

CHINA: GLOBALIZATION AND THE EMERGENCE OF A NEW STATUS QUO POWER?

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The remarkable economic growth of China in the past two decades has generated both admiration and concern. As an “undemocratic capitalist” country, Beijing’s grand strategy and true intentions once it becomes stronger are under scrutiny by the rest of the world. This article examines how economic globalization has transformed China’s national policy preferences. It explores China’s foreign economic policy and recent activism in regional and multilateral settings, and within geographic regions that China had minimal contact with as recently as ten years ago. China’s resource endowments combined with its rapid and highly globalized growth have shaped its trade profile. The article suggests that, regardless of China’s grand strategy or future intentions, its policy options have been deeply constrained by its highly globalized economy.

Key words: China, globalization, international relations, BRICs

Introduction

The remarkable economic growth of China in the past two decades has generated both admiration and concern. The rest of the world, the United States in particular, made great efforts to

hasten Chinese economic liberalization. But when China actually did open up, the West reacted to its rapid progress with mixed feelings. The advanced industrial countries now face growing trade frictions with China and a new wave of domestic protectionist pressures as Chinese products become omnipresent in their home markets. Moreover, the effects of China's rise are not only economic; they are even more complicated at the political and strategic levels. As an "undemocratic capitalist" country, a term coined by David Zweig,¹ the grand strategy and true intentions of Beijing once it becomes stronger are under scrutiny by the rest of the world. It is hard to know whether China's activism will undermine the Western agenda to advance political reform, human rights, and free trade in Latin America and Africa.

The difficult question is whether Beijing is going to be a "revisionist" or a "status quo" player in global politics. The developing world's relations with China are also both sweet and sour. Economically, China's rise has brought developing countries both opportunities and challenges. The dramatic increase of China's imports from the developing world has provided a new market for export diversification, but some poor and middle-income countries have also had to compete intensively with Chinese products in third markets. For some of Beijing's neighbors in Asia, as well as middle-income countries in Latin America, there is mounting worry that China's competition in the global goods and capital markets may adversely affect their own growth prospects. Moreover, Asian countries in particular share with the Western countries unease over China's growing military might and its potential impact on regional stability.

Globalization is the deepening integration of world economies as a result of cross-border trade, investment, and production. The past decade has witnessed increasingly rapid globalization in the world economy. Globalization has become the central organizing principle of the post cold-war world.² This article

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1. David Zweig, "Undemocratic Capitalism: China and the Limits of Economism," *The National Interest*, No. 56 (Summer, 1999), pp. 63-72.
 2. Steve Smith and John Baylis, ed., *The Globalization of World Politics: An Introduction to International Relations* (Oxford: Oxford University Press, 2005); Nayan Chanda, *Bound Together: How Traders, Preachers, Adventurers, and Warriors Shaped Globalization* (New Haven, Conn.: Yale University Press, 2007).

examines how economic globalization has transformed national policy preferences within a major state, China. The article explores China's foreign economic policy and recent activism in regional and multilateral settings, and within geographic regions that China had minimal contact with as recently as ten years ago. In so doing, it seeks to address two questions. First, as China turns itself into a locomotive of global economic growth and has a much higher level of dependence on overseas markets than most economies do, is it more likely for China to support the existing international order or to challenge it? Second, if China so far has become more cooperative with other states and more supportive of multilateralism than before, is it the result of China being socialized by international institutions (an external factor) or by its highly globalized national economy (an internal factor)?

The article's first section provides a brief overview of the current debate on the rise of China. The next two sections explore the unparalleled degree of integration of the Chinese economy into the global economy and the ways in which China's economic interests have shaped its participation in regional and universal trade liberalization fora. The fourth and fifth sections analyze China's complex relationship with developing countries and with the major powers, respectively. I conclude with brief comments on the implications of China's rise for the future of existing global governance regimes.

The Debate on China's Rise

Both realist and liberal institutionalist theorists of international relations have employed models to interpret China's ascendance in the post-cold war era.³ Not surprisingly, these analysts have come to two sets of conflicting conclusions and two distinctive policy suggestions—either that “China poses a threat that must be contained” or that “China offers an opportunity and should be engaged.” Both approaches provide useful

3. On these competing frameworks for thinking about the rise of China and the other BRICs, see the papers by Armijo and Brawley in this special issue.

interpretation and prediction about the rise of China. The emphasis of the realists is on the redistribution of power in the structure of international system, while the more hopeful focus of liberal institutionalists emphasizes institutional learning and socialization within multilateralism. This article, in contrast, argues that by highlighting system-level factors, neither fully captures the dynamics of the new developments within China. Today's China is not truly comparable with Japan in the 1950s and 1960s, or with South Korea in the 1970s and 1980s. Instead, economic globalization has fundamentally shaped both the structure of the Chinese economy and the mix of opportunities and constraints faced by China in its international interactions.

This underlying empirical shift has significantly contributed to forming a new worldview in Beijing since the late 1990s and accordingly a new emphasis in Chinese foreign policy. Thus, it may be irrelevant to argue over whether today's China adopts the aggressive posture predicted by Western realists or the increasingly cooperative attitude expected by some liberal institutionalists. Instead, we should inquire into the degree to which China has been irretrievably economically globalized and, as a direct result of that, what policy options are left for China to pursue.

According to the received wisdom of political realism, the mightiest states will attempt to establish hegemony in their own region while endeavoring to ensure that no rival great power dominates any other region. The ultimate goal of every great power is to maximize its share of world power and eventually dominate the system. Therefore, the natural prediction for the rise of China is that the ultimate goal of China is to dominate Asia the way the United States dominates the Western hemisphere. Specifically, China will strive to maximize the power gap between itself and its neighbors, especially Japan and Russia, and to reduce U.S. influence in the region, much the way the United States pushed the European great powers out of the Western hemisphere.⁴

On the other hand, many liberal-institutionalist scholars have

4. John J. Mearsheimer, "Better to be Godzilla than Bambi," in Zbigniew Brzezinski and John J. Mearsheimer, "Clash of the Titans," *Foreign Policy*, No. 146 (January-February, 2005), pp. 48.

begun to propose that with China's more active participation in international governmental organizations (IGOs) such as the World Bank and the World Trade Organization (WTO), these regime constraints and the experience of institutional learning have facilitated a Chinese preference change, such that the Chinese government has become more internationally accommodating.⁵ To many liberal institutionalists, interdependence and multilateralism are crucial prerequisites for governments to abide by rules and norms and behave cooperatively. While it is possible to identify an increase in China's cooperative behavior within IGOs, others argue that Beijing is still at the "system exploiting" stage when it participates in multilateralism.⁶ This conclusion is related to the contentious debate among scholars and policy makers over the future intentions of a rising power.⁷

This article suggests that, regardless of China's grand strategy or future intentions, its policy options have been deeply constrained by its highly globalized economy.

China's Economic Globalization

China has significantly profited from globalization. Since the beginning of its economic liberalization in 1978, China has averaged 9.4 percent annual expansion of its gross domestic product (GDP), one of the highest-ever growth rates over such a sustained period. China's sizzling economy grew 11.5 percent in the third quarter of 2007. This rate of expansion puts the country on track to overtake Germany as the world's third-largest economy. China has tripled its share of global production since 1980, whether one employs market exchange rates or purchasing power parity equivalences to make this calculation.⁸ In 1978, China's total for-

5. Justin S. Hemposon-Jones, "The Evolution of China's Engagement with International Governmental Organizations: Toward a Liberal Foreign Policy?" *Asian Survey*, vol. 45, No. 5 (2005), pp. 702-21.

6. Hongyin Wang, "Multilateralism in Chinese Foreign Policy: The Limits of Socialization," *Asian Survey*, vol. 40, No. 3 (May-June, 2000), pp. 475-91.

7. Jeffrey W. Legro, "What China Will Want: The Future Intentions of a Rising Power," *Perspectives on Politics*, vol. 5, No. 3 (September, 2007), p. 515.

8. See Table 1 in Armijo in this special issue.

eign trade (the absolute value of imports plus that of exports) was \$20.6 billion, while in 2006 it reached \$1.76 trillion, exceeded only by the trade of the United States and Japan.⁹ Perhaps even more significantly, China's share of trade in GDP in 2005 was an astonishing 64 percent, extraordinary for an economy of its size.¹⁰

China has become the global center of manufacturing and the major export platform of the cross-national production network. China's over \$1.1 trillion foreign trade in 2004 involved a processing trade value of over \$600 million; about 60 percent of Chinese exports involved products made from imported components and materials.¹¹ China's top exports are low- and medium-end manufactured products, including electrical machinery and equipment, power generation equipment, apparel, and furniture. China's major imports are either high-tech equipment and components or energy products and raw materials, including electrical machinery, mineral fuel and oil, optics and medical equipment, and iron and steel.¹² This pattern of Chinese trade is not only a reflection of China's comparative advantage but also a result of today's global division of labor.

Thus, a crucial characteristic of China's production profile is its highly transnational and globalized nature. For example, China has welcomed foreign direct investment (FDI) on a scale unprecedented in Asia, accepting a total of \$650 billion since 1978, ten times the total stock of FDI Japan accumulated between 1945 and 2000, and far more than any other emerging market economy.¹³ China is now the third-largest FDI recipient after the United Kingdom and the United States. Large FDI inflows have fueled the growth of both exports and imports. World-class multinational corporations take advantage of China's competitive wages to

9. Ministry of Commerce Statistics, PRC, online at <http://zhs.mofcom.gov.cn/aarticle/Nocategory/200701/20070104268607.html>.

10. This compares to only 21 percent in the United States and 25 percent in Japan. See *The Little Data Book 2007* (Washington, D.C.: The World Bank, 2007).

11. Robert Sutter, "Rising Dragon and the American Eagle," *Yale Global*, April 22, 2005, online at <http://yaleglobal.yale.edu/display.article?id=5612>.

12. *China's Custom Statistics 2006* (Beijing: China General Administration of Customs, 2006).

13. George J. Gilboy, "The Myth Behind China's Miracle," *Foreign Affairs*, vol. 83, No. 4 (July-August, 2004), p. 33.

employ the country as an export platform. With incentives offered through duty exemptions for export production, this processing trade has surged.¹⁴ In 2005, for example, multinational corporations accounted for 59 percent of Chinese imports and 58 percent of China's exports. Both foreign-owned and Chinese industrial companies depend heavily on designs, critical components, and manufacturing equipment they import from the United States and other advanced industrialized economies, and raw materials, including energy imports, from the developing countries.

Unfortunately, China's highly globalized production process has not yet offered the rest of the world an open and liberal Chinese market. Intensive government policy protection of its domestic industry and market through subsidies, tax policies, capital registration, and other trade and investment barriers still exists. In recent years the United States and the European Union have filed a number of WTO complaints against China, alleging violations of the principle of national treatment on issues such as the value-added tax (VAT) rebate policy on integrated circuits, discrimination against imported auto parts, and market access barriers for copyrighted products. In fact, the high percentage of exports accounted for by multinational investors reflects the Chinese government's powerful export incentives for foreign firms. Thus, leveling the playing field and creating two-way trade with China has become the policy priority of the industrial countries. Chinese economic liberalization is thus a work in progress.

China and the World Trade Organization

Some commentators, including many in the United States, have suggested that China is not living up to its WTO accession commitments. From the viewpoint of most Chinese scholars and officials, this seems an egregious misjudgment. As a major exporter with a persistent trade surplus, it is hardly surprising

14. Yongzheng Yang, "China's Integration into the World Economy: Implications for Developing Countries," *IMF Working Paper*, WP/03/245 (December, 2003), p. 6. See also Yongzheng Yang, "China's Integration into the World Economy: Implications for Developing Countries," *Asian-Pacific Economic Literature*, vol. 20, No. 1 (May, 2006), pp. 40-56.

that China strongly supports the existing, mostly economically liberal global trading regime, whose major institutional enforcer, and symbol, is the World Trade Organization. China also has hedged its bets by increasing its participation in East and South-east Asian regional trade negotiations and institutions.

China initially accepted greater interdependence largely out of economic necessity and participated with great caution, as was the case with many other developing countries that formerly had had comparatively closed economies while pursuing state-led industrialization via import substitution. In 1978, Beijing initiated its “open door” policy. However, in contrast with the “shock therapy” policy packages adopted by Russia and Poland in the late 1980s, the Chinese leadership has preferred a more gradual approach to economic reform. In the words of Deng Xiaoping, the architect of China’s open-door policy, China should reform in a way that constituted “crossing the river by touching every stone.” As an experiment, China initially opened up only fourteen coastal cities for foreign investment. After the economic success in these “special economic zones,” Beijing began to expand the same policy to additional cities and provinces.

China’s engagement with IGOs has evolved considerably over the past three decades. In the era of Chairman Mao Zedong (1949-1976), Beijing adopted an isolationist policy in the belief that the Bretton Woods organizations—the General Agreement on Tariffs and Trade (GATT), the International Monetary Fund (IMF), and the World Bank—were “instruments of Western imperialism and hegemonism.” After 1959 China also rejected participation in the international institutions of the Soviet bloc, instead calling itself a nonaligned state. Beginning in the 1970s, China moved toward closer relations with the United States as a way to counterbalance the Soviet Union. China gradually returned to the international community with the help and support of the United States. In 1971 the People’s Republic of China replaced Taiwan as the holder of China’s seat in the United Nations, thereby gaining a permanent seat on the UN Security Council. Soon after, China joined the World Bank and the IMF. In 1986, China formally applied to rejoin the GATT and began its protracted accession negotiation.

In the 1990s, China once again confronted a strategic choice of participating or rejecting globalization. The Asian financial

crisis of 1997-1999, which largely bypassed China but hit many of its Asian neighbors very hard, provoked an intense debate between the pro- and anti-globalizers within the government. By carefully weighing the advantages and disadvantages of economic openness, including its implications for regime survival, Beijing opted for continued opening, re-initiating negotiations to join the successor IGO in the trade arena, the WTO, and deepening pro-market economic reform at home.¹⁵

China's Active Role in the WTO

China has played an active and generally supportive role in the WTO, pushing for improved market access abroad while gradually reducing its domestic trade barriers.¹⁶ Though China participated in the G-20 (also known as G-22) coalition of developing countries led by Brazil and India, it has not been a proactive member. Chinese trade officials admit that it was not in China's best interest to stand too closely with its developing-country friends.¹⁷ After all, China has been the largest beneficiary of economic globalization. Moreover, China had already made tremendous concessions upon its WTO entry, and as a result, China does not share the interests that many developing countries have in delaying full external economic liberalization. In fact, China instead shares with the United States and the EU a desire for bold trade liberalization in developing economies, allowing easier market access for Chinese exports. As one Chinese trade official noted, "It is in China's interest to see other countries match the level China offered in terms of market liberalization."¹⁸

In fact, China's GATT/WTO accession negotiation process is the most extended one on record, requiring fifteen years for completion (1986-2001). Besides the multilateral negotiation, fully thirty-seven WTO members conducted parallel bilateral talks

15. Zheng Bijian, "China's 'Peaceful Rise' to Great Power," *Foreign Affairs*, vol. 84, No. 5 (September-October, 2005), p. 18.

16. Claude Barfield Jr., *The Eagle and the Dragon* (Washington, D.C.: American Enterprise Institute, 2007).

17. Much of the information and analysis in this section and throughout the text come from the author's interviews with Chinese trade and economic officials, undertaken in Beijing in June and July 2007.

18. Interview with a Chinese trade official in Beijing, July 2, 2007.

with China, which is also a record in GATT/WTO history. Similarly, China's WTO entry has been, so far, the largest liberalization package in the WTO's history.¹⁹ Most importantly, the bulk of the deal involved unilateral concessions by Beijing—improving access to China's markets for foreign competition, but not enhancing Chinese access to other markets. By fulfilling China's WTO accession commitments, China currently has the lowest protection of any developing country in the world. Today, over half of China's imports come into the country duty-free, and actual duty collection is about 3 percent of the import value.²⁰

China was so determined to join the WTO that it accepted terms that Nicholas Lardy, a China expert at the Institute for International Economics, described as "so onerous they violate fundamental WTO principles," as illustrated in *Table 1*.²¹ China's overall tariff rate offer is only 8.9 percent. After China joined the WTO, economist Jagdish Bhagwati concluded that China had become a "paper tiger," since "China's WTO entry will make it easier for countries to shield themselves from Chinese competition that violates international norms" and they "won't have to take on Beijing all by themselves."²² With its entry into the WTO, China thus made the voluntary decision to bind itself to international regimes.

At the same time that it has negotiated to join the WTO, China increasingly has engaged with regional institutions of trade and economic integration. Many developing countries perceive regionalism as superior to comprehensive trade multilateralism, simply because a process of initial regional liberalization is slower and more incremental. Because of its great success as a global trader, Beijing's first-best policy preference is clearly for multilateral trade liberalization. However, China fears exclusion from the regionalism process, which it observes has picked up around the

19. Aaditya Mattoo, "China's Accession to the WTO: The Services Dimension" (Washington, D.C.: World Bank, 2002).

20. Yang, "China's Integration into the World Economy: Implications for Developing Countries."

21. Nicholas Lardy, *Integrating China into the Global Economy* (Washington, D.C.: Brookings Institution Press, 2002).

22. Jagdish N. Bhagwati, "Why China is a Paper Tiger," *Council on Foreign Relations Newsweek*, February 19, 2002, at www.cfr.org/publication/4351/why_china_is_a_paper_tiger.html.

Table 1. Comparing WTO Accession Offers: China and Others

Category	China's Offer	Other WTO members
Tariff on Industrial Products	8.9% (all tariffs bound)	Argentina 30.9%, Brazil 27.0%, India 32.4% (India still has 1/3 unbound tariff lines <2582 lines>)
Market Access in Services	Commitments in all services covered by WTO	Only 11 of 122 members made as many commitments as China*
Safeguards	Transitional product-specific safeguard clause	Solely designed for China
Textile	Special textile safeguard	Quota continued only with China
Antidumping	Use non-market economy methodology for 15 years	China-specific
Agricultural Export Subsidy	Eliminate on entry	Neither U.S. nor EU eliminate
Transitional Review Mechanism	Annual review for first 8 years of membership	China-specific

Source: China's WTO Accession Protocol and those of selected countries, www.wto.org.

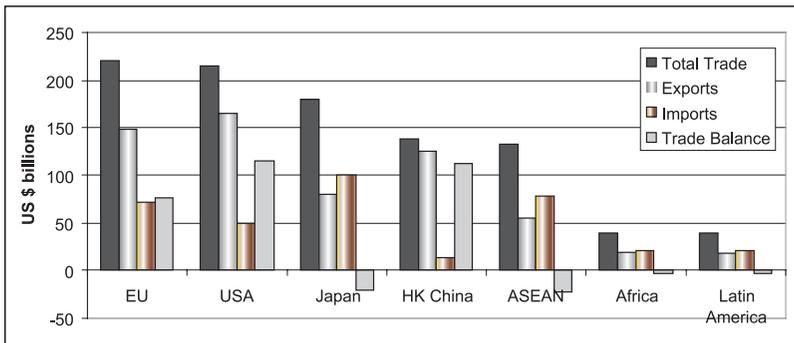
* Nicholas R. Lardy, *Integrating China into the Global Economy* (Washington, D.C.: Brookings Institution Press, 2002), p. 79.

globe, and furthermore remains somewhat uncertain about the future of multilateral trade liberalization. Chinese officials worry, for example, about the many regional and bilateral trade deals in which the United States is involved, as well as rising protectionism in both the United States and Europe. Consequently, China has adopted a more proactive approach toward Asian economic regionalism since the beginning of the new century.

The Geopolitics of China's Trade and Investment in Natural Resources

Global trade and investment patterns have fundamentally shaped China's foreign economic policy. Since 1990, China has been the largest recipient of FDI among all developing countries.²³ Transnational corporations from major powers and neighboring countries have been increasingly moving their labor-intensive industries to China, thus making China a world workshop. This process in turn has transformed China into a major importer of raw materials and exporter of mainly low- and medium-end manufactured goods. In fact, China's overall trade numbers are arguably more balanced than many have realized. China has a strong trade surplus with the developed world, except Japan, and with Hong Kong, China, for which trade statistics still are compiled separately. But China runs a trade deficit with the members of the Association of Southeast Asian Nations (ASEAN), Latin America, and Africa. These new relationships make for complex geopolitics.

Figure 1. China's Top Trading Partners, 2005



Source: Chinese Ministry of Commerce Statistics.

23. The top ten developing and transitional country destinations for FDI, 1990-2004, were China, Brazil, Mexico, Argentina, Poland, India, Malaysia, Chile, Turkey, and Hungary. See World Bank, *World Development Indicators*, for various years.

Regional Ties: East and Southeast Asia

The regional economic and trade integration process as practiced in East and Southeast Asia is considerably more economically liberal than that characteristic of many other world regions. Asian regionalism is for the most part open regionalism. Most member-states, which have benefited from export-led growth, seek to ensure that regional agreements will in practice be building blocks for further global liberalization rather than stumbling blocks that deter such progress. Besides economic self-interest, political unease has encouraged most East Asian countries to diversify their economic and political relationships outside of the region when possible. There is arguably low trust among East Asian countries, a legacy from China's tributary system for over a thousand years, as well as Japan's efforts to build "co-prosperity sphere" during the Second World War.

Regional blocs are often built between a hegemonic power and subordinate countries. In Asia, Japan and China have been competing for regional leadership, but the remaining states trust neither one. Some prefer to bring in the United States as an outside balancer, though others do not. The outcome has been a looser regional organization, the Asia-Pacific Economic Cooperation (APEC) group, which since its founding in 1989 has been built on the principle of consensus and voluntary action, or open regionalism, instead of binding agreements. The eighteen economies of APEC include all those that have a Pacific Rim border, including the United States, Canada, Russia, Peru, Chile, New Zealand, and Australia. The institution includes the three largest economies in the world—the United States, Japan and China. APEC decided at its Bogor, Indonesia summit in November 1994 to achieve "free and open trade and investment in the region" by 2010 for its industrialized members, which account for about 90 percent of its trade, and by 2020 for the rest. But, and significantly, this goal should be achieved through voluntary domestic adjustment.

In 1967, Indonesia, Malaysia, the Philippines, Singapore, and Thailand began a formal framework for political and economic cooperation in Southeast Asia in 1967: ASEAN. They were later joined by Brunei, Cambodia, Laos, Myanmar, and Vietnam. The ten members share various levels of economic development, uneven natural resource distribution, different size of popula-

tions and territory, and divergent economic development strategies, and thus did not reach consensus on further trade liberalization until the 1990s.²⁴ Lacking an effective forum in East Asia, China has recently joined a new group known as "ASEAN+3," which includes the ten ASEAN members plus three northeast Asian states: China, Japan, and South Korea. ASEAN countries hope that this new grouping will rebuild economic stability and renew growth that was shaken by the Asian financial crisis of the late 1990s. However, the hard core of this grouping is still the ASEAN countries, and China's role will be limited. Furthermore, trade patterns between China and its Asian neighbors are not exactly complementary. The intra-regional export share for the East Asian region reached only 41.5 percent in 2000, lower than the figure of 47 percent in 1996. All the ASEAN states export labor-intensive manufacturers, mainly to the United States.

China, which has a trade deficit with Southeast Asia as a whole, although not with each country, is now engaged in a diplomatic offensive to allay regional fears of China's economic, political, and military clout. Chinese leaders use the guidelines of "do good to our neighbors, treat our neighbors as partners" (*yulin weishan, yilin weiban*) and "maintain friendly relations with our neighbors, make them feel secure, and help to make them rich" (*mulin, anlin, fulin*).²⁵ In addition, China has modified its main publicly announced foreign-policy goal, from "peaceful rise" to "peaceful development," noting that "China aims to grow and advance without upsetting existing orders. We are trying to rise in a way that benefits our neighbors."²⁶

China's Sweet and Sour Relations with Africa and Latin America

China's scarcity of natural resources, especially energy, raw materials, and water, to support its huge population and rapid

24. "WTO Rift Spurs ASEAN to Tackle Free Trade," *South China Morning Post* (Hong Kong), October 7, 2003, online at www.cid.harvard.edu/cidtrade/issues/regionalism.html.

25. Robert Sutter and Chin-hao Huang, "China-Southeast Asia Relations: Military Diplomacy and China's Soft Power," *Comparative Connections* (April, 2005), online at www.csis.org/china/pubs.

26. Yoichi Funabashi, "China's Peaceful Ascendancy," *Yale Global*, December 19, 2003.

economic growth is an increasingly serious problem. China's per-capita water resources are one-fourth the world average, and its per-capita area of cultivatable farmland is 40 percent of the world average. China's oil, natural gas, copper, and aluminum resources in per-capita terms amount to only 8, 4, 26, and 10 percent, respectively, of the world average for each.²⁷ Worse, at present the efficiency of use and the rate of recycling of these materials are low. China's resource endowments combined with its rapid and highly globalized growth have shaped its trade profile.

Driven by its energy thirst, Beijing has adopted a global strategy of securing energy and natural resources. Chinese companies have made a large number of direct investments in Latin America and Africa, targeting petroleum reserves and other natural resources. In 1991, Chinese inward FDI to Africa totaled less than \$5 million, but by 1999 the annual flow was just short of \$100 million. By the end of 2005 the total stock of Chinese FDI in Africa had reached \$6.27 billion.²⁸ China has spent billions securing drilling rights in Nigeria, Sudan, and Angola, and has exploration or extraction deals with Chad, Gabon, Mauritania, Kenya, the Republic of Congo, Equatorial Guinea, and Ethiopia. China has also invested in the booming copper industry in Zambia and Congo.

Similarly, in a matter of just five or six years, China has emerged as a trade and financial giant in Latin America. During Chinese president Hu Jintao's 2004 visit to five Latin American countries, he signed \$100 billion worth of investment commitments in ten days.²⁹ Most of these loans and investments are in oil, gas, and mining projects and other infrastructure developments, mainly located in resource-rich nations such as Bolivia, Ecuador, Cuba, and Venezuela. In 2006 Andes Petroleum, a consortium owned by the Chinese firms Chinese National Petroleum Company (CNPC) and Sinopec, purchased four major oil concessions and a 36 percent leading share in a new heavy crude

27. Zheng, "China's 'Peaceful Rise,'" p. 18.

28. Craig Timberg, "From Competitors to Trading Partners: Africans Adjust as Business Ties with China Grow," *Washington Post*, December 3, 2006.

29. Bruce Rich, "Blank Checks for Unsustainable Development," *The Environmental Forum* (March-April, 2007), at www.eli.org.

pipeline, linking new oil development in the Ecuadorian Amazon to the Pacific Coast for export.³⁰

Growing hand in hand with the direct investment is the volume of bilateral trade between China and these two regions. Africa's annual trade with China rose from \$10.6 billion in 2000 to \$60 billion in 2006, and is projected to reach \$100 billion by 2010. China now absorbs about 10 percent of African exports and is already the continent's third-largest trading partner, behind only the United States and France. Other emerging powers, most notably India, have also sought energy and natural resources in Africa. Similarly, China's trade with Latin American and Caribbean has exploded since 1999, increasing seven-fold in the last five years. Again, the growth has been a market response to Chinese demand for raw materials running into domestic supply constraints, so that the region's exports are overwhelmingly of primary commodities. Although China accounted for almost 6 percent of the region's total exports in 2004, the shares for individual countries range from less than 1 percent of total exports in Colombia, Ecuador, and Mexico to around 10 percent in Chile, Jamaica, and Peru.³¹ The main products exported from the region are soy, iron ore, copper, pulp, fish meal, and leather. Most South American countries have a trade surplus with China, while Mexico and much of the Caribbean have deficits.

As a newly visible economic power in Latin America and especially Africa, China has been accused of being a new imperialist or neoimperialist. The Chinese government's response is that it carefully balances its resource search with "normal" diplomacy, an attitude loudly praised by some African leaders, including Omar Bongo Ondimba, president of Gabon.³² Besides its heavy investment in energy and natural resources sectors, China has offered select developing countries concessional loans to pay for the construction, by Chinese firms, of turnkey infrastructure projects including roads, dams, stadiums, and agricultur-

30. *Ibid.*

31. Phys Jenkins and Enrique Dussel Peters, "The Impact of China in Latin America and the Caribbean," Institute of Development Studies Report, April 2006, p. 9, online at www.ids.ac.uk/ids/global/AsianDriverpdfs/DFIDAgendaPaperIII.pdf.

32. Jean-Christophe Servant, "China's Trade Safari in Africa," May 2005, online at www.fpa.org/topics_info2414/topics_info_show.htm?doc_id=278487.

al infrastructure. The Chinese have invested over \$20 billion in Sudan in recent years, including in the Merowe Dam, a \$1.2 billion hydropower project on the Nile.³³ Not all observers are pleased, of course. Both governments and nongovernmental organizations (NGOs) in the United States and the EU have been highly critical of the environmental, human-rights, and developmental impacts of the Chinese investments. For example, the earnings from China's timber imports from Liberia may have gone directly to the country's dictator, Charles Taylor, fueling a devastating civil war. Similarly, Beijing's economic cooperation with the Sudanese government arguably has undercut the effectiveness of international condemnation of the government's massive human rights violations in Darfur, although in 2007 Beijing finally agreed to join a United Nations resolution censuring the Khartoum government. As one Chinese diplomat stated, "After all, business is business. There is no need to mix politics into business, which was the mistake we made in 1960s and 1970s."³⁴

Meanwhile, China is a successful authoritarian developmental state and, like the United States, intentionally promotes its model abroad. Liu Guijin, China's ambassador to South Africa, noted that "some African countries are still heavily depending on Western countries for markets, economic assistance, and development models. China will provide an alternative market, a new source of economic assistance, and a new development approach."³⁵ During a 2005 visit to Nigeria by Hu Jintao, Nigerian president Olusegun Obasanjo remarked: "From our assessment, this is the century of China to lead the world. And when you are leading the world we want to be very close behind you."³⁶ Ethiopian Prime Minister Meles Zenawi embraced the idea of building "a strong developmental state" in contrast to the "neo-liberal reforms" advocated by the World Bank.³⁷

33. Rich, "Blank Checks for Unsustainable Development."

34. Interview in Beijing, July 2007.

35. Liu Guijin, "China-Africa Economic Cooperation is Mutually Beneficial and Win-win," October 19, 2006, online at www.chinese-embassy.org.za/eng/zt/ask/t276816.htm.

36. Howard W. French, "Letter from China: Growing Chinese Trade with Africa a Threat," *New York Times*, November 16, 2006.

37. Akwe Amosu, "China in Africa: It's (Still) the Governance, Stupid," *Foreign Policy in Focus*, March 9, 2007, p. 3.

The concerns over China's growing economic influence in Latin America, meanwhile, are more about deindustrialization. The current China-driven commodity boom may benefit the trade balance of many Latin American countries in the short term, but over the medium run competition from China's manufactured exports could weaken the industrial capacity which these developing countries vied for decades to build.³⁸ Because much of Latin America is now securely democratic, China's political influence in the Western hemisphere is likely to remain small compared with its influence in Africa.

Large Emerging Powers, Including the BRICs Countries

Not surprisingly, the structure of China's economic ties with the other three BRICs—Russia, India and Brazil—is also shaped by China's growing demand for energy and raw materials to meet its domestic manufacturing needs. Leaders in all three countries have been concerned over the rapidly declining share of manufactured goods in their exports to China. Russian observer Mikhail Vorobyev noted: "What else is Russia capable of delivering to China besides raw materials? If you do not count military equipment . . . and apart from civil aircraft . . . and power industry equipment, it seems that Russia has nothing to boast of. Russia is becoming a raw materials tributary not only of the most developed western countries, but also of . . . China."³⁹ Similarly, the task faced by Brazil is to avoid the pitfalls of commodity dependency. China has become Brazil's second and fastest-growing export market, but three-quarters of these exports are concentrated in just five commodities—soybeans, iron ore, steel, soybean oil, and wood. Brazil is not alone in this situation. Argentina sends

38. Daniel Lederman, Marcelo Olarreaga, and Guillermo Perry, "Latin America and the Caribbean's Response to the Growth of China and India: Overview of Research Findings and Policy Implications," paper prepared for the Program of Seminars at the World Bank and IMF Annual Meetings held in Singapore, August 2006, online at http://siteresources.worldbank.org/INTLACOFFICEOFCEINSPA/Resources/LAC_response_to_China_and_India_Overview.pdf.

39. Yu Bin, "China-Russia Relations: What Follows China's 'Russia Year'?" *Comparative Connections* (January 15, 2007), p. 156, online at ww.csis.org/pacfor/ccejournal_archives.

soybeans to China as its major export to that country, while Chile and Peru depend on copper for the bulk of their exports to China. Primary and resource-based products also dominate India's export basket to China.⁴⁰

China and the Major Powers

Contention and Complementarity

China's current trade and financial relations with the advanced industrial countries of the West are of course often not to these countries' liking—although these countries also would profoundly regret the loss of China as an economic partner. China's largest export market is always the United States, followed by the EU and Japan. In 2003, China replaced Japan as the United States' third-largest trading partner, and then in 2006 China passed Mexico to become America's second-largest trading partner.⁴¹ In 2006, bilateral U.S.-China trade was \$343 billion, and the U.S. bilateral trade deficit with China hit a record \$232 billion. As the trade volume grows, so do frictions over unfair Chinese trade policies, dumping, patent violations, and product safety.

China also has accumulated a large dollar reserve, holding over \$1 trillion in total foreign exchange reserves and \$350 billion in U.S. bonds.⁴² In 2006, Japan held an estimated 31 percent of all foreign-held U.S. Treasury securities, China held 19 percent, the EU held 15 percent, and Middle East oil exporters held about 5 percent.⁴³ China has effectively become a primary source

40. See the paper by Rusko and Sasikumar in this special issue, and also T. P. Bhat, Autlan Guha, and Mahua Paul, "India and China in WTO: Building Complementarities and Competitiveness in the External Trade Sector," Institute for Studies in Industrial Development (ISID), India, April 2006, p. 38, online at <http://isidev.nic.in/res.html>.

41. U.S. Census Bureau, online at www.census.gov/foreign-trade/statistics/highlights/top/top0612.html.

42. U.S. Census Bureau, online at <http://www.census.gov/foreign-trade/balance/c5700.html#2007>.

43. Testimony by Peter R. Orszag, "Foreign Holding of U.S. Government Securities and the U.S. Current Account," Committee on the Budget, U.S. House of Representatives, June 26, 2007, online at www.cbo.gov/

of funding for the growing current account deficit of the United States. China's holdings have contributed both to the high dollar and low U.S. inflation and interest rates. Of course, China has become so dependent on the U.S. market that it is highly motivated not to shift its reserves to gold or the euro. The unrealized story is that China's rise and continued U.S. global economic hegemony are complementary. China is playing the game within the rules set by the West.⁴⁴

Another contentious issue in bilateral U.S.-China economic relations is the Chinese yuan's peg to the U.S. dollar. Under continuous pressure from the United States, China modestly revalued the yuan in July 2005 but refused to abandon the peg, as demanded by U.S. officials, despite much disagreement among economists as to the appropriate cause and effect relationship.⁴⁵ Unlike its rapid trade liberalization, Beijing has been very cautious about financial market and exchange-rate policy change, a lesson learned from the 1997 Asian financial crisis.⁴⁶

There are, of course, also domestic structural factors behind China-U.S. bilateral economic relations, including China's enormously high savings and investment rates and the low savings and investment rates of the United States.⁴⁷ Chinese analysts point to the cheap goods that enormously benefit American consumers, while U.S. analysts worry over job losses and outsourcing.⁴⁸ Nonetheless, one PRC trade official admitted that ways of

ftpdoc.cfm?index=8264&type=0. See also Armijo's article in this special issue.

44. Gilboy, "The Myth Behind China's Miracle," p. 33.

45. Jagdish N. Bhagwati, "US Trade Policy: The China Question," prepared remarks before the U.S. Senate Finance Committee, March 27, 2007, online at www.cfr.org/publication/13206/us_trade_policy.html; Stephen S. Roach and Desmond Lachman, "Is China Growing at the U.S.'s Expense?" Council on Foreign Relations, October 13, 2006, online at www.cfr.org/publication/11631.

46. Interview with an official at Ministry of Finance in Beijing, July 17, 2007.

47. In 2005, gross capital formation was 43 percent in China and 19 percent in the United States. See the World Bank's *The Little Data Book 2007*.

48. Liao Xiaoqi (Vice Commerce Minister of China), "Buying Chinese Goods Saves Americans \$100 billion a Year," *People's Daily* (Beijing), November 30, 2005, online at http://english.people.com.cn/200511/30/eng_2005_1130_224707.html; and Robert E. Scott, "Costly Trade with China: Millions of U.S. Jobs Displaced with Net Job Loss in Every State," *Economic Policy*

cutting the trade surplus have been identified as the top priority on the 2007 to-do list of the Chinese ministry of commerce.⁴⁹ The United States is the country that can exert the greatest strategic pressure on China on both economic and non-economic issues, including responses to terrorism, North Korea, Iran, Taiwan, and Asia regionalism. Fortunately, greater cooperation with China is also in the U.S. interest, especially since the attacks of September 11, 2001.

The Strategic Dimension

Strategic and military strains between the United States and China, as well as between China and Japan, are rising, yet so far have been dealt with relatively harmoniously by both parties.⁵⁰ China's defense spending has increased in tandem with its economic growth, doubling in the past six years. In March, China's National People's Congress announced that it would increase the country's military budget to a total of \$45 billion in 2007. Outside sources, taking into account purchasing power parity (PPP) and off-budget military spending, tend to provide higher estimates of between 2.3 and 2.8 percent of GDP, while the U.S. State Department assumes 4.5 percent.⁵¹ The Chinese govern-

Institute Briefing Paper, No. 188 (May 2, 2007), online at www.epinet.org/briefingpapers/188/bp188.pdf.

49. Interview with a Chinese trade official, May 26, 2007.

50. On the China-Japan relationship, see Laurence's article in this volume. For a detailed analysis of China's military capacity and its strategic implications, see *U.S. Congress, House of Representatives, U.S. National Security and Military/Commercial Concerns with the People's Republic of China* (Washington: Government Printing Office, 1999); Steve Tsang, *If China Attacks Taiwan: Military Strategy, Politics and Economics* (New York: Routledge, 2006); Andrew Scobell, *China's Use of Military Force: Beyond the Great Wall and the Long March* (Cambridge, UK: Cambridge University Press, 2003); Eric Arnett, ed. *Military Capacity and the Risk of War: China, India, Pakistan and Iran* (Oxford, UK: Oxford University Press, 1997).

51. For a range of estimates, see Edward Cody, "China Boosts Military Spending; Senior U.S. Official Presses Beijing to Clarify 'Plans and Intentions,'" *Washington Post*, March 5, 2007, online ed.; Keith Crane et al., *Modernizing China's Military: Opportunities and Constraints* (Santa Monica, Calif.: RAND Corporation, 2005); Office of the Secretary of

ment has tried to reassure the world that its military spending hikes are normal and need not worry anyone: "China is committed to taking a path of peaceful development and it pursues a defensive military posture."⁵² Nevertheless, the increases in its military spending have become a regional and global concern.

For the foreseeable future, China will not be a global military competitor with the United States. But China certainly will expand its military and political influence in Asia, with significant consequences for all of its neighbors, including Japan, South Korea, Russia, India, and of course Taiwan.⁵³ The key question, explicitly addressed by Christopher Rusko and Karthika Sasikumar in this volume, then becomes whether increased cross-border trade and investment ties between China and its neighbors foster peace. By several key measures, Chinese foreign policy is more self-restrained now than in the recent past. In its first thirty years, the People's Republic of China went to war against at least four of its neighbors, including Korea (1950), India (1952 and 1962), Russia (1969), and Vietnam (1979).⁵⁴ Thanks to China's gradual integration into the international community and its acceptance of multilateralism, Beijing has recently adopted a new foreign policy of omnidirectional smiles, labeled a policy of peace and independence. Fighting no wars since 1980, China has smoothed relations with Russia, Indonesia, India, and South Korea and settled border disputes with Russia and India. Arguably, political and economic relations between China and most of its neighbors are better than ever.

Meanwhile, China has international political priorities that differ from those of the wealthy democracies. For example, Beijing has maintained good relations with "rogue" countries targeted by the United States, including Venezuela, Sudan, Iran,

Defense, "The Military Power of the People's Republic of China," May 23, 2006, p. 20, online at www.defenselink.mil/pubs/pdfs/China%20Report%202006.pdf; Jim Yardley and David Lague, "Beijing Accelerates Its Military Spending," *New York Times*, March 5, 2007.

52. Yardley and Lague, "Beijing Accelerates Its Military Spending."

53. See the contributions by Laurence; Ma, Lee, and Park; Hancock; and Rusko and Sasikumar to this special issue.

54. Ross Terrill, "What Does China Want," *The Wilson Quarterly* (January 30, 2006), online at www.wilsoncenter.org/index.cfm?fuseaction=wq.print&essay_id=146856&stoplayout=true.

North Korea, Cuba, and Burma. Russia, the other increasingly authoritarian BRIC country, takes a similar stance. Beijing argues that it is in a position to use its good offices to help bring these non-cooperative states into global negotiations and greater cooperation. China's efforts to host and mediate the Six-Party Talks with North Korea represent a positive new policy initiative for China. Yet China's cautious—some would say cynical—stance in countries such as Sudan and Myanmar (Burma) has been widely questioned in the West.⁵⁵

Conclusions: A China Pragmatically Constrained by Globalization?

As an "authoritarian capitalist" state, China currently lacks the four elements of a functioning democracy: independent civil society organizations, a free press, opposition parties, and an independent judiciary.⁵⁶ To liberal-institutionalist analysts, China's domestic authoritarianism is a breeding ground for corruption. It cannot fully profit from the information revolution, thus inhibiting the technology that is at the heart of growth today. In Bhagwati's memorable epigram, "The PC [personal computer] is incompatible with the CP [communist party]."⁵⁷ This may mean that, in order to continue growing, China will be forced to democratize. But this outcome is hardly a certainty.

This article has argued that the market-driven dictates of the globalized economy have been the principal drivers of China's currently very high level of international economic integration. In turn, the pragmatic imperative to continue rapid economic growth and the benefits of globalization has gradually led China to participate more actively and cooperatively in the global governance regimes whose broad outlines were constructed by the Western advanced industrial countries in the wake of the devastation of World War II. Neither the realist vision of a necessarily

55. See Roger Cohen, "Monks and China Rising," *New York Times*, October 11, 2007.

56. Bhagwati, "US Trade Policy."

57. Jagdish N. Bhagwati, "Made in China," *New York Times*, February 18, 2007.

militarized and threatening China, nor the liberal-institutionalist expectation of a China whose core self-interest has been transformed by learning from the experience of participation in global institutions seems to this author to offer great insight into China's future international choices.

Instead, it is best to understand China today as both a willing and a capable partner in the mostly liberal international economic order—so long as China's leaders continue to see such participation as consistent with China's national interest.

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