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A Rising China and the World's Response[1]

Serious internal problems notwithstanding, the rise of the People's Republic of China (PRC) to the status of regional great power and important international player is increasingly being taken for granted by the world's political and economic elites. Depending on perspectives, this development has been interpreted in either realist or liberal terms of regional and world order with the occasional dose of constructivism thrown in. Following a critical assessment of the "China rise" proposition, this paper analyses possible outcomes of the supposed "rise."

Rise to What and How?

China's rise has foremostly been an economic phenomenon, with the PRC's GDP growing by an average of 9.4 per cent for the past 25 years, making it the 6th or 2nd largest economy, depending on the measure applied. In 2004, the PRC became the world's no. 3 trading nation with the EU, US, and Japan as its leading trading partners, in that order. At the same time, China's share of the global economy stood at 12 per cent in 2001 as compared to nearly 29 per cent in 1820.[2] In per capita terms, the PRC in 2004 ranked in between Peru and Venezuela.[3] Its share of world exports and imports was 6 and 5.7 per cent, respectively, in 2003.[4]

Whereas few economists expect China's present pace of growth to be sustainable, necessary adjustments would require more rapid moves towards the introduction of market mechanisms, a requirement that could yet clash with attempts made by the one party-state to defend its monopoly on power. In this context, social tensions resulting from rising unemployment and regional income disparities can be expected to play an increasingly important role. The government has thus far tried to contain such tensions by stabilising a fragile state sector through the awarding of state bank loans many of which have defaulted. Capital controls and a fixed renminbi exchange rate have thus far prevented a banking crisis, but Peking has come under increasing (Western) pressure to loosen its grip.

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1 Paper prepared for the 11th Arrabida Meeting, 26-28 May 2005.
2 *The Globalist*, 25 April 2005 (online.)
3 Based on purchasing power parity (PPP) calculations. *CIA World Factbook 2004* (online.)
4 Anne O. Krueger, *China and the Global Economic Recovery* (Washington, IMF, 10 January 2005, online.)

The impact of China's growth on the global and regional economies has been generally positive with the PRC accounting for about 24 per cent of world growth during 2001-3[5] and overtaking Japan as East Asia's growth engine over the same period. In this context, significantly increased trade surpluses with the US and the EU have been offset by growing trade deficits with East Asian countries. At the same time, the PRC's growing appetite for raw materials has contributed to rises in global commodity prices,[6] and NIEs in general and labour-intensive economies in particular will have to adjust to increased competition. Much of China's export growth has been FDI-driven, and the PRC's recent domination of worldwide FDI flows has hampered the equally export-oriented strategies of other emerging markets.

If China's economic growth can be adjusted in a sustainable manner, the PRC will improve its chances for a peaceful evolution while falling short of then head of party and state Jiang Zemin's 2002 vision of once again quadrupling the GDP by 2020.[7] Given a growing number of losers of modernisation and the institutional requirements of marketisation, however, such an evolution can hardly be imagined in the absence of a political opening.[8] Such an opening has not been on the agenda of the Hu Jintao leadership. Peking will thus for the foreseeable future continue to cure symptoms with a mixture of "grassroots democracy," repression, infrastructure investment, rudimentary social security programmes, opening the party to new business elites, and a state sector privatisation that benefits the politically connected at the expense of others. To the extent that such an approach undermines social cohesion and thus sustainable growth, nationalism will play an increasingly important role as an alternative source of legitimacy. As the recent anti-Japan campaign has shown, however, aggressive nationalism risks to undermine the external condition for continued growth (in this context an inconclusive PRC intra-elite debate held in 2004 on the merits of describing the country's rise as "peaceful" was significant.)

For the time being, it seems unlikely that China's economic opening begun in 1978 could be reversed. Whatever Peking's foreign policy ambitions, the PRC's acceptance of (mostly economic) interdependences will produce spillovers into other fields, provided China has sufficient time for a basically peaceful evolution, a scenario that most European governments have adopted. The caveat here would

5 Based on PPP-calculations. Prasad, *China's Growth and Integration*, p. 1.
6 *Economist Industrial Commodity Price Index, 2004*. According to this analysis, the weak US-dollar remains the principal source of price increases.
7 The People's Daily, 8 November 2002 (online.)
8 Samuel P. Huntington, Political Order in Changing Societies (New Haven CT: Yale University Press, 1968.)

concern escalating socio-economic tensions leading to manifestations of aggressive nationalism that can no longer be switched on and off at the leadership's discretion.

Under normal circumstances, China over the next 15 years should rise to a medium-stage of economic development including important social and regional cleavages. The latter will be aggravated by structural problems of the environment, aging, urbanisation, epidemics etc. Even at such a state, however, the PRC will continue to play important regional and international roles as a growth engine, sectoral trading competitor, and exporter of people, diseases, counterband, arms etc. (contrasting with certain expectations, however, the country is unlikely to export any normative standards of its own.) At the same time, the People's Liberation Army will be able to challenge the US in certain technological niches, but by no means all across the military spectrum.[9] To contain the negative consequences of China's rise and to mitigate hegemonial or self-isolationist temptations, it would be important to further the PRC's integration in regional and international institutions.

Power Balancing

Even prior to the arrival of Western powers, China's foreign policies were characterised by a realist inclination to power balancing. Since the end of the Cold War, this approach has been applied to both the global and regional levels with mixed results. Internationally, Peking has pushed for a multipolar world order in which a predominant American player can be balanced or contained by flexible coalitions involving, at different times, Russia, Europe, Japan, India, or the Association of Southeast Asian Nations (Asean.) However, following Russia's mid-1990s rapprochement with the West, the strengthening of the US-Japanese alliance from 1996 onwards, India's 1998 nuclear weapons tests, and problems with European and Southeast Asian integration, China adopted a two-pronged approach consisting of improving its relations with the lone superpower on which it depended for 30-40 per cent of its exports, and "multilateralising" its relations with Japan and Russia by playing an active role in East Asian and Central Asian cooperation projects, respectively. Following 11 September 2001, the second Gulf War, and the PRC's 2003 power transfer, this strategy was once again adapted by offering the US both carrots (over North Korea) and sticks (over Taiwan,) improving relations with India, punishing Tokyo *en lieu* of Washington, taking the lead on East Asian and Central Asian cooperation, and creating a new kind of united front from above including European

9 *Chinese Military Power* (New York, Council on Foreign Relations, 2003.) The strategic missile force apart, Peking's military preoccupation with the Taiwan Strait has slowed down the PLA's acquisition of power projecting capabilities such as aircraft carriers.

providers of technology and Southern providers of raw materials, both of which were unhappy with the American preponderance.

Whereas these moves were rather successful at the regional Far Eastern level (cf. below,) they remained more or less theoretical at the global level where China could offer its partners a certain degree of cooperation through the Security Council (e.g. by shielding Sudan and Iran from major sanctions,) but could neither control its own supply routes nor identify a sufficient number of alternative sources for energy imports and therefore had to resist from openly challenging the US in the Gulf or other parts of the world. Here, too, the consequence was a more active diplomatic role sometimes accompanied by more economic aid and more Third World rhetorics, yet others have been even more active and better equipped to provide such assistance.

At the same time, Washington's China policies continued in the familiar contradictory mood, i.e. some cooperation on anti-terrorism and Taiwan on the one hand, and a de facto military encirclement of the PRC on the other. It has become commonplace to point out that such contradictions are being fed by domestic American considerations, yet the same can increasingly be said of a Peking leadership where even a more "nationally" oriented Hu Jintao-regime for intra-party and intra-societal reasons has been unable to risk escalating conflicts with Taiwan or Japan and thus with the US. Here, as with other players, the general economic imperative will continue to dictate the agenda and, occasional irritation over renminbi exchange rates and structural change in the West apart, will play a stabilising role with China's internal development remaining the biggest unknown.Whereas the EU and its member states continued to pursue a mainly commercial diplomacy vis-á-vis the PRC, they have been receptive, to some extent, to the very multipolar vision that China itself seemed to have abandoned after 11 September 2001. This has been a consequence of Europe's lacking means of worldwide engagement that encourage the kind of "soft" diplomacy Peking itself has been experimenting with selectively, as well as an ongoing Transatlantic rift that the PRC has been eager to exploit. As a result, the Euro-China relationship has been high on rhetorics and symbolism (of which the Franco-German initiative to drop the EU's 1989 arms embargo is only the most visible manifestation.) At the same time, one would have to acknowledge that the deficits of a European Common Foreign and Security Policy as well as economic problems and a lack of military tools do not qualify the EU as a new "pole" in international relations any more than a PRC that remains a virtual rather than real great power. Also at the same time, Europe at the working level has been dealing with the same trade-related problems faced by the US. In sum, Washington concerns about a multipolar challenge to its leadership would appear to be exaggerated.

Integration and Consequences for International Relations

Whereas China's international and regional behaviour continues to reflect Swaine's and Johnston's 1999 characterisation of the PRC's arms control behaviour (preference for – in this order - "free riding," low-cost unilateralism, asymmetric bilateralism, and multilateralism,[10]) the Chinese leadership since Hu Jintao's takeover has increasingly resorted to a multilaleralist rhetorics and since the 1997/1998 East Asian crisis has been participating in and later actively promoting models for regional cooperation on its periphery, among which the Shanghai Cooperation Organisation (SCO) in Central Asia, East Asian regionalism and, arguably, Six Party Talks on the North Korean nuclear problem. Significantly, and with the exception of the latter, such frameworks have excluded the US while reducing Japan's role, where applicable, to one among others. Just as significantly, Peking's initiatives have been supplemented with attempts to create concert-like structures, e.g. with India and Russia, the "strategic partnership" with Moscow being implicitly incorporated in the SCO. At the same time, instead of accepting multilateralism as a permanent and comprehensive rules-based system at the expense of its own sovereignty, China has viewed it as a means to wrap its national interest in sectoral consultations with mostly weaker partners (which is one of the reasons why the Six Party talks, where some of the partners are strong if not stronger, have run into deadlock.)

At the international level, Peking obviously feels most comfortable where it has an explicit or implicit veto (as in the UN Security Council[11]) or can put together ad hoc-coalitions (as with the WTO's Dhofar Round or on human rights.) And whereas the PRC has not been the sole player to defend its sovereignty against multilateral scrutiny, Peking's resistance against most major international regimes involving some extent of intrusiveness (i.e. human rights, peace-inforcement, the International Criminal Court) has been striking. At the same time, China continues to free-ride on the Kyoto protocol although it could soon overtake the US as the world's number one emittor of certain greenhouse gases, interprets the UN Law of the Sea Convention in an unorthodox manner, and has been a mostly passive player in the UN Committee on Disarmament. The extent of pressure thus far experienced by the PRC at this level has been low with a few exceptions (e.g. implementation of the 2001 WTO agreements,) yet depending on UN reform and relations with the West in general, pressure is likely to rise over the next decade. If the present trans-Atlantic rift can be healed, it will be here rather than over regional developments that Peking would have to further adapt.

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10 Michael D. Swaine/Alastair Iain Johnston, "China and Arms Control Institutions," Elizabeth Economy/Michel Oksenberg (eds.), *China Joins the World. Progress and Prospects* (New York, Council on Foreign Relations Press, 1999,) pp. 90-135 (119).

11 Conversely, non-existence of a right to veto seems to explain China's reluctance to join the G-7/8.

Regional developments could nevertheless make an impact on China's role in the world, but it remains unclear whether this will be to Peking's advantage or disadvantage. If East Asia, for instance, would integrate under PRC leadership, multipolarity would make a comeback with important global repercussions. For the time being, however, the regional players' traditional reluctance to allow mutual interference combined with more recent nationalistic trends and an increasing Sino-Japanese competition for the leading role makes this rather unlikely. In conceptional terms, the continued co-existence of democratic and authoritarian regimes would constitute a major obstacle to any deep integration. Most of the region is further advanced on the road to democracy than China itself, the "South Korean" model of state-centric development favoured by Peking was discredited during the regional crisis, and the PRC has viewed the ongoing democratisation of the post-Soviet area with concern. At the same time, democratisation has reached "Greater China" in Taiwan and Hong Kong, causing a stiffening rather than adaptation of the Peking position. China's continued inability to threaten the North Korean dictatorship with sanctions points into a similar direction while working against Northeast Asian subregional integration. Under such circumstances it is no surprise if most regional middle powers continue to welcome a US military presence, if not on their soil, then at least in the neighbourhood.

Asem and other high-profile dialogues notwithstanding, Europe has been on the sidelines of these developments and risks to find itself even further marginalised in the Far East whether or not the world will be multipolar. On the one hand, the EU cannot and will not contribute to the military containment of a US on whose market it depends, that helps it to hedge against residual risks, and whose values it continues to share as a matter of principle. On the other hand, a PRC intending to settle accounts with Washington will not view regionalism and inter-regionalism as building-blocks for a new global order based on Western concepts of democracy and the market. Only a democratic China fully committed to the market would let itself be tied in both regionally and internationally thus making its rising or non-rising an academic issue. For the sake of peaceful (inter and intra-state conflict resolution) and the vagaries of democratisation processes notwithstanding, both Europe and the US should support such a scenario by encouraging regional integration while strengthening international institutions. And whereas such a strategy would imply Washington becoming a "softer" and Brussels a "harder" power, all sides would have to accept globalisation as a win-win situation and understand that solving common challenges of poverty, human rights abuses, and environmental disasters will be far more important than the persistent obsession with 20th century balancing games.