upholding the principle of "common but differentiated

responsibilities”, which aroused universal attention. President Hu visited Brazil, Russia, Uzbekistan, Kazakhstan, Canada, France and Portugal. During the visits, he expounded China's policies on many important issues regarding peace, development, international and regional stability and global governance. He also reached consensus with his counterparts at the host countries on the said issues. The said visits promoted the relations of friendship and cooperation between China and the host countries, safeguarded China's interests pertaining to state sovereignty, national security and economic development, and convinced the world community that China remained a responsible major power. Premier Wen Jiabao attended the 3rd Round China-Japan-ROK Leaders' Meeting, the UN High-Level Meeting on the Millennium Goals for Development and the General Debate of the 65th UN General Assembly, and visited the Republic of Korea, Mongolia, Myanmar, India and Pakistan. All these were outstanding achievements scored in terms of China's diplomatic work in 2010.

Second, the success of the World Expo Diplomacy and the Asian Games Diplomacy provided a unique opportunity for China to further improve relations with all countries at all levels, in all areas, by all ways and means, and with all-out endeavors. The Shanghai World Expo was sponsored for the very first time by a developing country over the past century and more. The number of countries and international organizations that took part in totaled 246, and 101 delegations led by the heads of state and government came to unveil the ceremonies of their national pavilions and visited others. The Shanghai World Expo enabled China to step on a grandiose arena and allowed China to give full play to its summit diplomacy, economic diplomacy, public diplomacy, humanity diplomacy and diplomacy by local authorities