The Chinese Paradox of High Growth and Low Quality of Government: The Cadre Organization Meets Max Weber

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Much research has argued for the importance of state’s administrative capacity for development. Disregard for the rule of law and failure to get corruption under control are seen as detrimental to economic and social development. The China paradox refers to the fact that in all commonly used measures of levels of corruption and the quality of government, China is a country that scores quite low. China also lacks the Weberian model of bureaucracy that is seen as central for development. It is argued that this paradox is the result of disregarding the existence of a different public administration model in China—the cadre organization. Instead of rule following, this organization is marked by high commitment to a specific policy doctrine. The argument is that while very different from Weberian bureaucracy, this organization is well suited for effectively implementing policies for economic and social development.

The Institutional Theory in Development Research and the China Paradox

The starting point for this article is the so-called “China paradox.” On the one hand, there is now an abundance of research in economics and political science arguing for the importance of state’s administrative capacity and the quality of their government institution for countries’ economic prosperity and social development (Acemoglu and Robinson 2012; Aidt 2009; Bentzen 2012; Smith 2007). In this approach, disregard for the rule of law and failure to get corruption under control are seen as detrimental to economic and social development. On the other hand, The People’s Republic of China (henceforth China) scores comparatively low in all commonly used measures of levels of corruption and the quality of government (QoG) institutions (Fukuyama 2013). Most importantly, China lacks the predictable, rule-of-law-oriented, unpolitical, impersonal type of public administration that is known as the Weberian model of bureaucracy (Ahlers 2014; Birney 2013; Pieke 2009). This model for the public administration is by most institutional scholars seen as a central ingredient in the

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institutional setup needed to spur a country’s development (Dahlström, Lapuente, and Teorell 2011; Evans and Rauch 2000; North, Wallis, and Weingast 2009; Pritchett and Woolcock 2004).

Yet, as is well known, during the last three decades, China has shown exceptionally high economic growth and also impressive improvements in many commonly used measures of human well-being (Sen 2011) despite its dismal performance in the available measures of levels of corruption and QoG. The magnitude of this “China paradox” is, for example, shown by the fact that leading scholars in the institutional approach to development have been forced to use a number ad hoc explanations to account for the Chinese case as the country does not fit the theory (Acemoglu and Robinson 2012; cf. Fukuyama 2012). Mahbubani argues that while governance in China is not perfect,

it has lifted more people out of poverty, educated more people, increased their lifespans and generated the world’s largest middle class. No other society in human history has improved human welfare as much as the Chinese government. It would be insane to deny that China has enjoyed “good governance.” (cited in Ottervik 2013, 22)

Ahlers (2014, 1) refers to the discrepancy between the established theory about “good governance” and what has taken place in China since 1990 as “the hardest contemporary nut that comparative political scientists have to crack.” Using Transparency International’s Corruption Perception Index as a measure of institutional quality, Wedeman (2012, 178) shows that China is a profound outlier with much higher annual growth rate than other countries with similar levels of corruption. Despite the seemingly high levels of corruption and lack of democracy, the Chinese state has been able to increase its capacity to collect taxes, thereby being able to fund large investments in public goods such as education, health facilities, and infrastructure (Ahlers 2014; Ho and Niu 2013; Ottervik 2013). Compared to almost all other communist regimes that have experienced systemic breakdowns in delivering public and private goods, as stated by Ahlers, in China “things are getting done” (Ahlers 2014, 1, italics in original).

This “puzzle with China” leaves us with three possibilities. First, the theory stressing the QoG institutions is a misspecification of what causes economic and social development. For example, it may be the case that the theory is not as general as the proponents argue, in the sense that it may work for some type of societies but not for others. A possible explanation is that, for a country like China, low quality in its formal institutions, may be compensated for by high quality in its informal institutions. For example, Li and Wu (2010) have argued that the presumably high level of interpersonal trust in China serves as an informal institutional device that mitigates the negative effects of corruption in the formal institutions. In a similar way, it has been argued that the “guanxi” networks in China should be seen not only as facilitating corruption and clientelism but also
as informal systems for securing honesty in economic transactions (Huang and Wang 2011; Li 2011). The problem with these explanations is that they imply that China can only be explained by referring to cultural and historical traits that are specific to China. This may very well be true, but from a comparative perspective, there are strong arguments for trying to find a more general explanation for “the China puzzle.” Otherwise, comparative politics may end up with one theory of development per country. Before retracting to the “culturalist” type of explanations, there are good reasons to see if it is possible to find a more universal explanation for the “China paradox.”

A second possibility is that there is something profoundly wrong with how QoG institutions are conceptualized by the group of mostly Western scholars that are engaged in this topic and that this is specifically detrimental to the Chinese case. A central issue here is of course the relation between universalism and cultural relativism in the social sciences. The latter approach would argue that concepts such as good governance, corruption, or the QoG are based on profoundly Western ideals and therefore should not be applied to other cultures such as China. Several studies, however, show that there is not much empirical support that speaks in favor of this relativistic approach (Persson, Rothstein, and Teorell 2013; Rothstein and Torsello 2014; Widmalm 2008). A third possibility is that there is some kind of institutional feature in the Chinese system of governing that has been missed in this discussion. If so, this would imply that state capacity and QoG can be reached by other means than the liberal rule-of-law-based Weberian model of state capacity as first put forward by Evans and Rauch (2000).

I will concentrate on the latter issue as my inclination is that the institutional theory of development probably is right. It would take too much space to present the full argument here but to summarize I think that both the internal logic of the institutional theory and the results from many different types of empirical research is to this day convincing. The assumption from which this analysis starts is that “the problem with China” may be related to a misunderstanding of the main operational mode of the Chinese public administration. The hypothesis put forward is that research on this topic may have missed the importance of a specific organizational form for public administration, namely, the cadre organization. It is argued that this quite specific type of public administration is a very different organizational species than the Weberian model of rule-of-law-based and impartial bureaucracy. However, as will be shown, this cadre type of public administration is not a specific Chinese model of public administration as it, while rare, can also be found in Western democracies. Most importantly, it is argued that for producing socially efficient outcomes, due to its specific organizational form, this cadre model of public administration can under some circumstances be more efficient than the Weberian model. This implies that when singling out the rule-of-law-based and politically neutral Weberian model as a
requirement for successful development, the institutional approach in economics and political science may have been mistaken.

**Measuring the QoG in China**

Despite fairly high levels of corruption and far from ideal implementation, the Chinese population seems to be quite satisfied with government services in general (Ahlers 2014). Comparing six Asian-Pacific large countries, Wang (2010) shows that Chinese citizens are more content with how the government handles issues such as fighting crime, unemployment, human rights, economy, political corruption, and improving quality of public services than citizens in countries such as Japan, Russia, India, and the United States. In this article, only Australia outperforms China.

Data from the World Value Study survey carried out in 2007 show that not only does China have markedly higher levels of social trust and higher growth rates than other large developing countries, despite that they all resemble each other when it comes to the their levels of corruption; as shown in Table 1, the Chinese population also seems to have substantially higher confidence in the police and the civil service (Table 1).

One possible conclusion from these figures is that while corruption and corruption-related problems may be common, there is something else in the Chinese state that creates the high confidence in public institutions among the population. The question is: What? Ahlers and Schubert (2011, 66) suggest that political legitimacy at the local level in China is secured by what they call an “adaptive authoritarianism,” which implies that the local cadres have an obligation to “to be aware of public demands (including beliefs and values) and thus take into account the people’s responses to the policy.” The importance of the high levels of confidence in the public administration and police should also be seen in relation to a number of survey-based comparative studies about political legitimacy in general. What these studies show is that issues that relate to the “output side” of the political system, such as government effectiveness and control of corruption, are generally more important for creating political legitimacy.

<table>
<thead>
<tr>
<th>Generalized trust (%)</th>
<th>China</th>
<th>Peru</th>
<th>India</th>
<th>Morocco</th>
<th>Brazil</th>
<th>Mexico</th>
</tr>
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<tbody>
<tr>
<td>Police</td>
<td>80.1</td>
<td>15.8</td>
<td>64.1</td>
<td>61.4</td>
<td>44.8</td>
<td>33.6</td>
</tr>
<tr>
<td>Civil services</td>
<td>85.8</td>
<td>6</td>
<td>54.3</td>
<td>51.3</td>
<td>52.4</td>
<td>25</td>
</tr>
<tr>
<td>GDP growth (%)</td>
<td>9.1</td>
<td>5.02</td>
<td>3.72</td>
<td>3.32</td>
<td>2.66</td>
<td>0.83</td>
</tr>
<tr>
<td>GDP per capita growth (%)</td>
<td>8.37</td>
<td>3.55</td>
<td>2.17</td>
<td>2.09</td>
<td>1.25</td>
<td>−0.19</td>
</tr>
</tbody>
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*Source: QoG data set, see Teorell et al. (2013).*
among the population than are the standard set of liberal democratic rights (Dahlberg and Holmberg 2014; Gilley 2006; Gjefsen 2012).

The central question, then, is: How this is done? As a first starting point, it is important to note that the term civil servant cannot be directly imported from the English language to translate to the same understanding in Chinese. In China, the term for civil servant covers both party cadre and nonparty government officials, which implies that it is difficult to separate the term, as it encompasses, in practical terms, more than one job category (Chou 2008). A first implication of this is that the central notion of the model of Weberian bureaucracy, namely, that the civil servants are not to be loyal to the ruling political party but to rule of law principles and their professional standards, does not apply to China (Pieke 2009).

Reforming the Civil Service in China

Recent scholarship on the Chinese civil service has focused on the many and encompassing civil service reforms initiated by the Deng leadership in the 1980s, and later reinvigorated in 1993 (Burns 2007; Burns and Wang 2010; Keping 2014; Pieke 2009), as well as on the legal framework, that serves as the basis and starting point to institutionalize these reforms. A central finding in the literature about the civil service in China is that there is still an overwhelming presence of the Communist Party within the civil service (Ahlers 2014; Burns 2007; Burns and Wang 2010; Burns and Zhiren 2010; Chou 2008; Collins and Chan 2009; Heberer and Gödel 2011; Ledberg 2014; Liou, Xue, and Dong 2012; Pieke 2009). The extent of the Party’s involvement is demonstrated by the fact that a member of the Politburo’s seven-member Standing Committee is in charge of overseeing organization and personnel work, including the management of the civil service. The fact that Party members make up 80% of civil service posts, in the roughly five-and-a-half-million-strong civil service (Burns 2007), is evidence of that the civil service is being dominated by the ruling communist party. It also reinforces the absence of a Weberian style “civil service neutrality” in the Chinese public administration (Birney 2013; Burns 2007). On the other hand, the influence of the communist party is in line with Wedeman’s explanation for the “China paradox,” namely, that the centrally launched anticorruption campaigns, while not making China into Denmark, has had a considerable effect in preventing corruption to spiral out of control (cf. Gong 2011; Wedeman 2012).

Although party control is still very important, China has made strong efforts to increase the levels of professionalism, meritocracy, skills, and educational requirement in its public administration (Ho and Niu 2013; Keping 2014; cf. Ledberg 2014; Pieke 2009). In 1993, admission criteria were revised as part of the reform, to include university degrees as part of selection. By 2003, the civil service reforms had shown significant improvement in the quality of its civil servants, with 70% of civil servants having university degrees (Burns and Wang 2010). The competition for
jobs in the central administration is very high (Ho and Niu 2013). According to one study, in 2009, more than 775,000 applicants competed for some 13,500 jobs (Burns and Zhiren 2010).

During the prereform era, the evaluation of the civil servants rested strongly on one single criteria, namely, party loyalty (Chou 2008; Pieke 2009). However, beginning in the early 1990s, this seems to have shifted toward a strong emphasis on the actual performance of civil service to deliver services (Burns and Zhiren 2010; Chen 2005; Edin 2003, 2005; Gao 2009). Starting at the county and township level in the early 1990s, “performance and result based management” has, according to Burns and Zhiren (2010) as well as Gao (2009) and Edin (2003), become a central model for the implementation of public policy in China. In this model, which according to Gao (2009, 22) has been overlooked in most studies of state capacity in China, government authorities at higher levels are setting increasingly precise and quantifiable targets for the administration at regional, county, and township levels to which also individual civil servants are held accountable. Edin (2003, 36) argues that this should be seen as a systematic strengthening of state capacity by increasing “institutional adaptability” at the local level (see also Ahlers 2014; Gao 2009; Keping 2014). One effect is that the careers of public officials have been increasingly tied to how well they are able to fulfill specific policy mandates (Birney 2013). Some of these performance targets, such as family planning, social security, handling of mass protests, have been directly tied to individual civil servants and have carried powerful sanctions if not met (Burns and Zhiren 2010, 15; Edin 2003). According to one study based on interviews with county officials, such targets “were the most important task for leadership cadres, and the accomplishment of targets . . . brought great pressure for local officials, especially for cadres in the leadership corps who were directly accountable” (Gao, cited in Burns and Zhiren 2010, 16). What is particularly interesting is that the performance targets at the county and township levels are a mix of ideological, political, economic, educational, and social goals. Examples given by Gao, cited in Burns and Zhiren (2010, 18f; see also Heberer and Gödel 2011, 37), are:

- building party branches in resident communities;
- at least 80% of “women diseases” should be under control;
- making a practical plan for dealing with mass complaints;
- ensuring that 95% of social conflicts are handled by means of negotiation;
- ensuring an annual growth rate of \( \times \) %;
- reduction of water consumption by \( \times \) %;
- population reduction by \( \times \) %;
- conduction moral education among the youth.
Neither does such a mix of ideological and policy goals resemble what is to be expected from a Western style rule-of-law-based politically neutral Weberian bureaucracy. What is especially interesting is that economic and social efficiency goals are being mixed with ideological goals like “conducting moral education,” something that would be alien for a Weberian type of public administration (cf. Pieke 2009). The question is if we can find a model for public administration that fits a list of such diverging types of goals. One explanation is provided by Birney (2013) who labels this system “rules by mandates.” She argues that this system is fundamentally different from a “rule-of-law” system as the mandates, unlike laws, are hierarchically ordered meaning that the administration is supposed to disregard a “lower” mandate if its implementation, in the specific local context, stands in the way of carrying out a mandate with higher priority (Birney 2013, 56). Moreover, while laws are public, many of the mandates governing the public administration in China are often secret, especially their internal ranking. In sum, the reformed public administration model in China differs from the traditional communist model in that in addition to party loyalty and ideological coherence, since about 1990 there is also a strong emphasis on competence, education, and performance to deliver services (Pieke 2009).

Public Administration and Development under Authoritarian Regimes

Although China must be characterized as a nondemocratic authoritarian regime, not all such regimes are the same. In a comparative study of 76 countries using data from 1983 to 2003, Charron and Lapuente (2011) differentiate between three types of authoritarian regimes, namely, single-party regimes, monarchies, and military/personalistic rule. Using a variety of measures for QoG, they find substantial differences in the level of QoG among these types of authoritarian rule. Single-party regimes have the highest level of QoG, when economic prosperity is taken into account. Their argument is that at a modest level of economic prosperity, single-party regimes are much better than monarchies or military regimes in channeling demands from citizens into higher levels of state capacity. This is also shown in recent empirical research on governance in China. Included in the performance-based mandate-style management system are systematic demands on local officials to measure (by surveys) citizens’ satisfaction with various policies and with “government work style, integrity and clean government” (Burns and Zhiren 2010, 21; cf. Edin 2003). It is noteworthy that the existence of performance-based management is neither confined to nor has its origin in China. Instead, as Gao (2009) shows, it has originated in and is often practiced in the West. For example, in 1995, the OECD (2011) published a report titled Performance Management in Governance: Performance, Measurement and Result-Oriented Management, in which this form of public administration was highly
recommended. What is special about the Chinese performance-based management is that soft ideological and hard professional targets are mixed (Ahlers 2014; Birney 2013). How this works is shown also in a study of how the system for regulating banks works in China (He 2014). Although formal rules exist, most of the regulation is done informally by direct verbal or telephone communication from the China Banking Regulation Commission to the banks telling them, for example, what sectors to increase or decrease lending to and to “signal risks to the financial institutions.” These instructions are “never in writing.” Instead, this steering from the center is described as “suasive” and “allow the regulator to respond to constantly changing conditions without the need for frequent formal amendments.” This allows for a constant interaction between the regulating authority and the banks for implementing a “tailored approach for regulating different categories of banks in terms of size and complexity.” This steering by persuasion instead of rules does not rely on any “legal of binding regulatory consequences” or “explicit penalty sanctions” (He 2014, 65f). Instead, according to He (2014, 67), what makes this system work is “paternalistic” persuasion.

In sum, China has dramatically increased the educational demands and professional competence for its civil service, but the communist party is still heavily in control. Demands on performance and accountability have increased as has efforts to measure citizens’ satisfaction with performance. However, this governance model is not based on the impartial and politically neutral Weberian rule-of-law model. On the contrary, the empirical studies cited above, not least the detailed ethnographic study based on numerous interviews with students and teachers at the Party Schools by Pieke (2009) as well as the study of the rural administration by Ahlers (2014), strongly support the existence of an very different organizational “modus operandi” in the Chinese public administration. This is a system in which performance goals and hierarchically ordered mandates are set centrally giving local cadres fairly large discretionary power over how to reach the targets—what Edin (2003, 36) labels “institutional adaptability.” A central conclusion is that state capacity in China is organized in a way that is very different from the Weberian model rule-of-law type of “good government” launched in the institutional development theory. The question is if we can find a general theory or model of public administration and state capacity that makes sense of this without resorting to a culturalist “China-specific” explanation for how to understand what is to be seen as state capacity and QoG.

The Cadre Organization and the China Paradox

The hypothesis I will present is that the puzzle, why China has thrived despite what has been perceived as low QoG, may be found in the interface between the ruling communist party and the public administration. My hypothesis is that the combination of single-party rule and the type of
reforms of the public administration described above may have resulted in an organizational form for China’s public administration that works as a solution to the most general problem in organizational theory, implementation research, and public administration, namely, the issue of how to handle delegated discretion.

The literature on public administration is sometimes steeped in the language of economics, in which the goals of the principals are clear and the agents are rational utility-oriented self-interested types. Here, the major problem is how the principal can create an incentive structure that makes it rational for his/her agents to strive to achieve the goals of the organization instead of engaging themselves in all kinds of fraudulent and self-serving actions. As shown by, for example, Gary Miller, if the tasks that are going to be performed by the agents are complex, the rational choice type of incentive steering cannot work. The reason is that the principal, in order to create the right type of incentive system, needs correct information from the agents about the work process. However, if the agents think that the principal will use this information against their interest, for example, by increasing their work efforts, they will not reveal such correct information, which will make it impossible for the principal to set correct incentives (Miller 1992). This asymmetry in information problem makes it impossible to steer organizations in the mechanical way that rational choice theory presumes—if this is tried, the organization is likely to fall into a situation known as a social trap, where everyone involved will lose because lack of mutual trust (Rothstein 2005). In corruption research, this principal–agent theory represents a serious misspecification of the problem as it relies on the existence of “the honest principal.” However, in a situation characterized by systemic corruption, we should expect the actors at the top, that is, the principal, to earn most of the rents from corruption. The implication is that such principals will have no incentive to change the incentive structure for the corrupt agents (Persson, Rothstein, and Teorell 2013).

This rational-choice-based theory of organization has been successfully challenged by a more cultural approach. In this model, scholars rightly stress the importance of commonly held beliefs, mutual trust, informal norms, communicative leadership, and so on (Ashkanasy, Wilderom, and Peterson 2011; Miller 1992). The problem here is that any notion of even a semirational steering of the organization to a set of goals, such as improving the economy and social welfare of a country, tend to get lost. One widely held view in this approach to organizations and public administration systems views them as “garbage cans” to which uncoordinated streams of problems, solutions, participants, and choice opportunities flow, creating an anarchic situation that cannot be governed in any meaningful sense of the word (Cohen, March, and Olsen 1972).

Although not often discussed in organization and management theory or in theories of public administration, there is an alternative form of public administration that avoids the pitfalls of the two models above. It can be
described as an “ideal type” in the same manner as the well-known Weberian ideal type of the politically neutral legalistic bureaucracy. A useful term for this organizational type is the cadre organization (Balla 1972; cf. Rothstein 1996), but it is also known by management scholars as the “missionary model” (Mintzberg 2010) or the “clan model” (Ouchi 1980). This type of organization of the public administration has a rationale that is fundamentally different not only from the economic-incentive-driven model and anarchic garbage can culture-based model, but also from the Weberian bureaucratic ideal type. The cadre type of organization is neither based on steering by formal and/or precise rules, by any “rule-of-law” conception of tasks, or on steering by economic incentives. Instead, the basis for this organization is a strong ideologically based commitment from the personnel (the cadre) to the specific policy doctrine of the organization. As opposed to the Weberian bureaucrat’s neutral “sine ira et studio” orientation, the cadre is characterized by his or her strong loyalty to or even passion for the policy doctrine of the organization. The cadre’s key skill is the ability to understand and embrace the organization’s policy doctrine and to implement this doctrine in varying circumstances, in which the tools used are constantly adapted to the specific circumstances at hand. The difference between the cadre and the Weberian bureaucrat is not primarily in their level of professionalism, education, and skills, but in what these are used for and how. The cadre organization can be based on as much professionalism as the bureaucratic organization, but the skills are applied according to a very different logic. In an early and remarkable work on this topic, the Hungarian-German sociologist Balint Balla described the difference between the bureaucratic and cadre organization in the following way:

While bureaucracy is characterized by reliability, continuity, efficacy, precise application of prevailing instructions . . . cadre administration is marked by flexible immediate “line-oriented” dynamism, by superiority over formalities and pragmatic ability to adjust to changing situations. (Balla 1972, 203, my translation)

For understanding the role of the cadre organization model in contemporary China, it is important to emphasize that while it can certainly be driven by adherence to an ideological doctrine (such as Marxism-Leninism), this is not a necessary condition. As will be shown below, instead of being grounded on a political ideology, the cadre model can also be based on adherence to specific policy in, for example, health care, education, or demography. Thus, although the importance of the Marxist-Leninist ideology seems to have faded in China, this has not made the cadre model of public administration less relevant (Ledberg 2014; Pieke 2009).

The Cadre Organization in Western Societies

Empirically, the cadre model of public administration described above is not confined to a specific culturally based Chinese or communist mode of
public administration. In fact, mainstream organizational theorists in the West have made occasional references to this organizational form. For example, in his well-known taxonomy of organizations, Henry Mintzberg mentions the existence of what he calls “the missionary organization” (Mintzberg 2010). Likewise, William Ouchi identifies what he labels “the clan organization” (Ouchi 1980). More recent analysis of the “mission type” of public administration has verified the existence and importance of ideological motivation for policy doctrines among civil servants (Wright, Moynihan, and Pandey 2012; Wright and Pandey 2011). Although rarely theorized by public administration scholars, this type of organization have been empirically verified in countries that are very different from contemporary China such as the United States and Sweden.

A case in point is a “modern classic” in public administration from the United States, namely, Herbert Kaufman’s study of the Forest Service published in 1960 (Kaufman 1960). In this book, The Forest Ranger, Kaufman describes the severe problem of how to apply the quite loose laws and regulations to the 792 different districts that the Forest Service was responsible for. As they could not be supervised in any meaningful way, Kaufman asks why the district rangers he studied did not de facto implement 792 different policies. The answer he came up with is largely in line with the cadre organization model. Kaufman stressed the importance of leadership for the creation of a common ideological orientation in the organization. The methods used by the leaders of the Forest Service involved: (1) recruiting persons strongly inclined to the type of work that was to be done, (2) using extensive internal training to nurture “the will to conform” to the organization’s goals, and (3) organizing the work so that the will by the Rangers to identify with the Forest Service was strengthened. “Without realizing it,” writes Kaufman, “members of the Forest Service thus internalize the perceptions, values, and premises of action that prevail in the bureau, unconsciously, very often, they tend to act in the agency-prescribed fashion because that has become natural to them” (Kaufman 1960, 162, 171, 176). In this way, the Forest Service in the United States turned out to be very successful in handling the problem of delegated authority.

Another example can be taken from the implementation of the Active Labor Market Policy (ALMP) in Sweden starting in the 1950s. The policy was created by two economists from the blue-collar union federation (Gösta Rehn and Rudolf Meidner). Their idea was that the unions, in order to increase unity and avoid inflationary wage demands, should strive for a universal (solidaristic) wage policy. This would imply that individual companies as well as whole sectors of the economy that were making low profits would pay wages at the same level as those who had high profits. Instead of fighting against economic rationalization that would put less profitable industries out of work, the unions should embrace this development because it would increase economic growth as capital and labor would flow to the more expansive sectors. The problem was of course how
to take care of and compensate workers that were laid off because of this policy. The policy doctrine, known as the Rehn–Meidner model, was that through “active” measures, such as extensive vocational training, highly qualified job finding services, and generous support for relocation, laid-off workers should be moved to the more profitable and successful areas of the economy. However, the proponents of this (then quite unique) economic model realized that this would not be an easy thing to implement as many workers would be reluctant to change location and type of work. In order to handle this problem, a new type of “cadre” administration was established known as the National Board for Labor Market Policy. Recruitment of personnel to this organization, not least its street-level organization, the labor exchanges, were in practice reserved for people with experience as local union officials. Their argument was that this was needed in order to get legitimacy in the implementation process from the “target group,” because people with a background in the union movement had been “walking the walk and could talk the talk.” It was again and again underscored by the proponents of the model that the organization was not to be governed by strict rules and regulations. Instead, it was given large discretion and freedom in how to apply its extensive funds to the varying local and industrial specific circumstances. The schooling and training of the “cadres” were extensive and consisted of creating understanding and support for the policy doctrine. The implementation problem was of course that each individual worker that became unemployed through this massive structural economic transformation had very specific capabilities for handling the situation. Some could be reeducated through various forms of vocational training, but others could not. Some could be persuaded to move to another location, but for others this was not a possible solution. Some just needed assistance to search for new work and should get temporary unemployment insurance while doing so. Moreover, some would be more suitable for various forms of temporary relief works that were set up and administrated by the Labor Market Board. In reality, the measures had to be almost tailor-made for each person, which in many cases included a fair amount of persuasion. It was obvious for the “policymakers” that solving this through a rule-bound and legal type of Weberian steering would have been impossible and resulted in a bureaucratic nightmare that would have severely delegitimized the whole policy. Instead, they created a cadre organization to solve this through customizing the “active” measures according to the specific needs and capabilities of each individual in accordance with the overall goal of this policy doctrine. The organization was deliberately infused with a strong ideological commitment to the policy doctrine through various educational, social, and cultural measures (Milner and Wadensjö 2001; Rothstein 1996).

What took place in the ALMP in Sweden during its heydays in the 1960s and 1970s looks remarkably similar to analysis of how the local administrative cadre “rule by mandate” system works in China when deciding
which local companies to support. When the traditional central planning system was abandoned in the early 1990s, it was replaced by “active industrial policies” where the local cadres were given the responsibility to decide which companies to support by “concentrating local resources on strategic key enterprises.” General policies were set at the national level, but it became up to the local cadres to “pick the winners.” Instead of central decisions on what products to produce, the local cadres had to decide which companies that could become economically successful (Edin 2005, 112–114). The success of the local cadres was of course monitored and they were held accountable, but they did not operate through a set of central rules or regulations. According to Edin (2005, 117), this is known as “the cadre responsibility system” in which “soft” ideological targets could often be as important as “hard” production targets. Among the former could also be things like handling protests, securing the social order, and preventing environmental problems.

Although the Weberian bureaucratic rule-of-law model has many advantages, not least in its predictability, process-bound qualities, and meritocratic recruitment, the cadre organization has at least one feature that can be particularly important in a very large and rapidly developing country. The studies referred to above show that this type of organization is particularly apt to solve the above-mentioned delegation problem in organizational theory. It is well known in public administration research, especially in research about implementation of social and educational reforms, that the rule-of-law model is difficult to apply in many areas where there is a need to adapt the interventions to the specific circumstances of the case (for an overview, see Rothstein 1998, ch. 4). There are a number of ways in which this can be solved, for example, by using staff with a strong professional knowledge about what to do in such cases (like medical doctors handling patients with bacterial infections). However, for many public policies, for example, in areas such as education, social work, industrial policy, and urban planning, such applicable professional knowledge does not exist, but the principal still has to allow for a wide degree of discretion by the agents, if they are going to be able to perform their tasks (as was the case with the Forest Service in the United States).

The possibility of solving the delegation problem in areas such as these with increased “rule-of-law” type of regulations is in fact minimal. If this is tried, the layer of rules and regulations will become so complex that it works against predictability and increases the problem of delegated discretion (Rothstein 1998, ch. 4). However, the cadre type of organization is meant to solve this complicated steering problem. When it works, the ideological commitment and training of the cadre in the general policy doctrine handles the problem of delegated discretion because the agents will chose the measures the principal would have applied in the specific situation if the principal would have had the same information about the case as the agent has. This is why the cadre organization relies much more on internal ideological schooling than merits from outside training or from work
outside the organizations when it recruits and promotes staff. Simply put, faced with a new and unprecedented case, the cadre-agent is supposed to do what the principal would have done for promoting the policy doctrine had he/she “been there.”

Comparing the Weberian Bureaucracy and the Cadre Organization

Although it is true, as stated by the cultural school in organization theory, that norms play a central part in organizations, this does not imply that organizations should generally be understood as “garbage cans,” to which norms flow in an unregulated and uncoordinated manner. In the cadre organization model as illustrated above, the norms (or mandates) are manufactured “from above” giving a high level of stability and coordination to the organization. This cadre organization approach has the advantage of not conflating the importance of norms in organizations with making what the organizations do indeterminate (Fukuyama 2004, 65). On the contrary, in the cadre type of organization, the strong concentration on the importance of the ideological commitment to a specific policy doctrine, be it how to preserve national forests, get unemployed back to work, teach students science, or choose which small companies have the best future, is meant to make norms determine action at the point of implementation (cf. Pieke 2009). Another advantage of the cadre organization is that its personnel are usually trained to rapidly follow changes of operative ideology that come from the top. Although the policy doctrine is general, the implementation of the doctrine will usually have to vary depending on the specific circumstance. In sum, in a rapidly changing society in which interventions under uncertain and varying conditions are needed, this may be the most important advantage the cadre model has compared both to the Weberian bureaucracy and to the economic-incentive-based type of organization.

From the view of representative democracy, the cadre organization is clearly problematic as the very idea of representative democracy is that a new majority should also result in important shifts in various policy doctrines. For a cadre organization, this spells problems as its personnel may be so strongly committed to the previous majority’s policy doctrine that it cannot or will not change.2 However, this problem does of course not occur in a nondemocratic country such as China. From a liberal rights perspective, another disadvantage of the cadre organization is that citizens and private companies cannot predict government actions as they are not rule bound. As an example, in his analysis of banking regulation in contemporary China, He (2014, 49) points out that foreign (i.e., Western) banks have a hard time understanding the type of informal steering that is used by the central regulatory agency.

The cadre type of public administration should not be conflated with a politicized public administration in which positions are given to people in exchange for political support. Neo-patrimonial clientelism and U.S.-style
"spoils" systems are different as for the cadre administration; it is support and ability to perform according to a specific policy doctrine that is paramount. The strong emphasis on loyalty and central control over the implementation of the system of hierarchically ordered mandates may also explain why the anticorruption campaigns stressed by Wedeman (2012) have not been without success. The difference between the Weberian bureaucracy and the cadre organization are summarized in Table 2 (from Rothstein 1996, 31).

It follows that the cadre is not impartial or politically neutral in the same manner as the Weberian bureaucrat, as fulfilling the (often shifting) specific goals, which are derived from the organization’s general policy doctrine, is the primary norm. However, this is not to say that impartiality is irrelevant for the cadre (as for the professional) at another and more basic level. Although the cadre is not supposed to be neutral in relation to the policy doctrine, he/she is not supposed to sway away from implementing this doctrine because of bribes, prejudices against ethnic or other minorities, or engagement in nepotism or clientelism. In the two Western cases mentioned above (The U.S. Forest Service and the Swedish Labor Market Authority), corruption seems to have been almost nonexistent. On the contrary, the “cadres” in both these public administrations seem to have been models of honesty.

The same type of impartiality seems to exist for professionals in many public organizations. Doctors, nurses, preschool teachers, and social workers are not supposed to act as neutral rule-of-law Weberian bureaucrats when deciding how to deal with their “cases.” Instead, the presumption is that they should be able not only to differentiate their actions, according to the specific needs of each and every case, but also to show emphatic skills. However, they are not supposed to differentiate their efforts depending on bribes, personal connections, political leanings, or ethnic or racial prejudices. The ability of cadres and professionals to differentiate their efforts, without making considerations that may influence

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<td>Tools</td>
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TABLE 2
Characteristics of Bureaucratic and Cadre Organizations

THE CHINESE PARADOX
the case (like the factors mentioned above), can be thought of as a second-order impartiality.

As is well known, both the Weberian bureaucratic type of organization and the cadre organization can go astray. In the quote below by Balla, he states that although the former can also be characterized by “pedantry, formalism, red tape and . . . trained incapacity,” the cadre organization can be marked by “dilettantism, amorphous aversion to responsibility, rigid authoritarianism, rule-resistant, incompetence and emotional paternalism” (Balla 1972, 203). My point is thus not to make a normative argument for one or the other but to emphasize that a high level of economic growth and increased human well-being can be reached not only by the Weberian type of rule-of-law-oriented neutral bureaucracy but also by the cadre type of ideologically driven organization. The moderate to high levels of corruption that according to various measures exist in China, are in all likelihood for real, but the negative effects of this may be compensated for by the effectiveness cadre type of administration.

Discussion and Conclusions

The starting point for this article was the well-known “China paradox” in institutional theories about development that is the lack of an explanation for why the country has been able to show such remarkable economic growth and increase in measures of human well-being while at the same time, according to available measures, having both relatively high corruption and lacking the type of neutral Weberian public administration said to be necessary for reaching these goals. The hypothesis I have put forward for how to understand this puzzle is that, when assessing the QoG in China, the stark focus on rule of law and the lack of Weberianism seem to have overlooked the existence of a possible alternative to these two institutions. This alternative may be a specific type of public administration known as the cadre (or clan or missionary) organizational model. As has been shown, this type organization has an operational logic that is fundamentally different from the Weberian bureaucracy. Moreover, this organization can be a very efficient for producing highly valued outcomes and it may thereby increase the systems overall political legitimacy. It should be emphasized that this type of organization, while usually overlooked both in general public administration research, as well as in comparative political science and development research, is not a result of a specific Chinese administrative culture as it has existed also in Western countries. Compared to the neutral Weberian bureaucracy, it is likely to perform better in highly flexible terrains as it is better suited to deal with the famous delegation problem in organizations. This also implies that by leaving out the features of the cadre organization model, the available standard measures of QoG in China may be inadequate. However, a major drawback of the cadre model is of course that it is not very compatible with representative democracy as the latter implies that the
policy doctrines that are to be implemented should change when the political majority changes. However, this is not a problem for contemporary China.

One remaining issue concerns the sustainability of the cadre model of development in China. In their widely read book *Why Nations Fail*, Acemoglu and Robinson (2012) predict that China will soon crash because its lack of “inclusive” and rule-of-law type of institutions (442). The problem with their analysis is the lack of attention to the public administration side of the equation. As shown above, what goes on at the “output” side of the political system has empirically been shown to be most important for creating political legitimacy. The efficiency of the cadre model may contribute to the overall sustainability of the Chinese model of governance despite its lack of “inclusive” political institutions. Another question is of course if the increasing economic, intellectual, and political interaction with countries in which the Weberian model dominates eventually may force China to abandon the cadre model. My guess is that as long as the Communist party will be able to keep its dominating position, there is not much that speaks for a radical change for the “modus operandi” of the country’s public administration. On the contrary, the cadre model seems to be very well entrenched in the system for recruitment and training (Keping 2014; Pieke 2009) as well as in the general perception of what is to be expected from a public official (Ahlers 2014). However, if the country would change to a two- or multiparty democracy, the days of the cadre model are probably numbered.

**Acknowledgments**

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**Notes**

1. Latin translation is not easy but should be something like “without anger or passion.”

2. An example of this can be taken from the Swedish International Development Cooperation Agency that for a very long time had been steeped in a policy doctrine shaped by the Swedish Social Democratic Party. When in 2006, a conservative led government took power that adhered to a quite different policy doctrine about how international aid should be carried out, this created a lot of turbulence in the organization.

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Rethinking the Beijing Consensus: how China responds to crises

Yang Jiang

Abstract This paper discusses the role of the Beijing Consensus type of foreign and economic policymaking in China’s development since the Asian financial crisis and in its response to the global crisis, and argues that it has been a double-edged sword, as reflected in several aspects. First, the lesson that China learned from the Asian financial crisis was not the importance of liberalisation but prudence or conservativeness, which despite serving as a shield this time sustains problems in the long term. Second, an obsession with foreign reserves accumulation and the pursuit of political influence have for a long time overshadowed the increasing dependence on the US market, putting China in a dilemma now in both development and diplomatic strategies. Third, centralised decision-making may be faster than democratic processes, but it may also go against the principle of ‘scientific decision’ as proposed by the Chinese leadership. A prominent feature of China’s responses to the crisis is a bias towards state-owned enterprises and the public sector, which exacerbates the existing problems of monopoly, over-capacity, inequality, the regulators being ‘captured’ by industrial interests and protectionism. Given limited economic resources, domestic political contentions and the questionable credibility of the China Model, it would be difficult for China to practice ‘responsible great power’ diplomacy or assume leadership in the region or globally.

Keywords Beijing Consensus; China Model; responsible great power diplomacy; great power style; financial crisis; stimulus package.

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1. Introduction

Beijing may laugh at the Washington Consensus floundering in the global financial crisis, but is it possible that China has fallen into the trap of the Beijing Consensus?

Following the Asian financial crisis, the global financial crisis provided China with another golden opportunity to undermine the Washington Consensus, on the one hand by justifying its political economic system for domestic development, and on the other hand by introducing its development model to other countries. China defends its political system for maintaining domestic stability, fitting the supposedly Confucius culture, and for being able to make and carry out decisions swiftly. Beijing also is also proud of its development path for rapid economic growth, and upholds Deng Xiaoping’s wisdom of ‘crossing the river by feeling the stones’. In a survey of 300 Chinese officials in March 2009, 75% believed that the China Model had undermined ‘three predictions’ made by the West: communism or socialism would die, Western democracy would prevail, and neoliberalism would be a universal model (Renmin Luntan 2009). The Western media also praised China for its swiftness in introducing stimulus packages, which were regarded as helpful for boosting confidence in the global market and particularly beneficial to regional economies. Particularly in contrast to the protracted process of congressional approval in Washington, the ability of Beijing to take quick action is deemed superior for crisis response.

In its foreign relations, since it gained a lot of political capital by maintaining the value of the renminbi (RMB) during the 1997–98 Asian financial crisis, China has positioned itself as a ‘responsible great power’ (fuzeren daguo) in the region and in the world. China praises itself for ‘great power style’ (daguo fengfan), which is opposite to the predatory great powers. In particular, Chinese leaders emphasise China’s generosity in allowing smaller countries the advantage in their cooperation and its determination to speak for developing countries at global institutions, an image that bears resemblance to the Western concept of benign hegemony. Beijing points out that the imposition of conditionalities by the International Monetary Fund (IMF) and World Bank on developing countries have destroyed more than ten national economies including Argentina and Indonesia, particularly thanks to neoliberal economic doctrines embedded in the Washington Consensus in combination with the ensuing modern financial industry and greed. The Chinese government and academia proudly claim that China never attaches conditionalities to its aid or loans to other developing countries and it does not intervene in domestic politics. Many developing countries, including those in Africa, have expressed their appreciation of China’s non-intervention in their domestic affairs, and their intention to learn from China’s development model, for instance by establishing Special Economic Zones and encouraging labour-intensive manufacturing, with the help of Chinese loans, investment and experience.
However, the role of the Beijing Consensus in China’s domestic development needs more scrutiny before it can be introduced to other developing nations or indeed lauded within China. Moreover, the image of a benign hegemon is more difficult to sustain in economic crisis as great powers may become more nationalistic and vulnerable.

Therefore, this paper analyzes the ideational and institutional factors behind China’s development since the Asian financial crisis and behind its response to the global financial crisis, and discusses the implications of domestic conditions for Chinese diplomacy. It asks the following questions: how has the ‘Beijing Consensus’ type of development strategy and policymaking affected China’s response to the global financial crisis; and what implications do they have for Chinese ‘responsible great power’ diplomacy?

The rest of the paper is organized as follows. After reviewing the existing literature on the Beijing Consensus and China’s responsible great power diplomacy, it analyzes the ideational impacts that the Asian financial crisis had on China. The lessons learned by China then serve as a background to the discussion of China’s response to the global financial crisis in the next section, focusing on three major problems: the concentration of distributional power and the resultant ‘unscientific’ decisions, the bias towards state-owned enterprises, and continued reliance on labour-intensive manufacturing and export. Finally, the implications of the ‘Beijing Consensus’ type of policymaking and development strategy for China’s regional and global diplomacy are discussed, assessing the distance of China from its aspired status of a responsible great power.

2. Literature review

Although the ‘China Model’ was mentioned as early as 1991, the term ‘Beijing Consensus’ was dubbed by former Time editor Joshua Cooper Ramo (2004) as a challenge to ‘the Washington Consensus’, and Beijing Consensus (Beijing gongshi) has been used interchangeably with the term the China Model (zhongguo moshi). Ramo’s association of the Beijing Consensus with innovation, sustainability and equitable development is hardly adequate, but despite that or because of it, the Politburo of the China Communist Party (CCP), the core of China’s decision-making power, quickly welcomed the spread of the terms ‘Beijing Consensus’ and ‘China Model’ in the international media, as they were believed to help enhance China’s soft power (Liaowang 2004). However, after the media attention turned to its revisionist connotations, the Chinese government denied that China was trying to teach the China Model to other developing countries or to challenge the existing international order. It states that the China Model means there is no one model for a country; rather, each country needs to search for its own development or political model.

Chinese academia has been debating whether there is one China Model, with many denying this concept (http://theory.people.com.cn/GB/40557/
China watchers compare the influence of the Washington Consensus and that of the Beijing Consensus, commenting on the soft power of the latter and its threat to the existing international order (Kurlantzick 2007; Kroeber 2008; Rachman 2008). Some have found fault with the Beijing Consensus, mostly in authoritarianism, human rights records, income inequality, a withering state and corruption (Gill and Huang 2006; Kennedy 2010; Yao 2010). Although there is no academic consensus over the definition of the Beijing Consensus or the China Model, this paper uses the official Chinese position for analysis of its policies and holds that the Chinese government has explicitly or implicitly given two important meanings to the Beijing Consensus or the China Model: gradualist development and authoritarian decision-making.

Crisis put models to good test. Protectionism is one general concern, and whether great powers are willing and able to provide public goods is another. Despite much rhetoric regarding China’s superior model and great power style during the global financial crisis, to date these has not been a study of the role of the China Model in its response to the crisis, and its implications for China’s ‘responsible great power’ diplomacy. Neither has China’s response to the global crisis been contextualized in China’s development trajectory, in particular its lessons from the Asian financial crisis at the end of the 1990s. Therefore this paper seeks to fill these gaps, with the acknowledgement that the aftermath of the global financial crisis is still rippling, and China’s policies may undergo significant changes due to serious external economic pressure, domestic instability or iron-fisted idealistic leaders.

Since the Asian financial crisis, Beijing has tried to establish an image of a ‘responsible great power’ and demonstrates ‘great power style’, ostensibly in contrast to other great powers and the US in particular. Eric Teo (2004) suggests that China was trying to revive the tributary system in Asia, and the title ‘the Middle Kingdom’ has appeared frequently in the recent media. China has denied such observations, claiming never to pursue hegemony and emphasizing equality among sovereign states. However, Chinese leaders have heralded Confucianism, the core value in the ancient tributary system, for building a harmonious world. China prides itself on its generosity, compassion and sense of responsibility in its diplomacy in Asia and towards other developing countries. Chinese officials emphasize mutual benefit but also claim to follow the ancient tradition of ‘giving more and receiving less’ (hou wang bo lai) in its diplomacy towards smaller countries. Clearly China wishes to achieve the symbolic status of a great power, both in economic and military strength and in cultural and moral achievements. The model that China wishes others to admire and to emulate and the symbolic status that Beijing aspires to resemble the Western concept of benign hegemony (Kindleberger 1975; Kupchan 1998). It is questionable, however, whether China can carry out the responsibilities of a benign hegemon: providing public goods and creating international institutions.
As diplomacy serves China’s domestic needs and diplomatic ambitions are constrained by domestic conditions, it is crucial to examine China’s domestic political economy and crisis policymaking. There have been criticisms from both within and outside China on the risks with China’s crisis rescue measures, predominantly from an economic point of view: excessive debt, inflation and real estate bubbles (e.g. Yao 2010; Kennedy 2010). Less attention has been paid to the political and institutional factors behind those measures, or the continuity of China’s policies since the Asian financial crisis. The existing or potential economic woes may have institutional, ideational and political roots that are more persistent than the vicissitudes of economic environments.

While Keynesianism enjoys a renewed interest in developed countries during the global financial crisis, the Beijing Consensus or China Model is placed as an exemplary model for developing and Asian economies. Indeed, Chinese finance officials and scholars have cited Keynes in the wake of the global financial crisis, and the prominent role the Chinese state plays in the economy appears similar to Keynesianism (Zhou 2009; Fan 2010). However, China has achieved too little in domestic income redistribution and social security to qualify as a Keynesian state. In its economic representations, the Beijing Consensus resonates more with East Asian developmental state in terms of heavy state intervention, gradualist liberalization and state-backed industrial policies, focused on promotion of export and national enterprises (Baek 2005; Beeson 2009; Kerr 2007). Pioneered by Japan and followed to varying degrees by East Asian economies, the developmental state was once regarded as the core of the ‘East Asian Miracle’ (Amsden 2001; Terry 2002; World Bank 1993; Stubbs 2005). However, disillusionment with this miracle emerged during the Asian financial crisis, when the developmental state became closely associated with crony capitalism (Higgott 1998; Noble and Ravenhill 2000; Stubbs 2005). Certainly, putting the blame on neoliberal measures has continued in crisis-hit countries, but with Japan’s protracted stagnation and the neoliberal reforms of other smaller East Asian economies, the developmental state has only met the opportunity of revival during the global financial crisis. Perhaps because the phrase ‘developmental state’ is accredited to its political rival in Tokyo, Beijing prefers to use the terms ‘China Model’ or ‘Beijing Consensus’. It raises the question whether the typical problems with the developmental model exist in China. Many scholars have pointed out that Beijing’s reliance on economic growth for its legitimacy may not be sustainable, given rising social inequality and public discontent (e.g. Breslin 2007; He 2007; Schubert 2008). Yang Yao (2010), in his provocative article ‘The End of the Beijing Consensus’, correctly states that in the past 30 years China has moved toward the market doctrines of neoclassical economics. However, he argues that the Chinese state survived as a Marxist regime because the state’s ‘predation is “identity-blind” in the sense that Beijing does not generally care about the social and political status of its chosen prey – unlike many
governments elsewhere that act to protect and enrich specific social or political groups’. The ‘indifference’ that he and other scholars characterize the Chinese state with is debatable. Because of development strategy and partial reform, it is possible that even an authoritarian China is captured by certain vested interests, which inhibits further reform and induces policies that exacerbate inequality (Hellman 1998; Feng 2006). The crisis is a good time to investigate whether Beijing has indeed favoured the embedded interests.

The next section will analyze the lessons that China learned from the Asian financial crisis, which serves as a context and explanation for its response to the global financial crisis. The aim is to examine if and to what extent China’s Beijing Consensus type of thinking and policymaking have contributed to recurring or even exacerbating problems.

3. What China learned from the Asian financial crisis

China was affected by the Asian financial crisis in terms of reduced exports and foreign investment, but the most important impact the crisis had on China was ideational. The lessons that China learned from other countries and its own experiences during the crisis have since guided Chinese development and diplomatic strategies and only recently received significant doubt. There are three major lessons: desirability of a responsible great power status, caution about financial liberalization and a strategy to promote exports for economic security and growth.

3.1. Desirability of a responsible great power status

China gained a lot of political capital by keeping the value of the yuan and delivering aid to countries hit by the Asian financial crisis (M. Wang 1998; Y. Wang 1998). China stressed that had it devalued the yuan, international speculators would have again attacked the foreign exchange and stock markets of other East Asian countries. Although China’s lack of support for the Japanese proposal of an Asian Monetary Fund was a major reason for the proposal’s failure, China realised the importance of participating in regional institution building. Chinese policymakers discovered that Japan’s New Miyazawa Initiative in 1998, a US$30 billion financial assistance package for the region, was welcomed by Southeast Asian countries, and that Japan’s influence in East Asia increased (Sun 2007). Having come under pressure from other Asian countries, China also foresaw that certain mechanism for regional cooperation would inevitably be established, even possibly without the participation of China (author’s interview with a Chinese member at the Pacific Economic Cooperation Council (PECC), Beijing, April 2007). This realisation, together with the positive response China received from ASEAN for keeping the value of RMB, prompted China to
adopt a more committed stance in regional cooperation. Despite Deng Xiaoping’s advice for Chinese diplomacy to ‘tao guang yang hui’ (hide the sharpness and accumulate strength), Chinese foreign policymakers judged that it was time for China to also ‘yu shi ju jin’ (follow the trend of time) and ‘you suo zuo wei’ (achieve something).

Since Zoellick (2005) prescribed the role of a ‘responsible stakeholder’ in the international system for China, the emphasis on China being a responsible member in the region and in the global society has become increasingly prominent in Chinese official language. Chinese leaders have, on various occasions, underlined China’s friendship towards its neighbours and its sense of responsibility for the region. A Chinese phrase that the Chinese leaders often quote goes ‘a long road shows the power of a horse, and a long time shows the heart of people’ (luyao zhi mali, rijiu jian renxin), implying that China’s friendship towards its neighbours and other developing countries have passed the test of time, while some Western countries failed. A central claim from the contrast is that China is not a predatory coercive power or hegemony. China argues that its contribution to the region during the crisis showed that China was becoming a great global economic power, but it was under-represented at international financial institutions such as the World Bank, the IMF and the Asian Development Bank (ADB). Beijing also started to highlight its ‘great power style’, which was to ‘give more and take less’ and shoulder collective responsibilities. China has since lauded itself for the great power style on various occasions, for example, when China kept the value of RMB during the Asian financial crisis, when it exempted Africa from US$10 billion of debts in 2000, and when Chinese leaders went on shopping sprees across continents during the global financial crisis.

3.2. Caution about financial liberalization

China did not experience a financial or economic crisis when the Asian financial crisis hit most countries in the region, characterized by massive outflow of international short-term capital, sharp devaluation of the national currencies and difficulty with balance of payments. Many Chinese policy elites realized the necessity of economic reform to strengthen domestic institutions and to enhance national competitiveness. In Steinfeld’s view (2008), the Asian financial crisis helped the formation of an ideational environment in China that enabled members of the Chinese policy elite like Premier Zhu Rongji to push forward more radical and fundamental market reforms. As a result, China’s agenda of ‘reform as the salvation of socialism’ became replaced by ‘markets as the salvation of growth and legitimacy’.

At the same time, Chinese policymakers and scholars became more vigilant of the pitfalls in financial liberalization. Chinese scholars point out that the fundamental reason for the crisis was the inconsistency between domestic reforms and the premature liberalization of the financial market.
Therefore, it is widely held that developing countries should balance reform and liberalization, and that trade integration has more benefits for developing countries than financial integration. In particular, the liberalization of the financial sector should be coherent with the country’s economic development and supervisory ability; it should be even more cautious in opening the capital market (Y. Wang 1998; Xiao 2006; Breslin 2003). They believe that China should conduct financial reform in a stable and active manner, and form a financial surveillance system. Moreover, they hold that the crisis did not happen to China despite problems with Chinese banks because China had capital controls, and that giving up capital controls should therefore be the last step of all marketization reforms, after domestic financial institutions have become strong enough to handle international risks and China has established the mechanism to monitor international capital flows, in particular the short-term ones, and it should be done only after floating the currency (Yu 2007). The consensus in China has been that it should only gradually float the yuan because it is believed that the overall health of the national economy is heavily dependent on trade and domestic savings. In particular, Chinese scholars suggest that China should not allow international free capital – or ‘hot money’ – to enter or leave China freely, for instance by having restrictions on foreign loans of domestic companies and local governments, and that Chinese banks should not allow loans that are not certain to be returned in the future (Fan 1999; Zhong 2008).

Importantly, Chinese scholars criticize the Washington Consensus – with neoliberal economics at the centre – regarding economic reform and liberalization as being not necessarily safe or helpful to East Asian economies, and they hold that China should use discretion when it listens to the advice of the IMF. The reason, they argue, is that privatization and liberalization cannot prevent financial crises but may aggravate or even cause them if not accompanied by comprehensive regulation and supervision. Ding Ningning at the Development Studies Centre of the State Council states that financial internationalization and electronic means of transactions have not increased the transparency of the international market but have exacerbated its instability (Y. Wang 1998).

3.3. Promote export for economic security and growth

Because of the devaluation of regional currencies and hence the reduced purchasing power of consumers in the neighbouring countries, China’s growth rate of exports to East Asia declined significantly during the financial crisis. Instead of questioning the export-led model of growth (Breslin 1999), China chose the path to increase exports. One objective was to accumulate foreign reserves in order to prevent anything like the Asian financial crisis from happening to China in the future. Another objective, by accepting the transfer of exports of other Asian countries from the US, EU and Japan to China, China would increase its influence in Asia and promote
the image of a responsible great power (author’s interviews with scholars at CASS, Beijing University and Ministry of Commerce officials in March and April 2006 in Beijing).

The obsession with accumulating foreign reserves combined with the political will to provide ‘market of last resort’ for Asian countries thus led to increased reliance of the Chinese economy on export markets in developed countries like the US and EU (Ravenhill 2006). This model continues to bode poorly for China’s industrialization, as most Chinese activities in the production chain are low value-added processing.

Further results from this growth model are apparent: pressure from other countries on Beijing to appreciate the RMB, trade disputes, inflation, and an increasing need for multiple markets. Inflation has caused domestic instability in recent years and the government has to use administrative measures to control prices, particularly those of food. In order to gain access to multiple markets, Beijing is actively pursuing bilateral trade agreements, most of which are with developing countries. Even though China tries to show that it has the great power morality of giving more and taking less in trade agreements, including voluntarily giving concessions to ASEAN and Pakistan on agricultural trade through the Early Harvest Programmes, such arrangements cannot completely convince smaller countries of China’s benign intentions. For instance, while the Early Harvest Programme boosted ASEAN’s exports of tropical produce to China, the increased Chinese export of temperate produce and manufactured goods to ASEAN countries caused resentment among local producers and again stirred up fears of Chinese domination (Bernardino 2004; Wattanapruttipaisan 2003).

4. China’s response to the global financial crisis

Beijing has been praised by the international community for its swiftness to inject stimuli into the national economy, which is regarded as indirectly beneficial for other countries because of its demand for goods and commodities. The Chinese government also prides itself on its decisiveness in adopting such measures, which indeed have had immediate positive effects on GDP growth. China’s swiftness is often contrasted with American indecisiveness as Washington had a lot of trouble ensuring the stimulus packages could be approved by the Congress, and uncertainty in such a process has led to market fluctuations.

However, it is worth examining whether, apart from the ability to spend money quickly, money has been distributed in a ‘scientific’ way in China and whether it contributes to ‘scientific development’, a catchphrase in China’s current development strategy. Even though the long-term impacts of the measures adopted by the Chinese government remain to be seen, three problems in China’s responses to the global financial crises are highlighted here as a cautionary note to the Beijing Consensus type of decision-making institution and development strategy: the concentration of distributional
power and the resultant irrational decisions, the bias towards state-owned enterprises, and continued reliance on labour-intensive manufacturing and export.

4.1. Concentration of distributional power

The power to supply stimulus funding has been concentrated in the hands of very few actors. At the national level, the distributional power is designated to the National Development and Reform Commission (NDRC) and Ministry of Finance (MOF), supported by industry-line ministries. Concentration of power contributed to the swiftness of decision-making and reduced coordination problems, of which Beijing is proud, but such concentration also has far-reaching implications and risks for China’s political economy.

After two attempts at government reform to reduce its power, the role of NDRC in Chinese domestic politics is reinforced thanks to the global crisis as it assumed the ‘headquarters’ position in government crisis response. The NDRC has inherited a conservative position on reform and opening from its former body, the State Planning Commission. During Premier Zhu Rongji’s institutional reforms in 1998 and 2003, not only were parts of the State Planning Commission’s institutions abolished to reduce the planning element of the state’s role in the economy, but also the newly formed NDRC became largely a research and advisory agency to the central government. However, the NDRC has enjoyed increased power in domestic politics under the Hu-Wen leadership. As domestic stability and development problems became increasingly prominent in particular because of simplistic (cu-fang) liberalization, a more heavy-handed approach has been adopted by the government to intervene in the domestic economy. A more aggressive industrial policy is also adopted to promote national champions in global competition. NDRC is a central agency to carry out such macro-economic ‘control’ (tiaokong). It oversees national macro-economic, energy, price, industrial and investment policies amongst others. Because of the heavy control component in its portfolio and its inheritance from its former body, the NDRC represents the visible hand of planning in China’s economic governance. Other government agencies call the NDRC a ‘small state council’ or a super-ministry, because it has departments matching every sector of the economy and holds a higher political position than the ministries.

The concentration of power in the NDRC reached such a level that problems of lack of capacity there and resentment among other agencies started to surface. It was also obvious that China lacked a clear or coherent industrial policy, although it implicitly resides in the NDRC. An important task in the 2008 government ‘big ministry’ restructuring was to reduce the responsibilities of the NDRC through diverting part of its power to other agencies. The Ministry of Industry and Information Technology (MIIT) was established by adding more ‘industrial policy responsibility’ to the former Ministry of Information Industry. The State-owned Assets Supervision and
Administration Commission (SASAC) also became more assertive over its power to regulate state-owned enterprises (SOEs).

However, with the onset of the financial crisis, the NDRC assumed paramount power again over the national economy. *The Review of the National Development Plan 2008 and Development Plan 2009* were drafted by the NDRC, which included the distribution of the RMB 4 trillion stimulus package. The content of the package will be discussed later, but it was obvious that the distribution was decided without wide consultation. An official from a municipal government in Henan province said that the NDRC was pushing local governments to come up with projects to submit for approval, in contrast to the cautious, slow process of vetting investment applications earlier (Liao 2009). At the end of 2008, in order to compete for the first batch of RMB 100 billion, local officials occupied all the hotels near the NDRC. In order to dispatch funds quickly, the NDRC also approved many applications that had been shelved earlier – the quality of those applications then is in question (author’s interview, Beijing, 2009). There have been calls to publicize more detailed information about projects funded by the RMB 4 trillion, and problems with its usage have been reported sporadically (Wei 2009).

A lot of money and discretion were also granted to local governments and state banks. The stimulus packages were distributed to provincial governments, to be used in combination with provincial funding for supporting local projects. The central government also distributed 200 billion local government bonds, which may exacerbate the problem of local government debt. State commercial banks at various levels received administrative orders to fulfil quotas for giving out loans within a short time. In the first quarter of 2009, bank loans already reached 4.58 trillion yuan, mostly on infrastructure, public projects and mergers between SOEs, although part of it is also spent on agriculture, innovation and consumer loans (excluding houses) (Sun and Xi 2009). Such a rapid and particularistic distribution increases the possibility of corruption and bad loans. Coastal provinces like Guangdong complained that the first two batches of 100 and 130 billion yuan were heavily tilted towards middle and western regions although coastal areas were most severely hit by the crisis (Su 2009). It was also reported that local governments might not be able to provide the complementary investment needed for the RMB 4 trillion package: RMB 600 billion was needed but an estimated RMB 300 billion was available. However, local governments tried to match the state funding, not least because NDRC made it clear that for the first batch of RMB 100 billion investment, if a local government could not provide complementary funding, its future investment from the central government would be reduced. The two main instruments used by local governments to obtain funding are borrowing from banks and renting out land. Some local governments also set up investment companies for big projects with managers appointed by the Organization Department of the Party, evaluated by the local SASAC, funded by local
finance, and projects approved through local NDRCs. Without adequate supervision after the approval of funding, the government bonds could be used first to pay salaries, build houses and buy cars, before they finally go to projects, a similar practice to how the stimulus was dispatched after the Asian financial crisis (Xing 2009).

With the discretionary power at all levels of government and banks, China’s overseas investment, after a period of caution because of previous unwise decisions and host country resistance, is again encouraged to tap into various countries with a higher profile, causing more concerns in other countries and backlashes of economic nationalism. The Chinese way of obtaining natural resources through upstream long-term contracts and continued demand of raw materials have contributed to international price hikes of commodities such as iron ore and copper, which most Chinese importers have to absorb and in turn have added to the costs of Chinese producers and consumers. Although Chinese private carmaker Geely successfully acquired Volvo, the acquisition of Norwegian Elkem by the Chinese state-owned Bluestar has caused concern about the loss of leading technology to China. The China Investment Corporation (CIC), a sovereign wealth fund, and the planned China Investment Corporation II under SASAC are expected to be active in conducting overseas investment, but their capacity to make wise business decisions remain to be seen. For example, the CIC has received wide domestic criticism for huge losses in three major investments in Blackstone, Morgan Stanley and the American Reserve Primary Fund.

Compared with the NDRC, SASAC and MIIT, MOFCOM is a more liberal pocket within the Chinese government, but it cannot do much in a protectionist international environment and under domestic pressure to ensure GDP growth. MOFCOM adopted measures to boost exports, such as resuming export tax rebates on some labour-intensive products that China has traditional comparative advantage in and had been trying to gradually move away from. Such measures are easily subject to international criticism for being protectionist or mercantilist. MOFCOM, with the help of industrial associations, is also busy fighting trade wars, in the form of both responding to anti-dumping allegations and defending restrictions on Chinese exports of raw materials. Certainly, the MOFCOM participates in WTO negotiations, but its room for concession is much constrained by domestic economic and political conditions. In particular, a large number of migrant workers lost their jobs at manufacturing factories in coastal areas and were forced to return to their farmland, some of which no longer existed because of land development and government appropriation. China’s negotiations on the WTO Government Procurement Agreement (GPA) is underway, but the China–EU Chamber of Commerce and some of the world’s largest companies, including General Electric, Siemens and BASF, have recently complained that China preferred domestic bidders and the investment environment in China in general (Li 2009; Anderlini 2010). Although China is not yet a member of the GPA while the US is, both countries’ initiative
to encourage the purchase of domestic products suggest that nationalism speaks louder than internationalism.

In short, the distributional power in China’s crisis response was concentrated in the hands of a few actors, in particular the NDRC, MIIT and SASAC, which are known for having a cautious attitude towards reform and liberalization. Transparency and consultation are lacking in the distribution and usage of the funds at state and local levels of the government. It is questionable whether such decision-making could be scientific, as the funding is likely to favour a few actors who lobby intensively, to use state resources on projects without enough scrutiny, and to increase the element of planning in the domestic economy.

4.2. Bias towards state-owned enterprises and labour-intensive manufacturing

State-owned enterprises are the major beneficiaries of the stimulus packages. The stimulus plans for ten industries (automotive, steel, non-ferrous metals, textile, equipment and machinery manufacturing, ship manufacturing, information, light manufacturing, petro-chemicals and logistics) have a clear bias towards heavy industries and labour-intensive industries. Statistics from the first quarter of 2009 show that RMB 4.58 trillion of bank loans have gone to the ‘second industries’ (26.8% increase, cf. 85%, 29% for first and third industries) like real estate, electrical appliances, coal, concrete, metals, port and machinery, which are dominated by SOEs. Each of the industrial stimulus plans was drafted by the NDRC, supported by MIIT, business associations and representatives of big enterprises in the industry. Implementation of the plans are usually monitored by the NDRC and MIIT. In several of them (automotive, shipbuilding, electronics, IT), expansion of SOEs through mergers or alliances is encouraged (e.g. with tax breaks). For example, the drafting group for the shipbuilding industry stimulus plan decided that if small companies could not change businesses or merge with big companies, they had to go bankrupt. Several industry-line ministries jointly requested the State Council to set up an export credit guarantee company at the CIC to help the financing of export-oriented SOEs.

The SASAC is supposed to regulate SOEs and is in charge of SOE reform towards market economy standards. In practice, however, the role of SASAC has always been unclear, particularly whether it is a shareholder, regulator or manager. It is therefore sometimes called ‘the great butler of SOEs’. The SASAC held a meeting in January 2009 to set the annual profit targets for state SOEs as a measurement of the performance of their managers, and the Enterprise State Asset Law came into force on 1 May 2009, with the ambition of clarifying and strengthening the role of the SASAC as an investor and asset manager. Despite these measures, the portfolio of SASAC remains unclear. The new law leaves room for several industries to
retain a state monopoly, but still it has already met with arguments from enterprises and their line ministries about how to decide the budget of SOEs. SASAC has been investigating the problem of excessive expansion by SOEs since mid 2008, but the government’s crisis response clearly encourages expansion of SOEs. Instead of further market reforms, SASAC is authorized by the State Council to design measures to rescue the SOEs with huge losses in the form of cash or the SOEs being taken over by the State Asset Management Corporation. Although the official rhetoric mentioned support for small and medium enterprises (SMEs), reports continue to show the difficulty that SMEs have in obtaining loans. For example, RMB 1.6 trillion went to the railway system but the profitable segments were taken over by SOEs under the Ministry of Railways, leaving small or private enterprises with no incentive to invest (R. Wang 2009).

In short, the stimulus packages strengthened the role of heavy industries, the big SOEs as well as their line ministries in the domestic political economy. The cultivation of SOEs as monopolies runs the risk of creating rents, discouraging innovation as well as foreign investment. And as the power of monopolies grows, it would become more difficult for the state to regulate SOEs or to pursue more balanced development.

4.3. Continued reliance on labour-intensive manufacturing and export

The stimulus packages represent a setback in China’s effort to upgrade the industrial structure. The measures encourage China’s traditional comparative advantage in labour-intensive sectors and promotes exports despite its rhetoric over stimulating domestic demand. Even though the development model that relies heavily on export of cheap manufacturing goods has created many jobs and accumulated huge foreign reserves for China, the Chinese government has realized many drawbacks of this model. Chinese leaders have started to emphasize sustainable, balanced and ‘scientific’ development, with an ambition of climbing up the value chain and gradually moving sunset industries out of China.

However, the global financial crisis set the clock back for several labour-intensive sectors. The decision to halt the appreciation of RMB in mid 2008 was one measure to support exports. China also resumed tax rebates for the export of labour-intensive products. The stimulus plan for the textile industry 2009–2011 that came out in April 2009 includes stabilizing export markets, increasing export tax rebates and exploring multiple markets. In another sector that has over-capacity problems, China started a rural movement – a four-year ‘electronic appliances going to the countryside movement’. It is led by MOF, MOFCOM and MIIT and uses administrative measures to push up local consumption. The brands being promoted in this
movement were chosen from a domestic bid to the China Electronics Import and Export Corporation. Just as the rural movements are Chinese in character, local government measures often follow old Chinese ways of fulfilling tasks. For example, some local governments even imposed quotas for lower-level government units to fulfil. In some places, the sales of electronic appliances did rise because of reduced prices, but there is also evidence that some farmers regard this movement as another trick of the government to try to get money out of their pockets.

The problem of over-capacity was exacerbated as a result of the stimulus packages. For instance, as a result of the support of construction and infrastructure in the RMB 4 trillion stimulus package and the industrial plans for automotive, steel, machinery and shipbuilding, investment in steel production, which hit RMB 140.5 billion in the first half of 2009, was expected to lift the annual capacity to more than 700m tons, compared with domestic demand of about 500 m tons in 2008 (Xinjingbao 2009). At the same time, as mentioned earlier, international iron ore prices rose due to Chinese imports. Domestic overcapacity and reduced demand for steel products has led to the fall of the steel price and bankruptcy of a large number of factories, for instance in Hebei and Jiangsu provinces. The problem of over-capacity became so severe that the State Council made a statement in September 2009 that highly polluting sectors including steel, coke, cement and plate glass must cut capacity, while silicon and wind power producers should pursue more orderly development. With more state components in the economy, the government may be able to strengthen its regulation over SOEs and to cultivate national champions to become global competitors, as well as to monitor risky behaviour such as investment in financial derivatives. However, the effect of such regulations is limited. Not only private companies but also SOEs continue to pursue their own economic interests and strategies regardless of government criticism.

A crucial task of the crisis response was to stimulate domestic demand. However, the original plan for the RMB 4 trillion stimulus package was criticized for not spending enough on social welfare; instead, it focused heavily on the construction of schools and hospitals in this policy area. The expenditure on social welfare was increased in the revised version of the RMB 4 trillion plan, which reflects the influence of public opinion on state policy. The 2009 budget increased the spending on health, education and social insurance by 20%, but the share only increased 0.9%, to 7.1% (cf. 15–30% in developed countries). The government lifted the restraints on residency in Beijing and Shanghai for new university graduates, and ordered some SOEs to hire a certain number of university graduates, but unemployment continues to be a serious problem in China and there is little unemployment subsidy. Stimulating domestic demand in China seems to remain a long-term, challenging task. A central source of China’s international power, a huge domestic market, may become merely an illusion.
5. Discussion: implications for the ‘responsible great power’ diplomacy

Undoubtedly, China seeks the image and status of a ‘responsible great power’, with its moral and material superiority attributed to the Beijing Consensus or the China Model. However, the above analysis shows that China’s development strategy contains significant problems and risks. They not only render the model difficult and even dangerous to copy by other developing countries, but also may compromise China’s ideational and material superiority if those problems become serious. As China’s response to the global financial crisis shows, it is already constrained by domestic political and economic conditions in providing public goods or showing great power style to smaller countries in Asia or elsewhere.

In trade, measures that promote labour-intensive manufacturing goods are resumed as mentioned earlier, and this intensifies competition with other Asian and developing countries. Reduced exports means large numbers of laid-off workers and possibly social unrest, something Beijing can ill afford. For Chinese leaders, domestic stability is the greatest concern; in other words, a ‘harmonious society’ precedes a ‘harmonious world’. In its pursuit of multiple export markets, China has contributed much more to the creation of bilateral and regional institutions than to the WTO despite widespread criticism that FTAs have spaghetti bowl or noodle bowl effects on world trade. Just as US bilateralism in the 1990s launched a second wave of FTAs, Chinese activism seems to have kickstarted another domino effect. China is still reluctant to accept a multilateral regional trade regime in Northeast Asia or East Asia, largely because of political rivalry with Japan, but also because of concern over potential competition from the products and services of developed Asian countries. At the WTO, China has kept a tough position since its entry, in particular over agriculture, services and intellectual property rights (IPRs). China criticises major Western countries for protectionism during the global financial crisis, but it does not wish to be labelled as the leader of developing countries because ‘the distribution of interests at the WTO are very complex and changeable’ (author’s interview with MOFCOM officials, Beijing, May 2006, July 2009). China has successfully created a category of ‘newly accessed members’ at the WTO to avoid many further concessions. In finance, the global financial crisis has brought China new opportunities to demonstrate great power style and the superiority of the China Model. In a significant step in May 2009, China agreed to contribute the same amount of money as Japan (US$38.4 billion each) to the expansion of the Multilateralization of the Chiang Mai Initiative (CMIM) reserve pool in May 2009. China also signed bilateral swap arrangements from December 2008 to March 2009 with South Korea, Hong Kong, Malaysia, Belarus, Indonesia and Argentina worth a total of RMB 650 billion. It should be noted that BSAs are a shallow form of financial cooperation and carry low risk for the potential lender. For deeper and riskier forms of financial cooperation, such as exchange rate...
coordination, China has lacked enthusiasm due to its closed capital account, ‘managed floating’ exchange rate policy and lack of confidence in its financial institutions. China remains resistant to the idea of an Asian currency and reluctant to build an independent surveillance mechanism in East Asia. However, China has started promoting the usage of RMB in its neighbouring countries and some other developing countries that have close trade ties with China. Apart from the stabilising effect on trade, those measures are designed as gradual steps towards the internationalization of RMB, because China recognises seigniorage as a source of international power, and presages RMB to be one of the international reserve currencies. However, with the risk of insolvency at local governments and state commercial banks, financial liberalization and thus China’s role as lender of last resort are still a long way off.

At global financial institutions, China used the opportunity of the global financial crisis to call for an increase of voice from developing countries and prides itself on the rise of the G20 against the G7. At the same time, China is careful not to be burdened by the ‘China responsibility’ discourse with ‘unduly high or even blind expectations’. A researcher at MOFCOM even announced that the China responsibility discourse was just another version of the China threat rhetoric, and China would refuse responsibilities imposed by others for such titles as a surplus country, a debtor country, a savings nation, a big energy consumer or a big CO₂ emissions country (Xinhua 2010). It is not hard to understand China’s caution given signals of looming domestic economic problems.

In summary, the lesson that China learned from the Asian financial crisis was not the importance of liberalization but prudence or conservatism, which despite serving as a shield in the global financial crisis, sustains problems in the long term. Since the Asian financial crisis, China’s obsession with foreign reserves accumulation and the pursuit of political influence have overshadowed the increasing dependence on the US market, now causing China dilemmas in both development and diplomatic strategies towards developing countries. The Beijing Consensus type of decision-making may be faster than democratic processes, but it may also go against the principle of ‘scientific decision’ or ‘balanced development’ as proposed by the Chinese leadership. A prominent feature of China’s response to the crisis is a bias towards state-owned enterprises and the public sector, which runs the risk of monopoly, over-capacity, inequality, the regulators being ‘captured’ by industrial interests and protectionism. The status of a responsible great power either in the region or in the world remains Beijing’s aspiration, still far from reality.

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Still out in the cold? Russia’s place in a globalizing world

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ABSTRACT

This article examines some of the implications of current debates in international relations for Russian foreign policy. The focus is on Russian foreign policy analysis and not the international relations debates per se. The article begins by discussing the way Russian policy is fractured along the dimensions of security, economics and cultural identity – each corresponding to a different geopolitical vector. The second half discusses how recent developments in international security impact on Russian foreign policy debates.

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1. Introduction

Twenty years after the emergence of the Russian Federation from the rubble of the collapsed Soviet state, Russian foreign policy still lacks a sense of direction. Its trajectory is the object of intense and contentious debate both amongst outside observers and Russians themselves. The Russian state has certain deep structural characteristics that arguably make it particularly ill-suited to the challenge of adapting to the changing dynamics of the international system over the past two decades.

The most important political and economic relationship is that between Russia and its European neighbors. However, a complex set of institutions and ways of thinking dating back to the Soviet period are hindering Russia from embracing its European identity. During the 20 years that have elapsed since the Soviet collapse, Russia–European relations seem to have stumbled from one crisis to the next, ranging from the dismantling of war memorials in Tallinn to interruptions in the flow of natural gas supplies through Ukraine. Commentators often attribute these problematic relations to a quixotic quest by President Vladimir Putin to restore Soviet power, and to reverse the disintegration of the Soviet Union, which he famously referred to as “the greatest political catastrophe of the 20th century” (Putin, 2005). In reality, however, the problems in the Russia–European relationship are the product of deep structural processes and extend well beyond the specific issues that are the cause of the latest round of contentious diplomatic exchanges between Moscow and its Western neighbors (Leonard and Popescu, 2007; Antonenko and Pinnick, 2005).

The standard story is that the collapse of communism enabled most of the former members of the Soviet bloc in Eastern Europe to regain their European identity and integrate with European economic, political and military structures. However, as the core institutions (the European Union and NATO) spread east, it became clear that the Russian Federation itself would not – could not – be integrated into those structures as a full and equal member anytime soon. In the 2000s there was a growing sense that the European Union (EU) had reached the limits of its original integration model, after the rejection of the proposed new constitution by voters in France and the Netherlands in 2005 and the watered-down nature of the Lisbon Treaty that was finally adopted in 2009. Europe’s eastward integration seemed to hit a wall after the incorporation of the Baltic states into the EU in 2007. In the wake of the August 2008 Georgian war even the prospects for the entry of Ukraine,

1 Based on a paper for the Conference “Institutions, networks and trust in European–Russian relations”, European University Institute, Florence, 26–27 March, 2010.
Prime Minister Vladimir Putin has also spilled over into their respective positions on foreign policy. Medvedev a crusade. states would be one example. In March 2011 Putin said that NATO stance after the August 2008 Georgian war and his precipitate recognition of Abkhazia and South Ossetia as independent essentially lead to a clash of civilizations

a Russian leader may behave more aggressively abroad in order to bolster his status at home. This situation is not unique to leader

been close ties, historically, between Russia

a bid to restore what it sees as its rightful status. It is also a threat to Russia

implosion of Russia

parallel levels of interaction: public and private, corporate and individual; physical and ideational (Cerny, 2010). Simply put,

2 New Russia Barometer, 2003. The choice is rather forced: American respondents are typically not posed such a dilemma by pollsters, the assumption being that for the US the two can go together.
we can say that there are three levels of interaction in the international system: military power; economic flows; and the realm of culture and identity. These frames roughly correspond to the familiar triptych of international relations theory: Realism, Liberalism and Constructivism (Snyder, 2004). But while theorists deploy these competing paradigms to try to explain the behavior of states in the aggregate, at the level of the global system, this paper is focused on the conflicting pressures facing decision makers within a single country. Over the past 20 years Russia has seen radical shifts in its assessment of the content and relative significance of these three policy domains.

Military power has shifted from the core priority of the Soviet leadership to a factor of indeterminate importance in the new Russia. Moscow no longer has to concern itself with deterring an attack from the US, or from any other state. Some Russian military thinkers still voice fears about a possible future US military threat – hence their opposition to US missile defense deployments. Since 2000 this issue has become the main stumbling block in US–Russian diplomacy – despite the fact that the actual strategic threat to Russia posed by such systems is zero. Russia’s real security concerns are battling Islamist terrorism emanating from the Caucasus, Central Asia and the Middle East, and preventing the further consolidation of a US military presence around Russia’s periphery – again, in the Caucasus and Central Asia. The US military “encirclement” of Russia is more a diffuse strategic or economic challenge than a direct military threat. Europe and to a lesser extent the US considers it important to reduce dependence on Russian energy by diverting new energy exports from Azerbaijan and Central Asia away from Russian territory.

Economic flows have seen substantial shifts since 1990 (Aslund, 2007; Aslund and Tsyvinski, 2010). The disintegration of the Soviet economy and the socialist trading bloc meant the replacement of a fairly autarchic economic system with a Russian economy much more open to and dependent on foreign trade and capital flows. Foreign trade as a share of Russia’s GDP went from 17 percent in 1990 to 48 percent in 2009 (World Bank Development Indicators, 2011). This process of economic opening took place in a spontaneous and chaotic manner, seemingly beyond the control of the Russian state and society, but in fact reflective of deliberate decisions by Russian elites to internationalize certain economic operations – to ease licensing, to reduce tariffs, to abolish capital controls and so on. The institutional structure and sectoral composition of the economy also underwent radical changes: from central planners to freewheeling oligarchs; and from a broad industrial base with considerable technological innovation, to an economy heavily dependent on resource exports.

It is in the vexed area of cultural identity that the uncertainties wrought by the transformations in the military and economic realms come together (Tolz, 2001; Tsygankov, 2006). Russian identity was vested in Soviet identity: as citizens of a superpower state that had created the world’s first proletarian state, beat back the fascist menace, launched Sputnik, inspired revolutions around the world, and contended with the US for global influence. All of that came to a crashing halt in 1991. By the Putin era, it would come to be accepted as a proud part of Russia’s past, with the rewriting of history books to highlight Soviet achievements (Sherlock, 2011). But playing the role of an ideological superpower is not part of Russia’s present, nor its future. In the 1990s Russian society embraced some aspects of Western culture while expressing dissatisfaction with others. Personal freedom, the market economy, mass consumerism, and the latest technological gadgets were all enthusiastically embraced. Other features of Western life such as growing social inequality, increasing economic insecurity, deteriorating educational standards and a rise in immigration were reluctantly acknowledged by the majority of Russians as part and parcel of modernity, while a radical minority sought to push back against these trends. This pattern of acceptance and rejection is a common enough picture in all countries of the world exposed to globalization. But few of those countries have experienced the shock of transformation from an ideologically-defined Soviet superpower to a Russian Federation shorn of half the population and one third the territory of its previous incarnation.

Adding to the confusion is the lack of a clear explanation for why this wrenching post-Soviet transformation occurred. At least in a country which undergoes a regime change after a popular revolution (such as Iran in 1979) or defeat in war (such as Germany in 1945, or Iraq in 2003) it’s clear what happened and why. There is no such ideological closure in the Soviet-Russian case. There was no mass uprising in Russia itself in 1991. Russia was on the winning side in World War Two – and Russians still do not see themselves as having “lost” the Cold War. On the contrary, they believe that President Mikhail Gorbachev was in the process of agreeing to reform the Soviet Union to enable it to play a different game, with a new set of rules, when a series of inexplicable events abruptly led to the Soviet collapse (Suri, 2002). At that point, so their argument goes, the US reneged on its previous approach and instead unilaterally declared itself the winner in the Cold War. Russia sees the preservation of its previous approach and instead unilaterally declared itself the winner in the Cold War. Russia sees the preservation of NATO – while the Warsaw Pact was dissolved – and its enlargement to include former Soviet bloc countries as a betrayal of the entente between Gorbachev and the Western powers, under which he agreed to the withdrawal of Soviet forces from Europe (Kramer, 2009). The last US ambassador to the USSR supports this Russian interpretation of the end of the Cold War, Jack Matlock (2010) writes: “We had told them we wanted a Europe from the Atlantic to the Urals and we end up re-dividing it, just pushing the line further and further east, to their disadvantage.”

4. The geopolitical context

One way of interpreting the distinctiveness of the Russian dilemma is to suggest that there is a specific geographical vector associated with each of these three policy domains, as represented schematically in Table 1. All countries, of course, face geopolitical considerations corresponding to their unique location on the planet’s surface. But the sheer extent of Russia’s territory, spreading across the northern half of the Eurasian land mass, makes its geopolitical dilemmas particularly variegated.

Table 1 is based on a subjective ranking of Russian priorities as estimated by the author. (The precise ordering of the various categories is less important than the thought-experiment of producing the table.) The table yields something close to
The salience of issue dimensions in Russia’s world view with respect to different partners c. 2011.

<table>
<thead>
<tr>
<th>In relation to</th>
<th>Military</th>
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a Condorcet paradox – the ranking between military, economics and identity is different for each geographic region. This means, according to the original Condorcet voting paradox, that Russian leaders face a serious coordination problem, with the potential for an endless cycle in which policy jumps from one domain to the other. The US is the most important partner if military issues are salient; but Europe is uppermost if economic or identity issues are uppermost. Attention will shift back and forth under the influence of exogenous events, or reflecting the rise and fall of political clans, bureaucratic structures and interest groups in Moscow associated with the respective positions.

Thus Russia’s geopolitical schizophrenia reflects deep structural trends in the global system and is not solely the product of forces internal to Russia, such as bureaucratic incompetence, factionalism within the ruling elite, or opposition from interest groups in Moscow associated with the respective positions.

4.1. The military dimension

With respect to military ties, since 1945 there has been a clear division of labor between the US and the EU, with the US delegated to play the dominant role in Western security. This mutual understanding was institutionalized with the creation of NATO in 1949, the result of their shared fear of potential Soviet aggression. However, the relationship changed over the course of the Cold War and beyond. As Howorth (2009) notes, “NATO was originally devised as an alliance for delivering American security guarantees to Europe, but it has gradually transmogrified into a body geared to delivering European support for US global strategy.”

By the 1990s the US and Europe had developed competing – or perhaps complementary? – views of the nature of power in the international system. “Americans are from Mars, and Europeans are from Venus,” as Robert Kagan (2004) famously put it. The US is the lead power in NATO, possesses a full-range nuclear arsenal, and has the capacity and political will to project military power around the globe. In contrast the European Union evolved as a trading bloc, protected by the NATO shield and US nuclear saber. The EU does not have its own army or nuclear deterrent (Sheehan, 2008). Even to fly its peacekeepers around it has to rent heavy transport aircraft from the US, Russia or Ukraine, while the NATO operations in Libya could not have gone ahead without US reconnaissance assets and drone strike aircraft. And over time, as the Cold War recedes into the past, the capacity gap is widening rather than diminishing. In 2010 NATO’s European members spent an average of just 1.7% of GDP on defense, compared to 5.4% in the US (Fidler and Macdonald, 2011). The EU’s introduction of a Common Foreign and Security Policy in 1999 has failed to produce a substantial change in this state of affairs. EU policy impotence reflects public opinion in the member states. A 2009 poll asked whether the use of force can ever be “necessary to obtain justice.” Seventy-one percent of Europeans said ‘no,’ while 71 percent of American said ‘yes’ (German Marshall Fund of the US, 2009). Given this state of affairs, it makes perfect sense for Russia’s military calculations to be overwhelmingly focused on the US – while its economic ties are overwhelmingly with the EU.

The most popular strategic frame used to explain Russian foreign policy is that of the former superpower driven by resentment to regain its lost status (Lucas, 2009; Bugajski, 2004). While recognizing that global power projection may be beyond Russia’s current capacity, attention focuses on efforts to establish Russian dominion over the countries of the former Soviet Union – what came in the 1990s to be called the “near abroad” (blizhnee zarozebti). Vladimir Putin himself has almost never used the term, presumably because it sounds demeaning to his CIS partner countries, and implies that they are less sovereign than the “far abroad.” The preferred term by the Russian Foreign Ministry these days is “near neighbors,” perhaps echoing the EU’s European Neighborhood Policy, launched in 2003.

Medvedev (2008) muddied the waters in a speech he delivered in Sochi on 31 August 2008, in the aftermath of the Georgian war. He spelt out five principles of Russian foreign policy, to whit: the supremacy of international law; “unipolarity is unacceptable”; “Russia does not want isolation”; the protection of life and dignity of Russian citizens “no matter where they live”; and “Russia has areas of privileged interests” in the post-Soviet space. The fifth point was immediately seized on by foreign commentators as proof of Russia’s neo-imperialist agenda. Medvedev’s comment is typically translated (even by the

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3 The Condorcet paradox refers to the possibility that the outcome of voting in a democratic body may depend on the order in which votes are taken. It was first identified by the Marquis de Condorcet in 1785. If A is preferred to B, B to C, and C to A, then the voting will cycle indefinitely, unless an arbitrary voting sequence order is imposed.

4 For a different approach, see Laidi (2007), and Kopstein and Steinmo (2008).

5 The corpus of presidential speeches can be easily searched on the website: [http://kremlin.ru/](http://kremlin.ru/).
As claiming a “sphere of influence” even though the actual word that Medvedev used was “interests” – which is not the same as “influence.” ‘Interests’ is much less pejorative: one can have mutual economic interests, for example. In fact neither Medvedev (nor Putin) has ever used the phrase “sphere of influence,” except in a historical context, such as referring to Nazi Germany.

The main themes in Russian security policy as of 2011 – the war in Georgia, the NATO campaign in Afghanistan, and US plans for missile defense (in roughly descending order of importance) – all revolve around US interests, with Europe playing a subordinate role. Europe, in the form of French President Nicolas Sarkozy, played a pivotal (and commendable) role in arranging a ceasefire in the Georgian war and persuading Russia not to march on Tbilisi and topple President Mikheil Saakashvili. But it was the US, not Europeans, who had been rebuilding the Georgian army and pushing for Georgia’s entry into NATO – steps that fueled Saakashvili’s recklessness.

The US, obviously, is the key player in Afghanistan, and had the most to gain from persuading Russia to allow land and air transit of troops and equipment across Russia to complement the precarious access through Pakistan. Medvedev’s granting of such concessions during President Barack Obama’s trip to Moscow in July 2009 was one of the main fruits of Obama’s efforts to “reset” US–Russia relations. By 2011 50 percent of US troops and 20 percent of US equipment headed for Afghanistan was transiting Russia via the Northern Distribution Network.

The plan to install a US ballistic missile defense system in Europe was designed to deter a possible missile strike from Iran. It is a by-product of the US’s obsessive fear of that country, a feeling not shared by Europeans. The original plan was for radars to be installed in the Czech Republic and the anti-missile batteries in Poland. While those two countries were willing to help out the Americans, the rest of Europe was skeptical. (A hesitant Polish government finally signed on to the plan in the wake of the Georgian war.) Moscow objected on the grounds that the system could be used against Russian missiles at some point in the future, depriving Russia of its second-strike deterrent capacity. This invocation of Cold War thinking starkly illustrates just how divorced is the Russian security debate from 21st century realities. Medvedev was unable to persuade Obama to abandon the missile defense plan, or to exchange it for a system jointly-operated with Russia. The Polish deployment plan was eventually shelved in September 2009 – not as a sop to the Russians, but ostensibly because of a Pentagon reassessment of the Iranian missile threat. Subsequently, in February 2010, as a part of the compromise with Republicans over the new Strategic Arms Reduction Treaty (New START) with Russia, Obama revived the project of an anti-missile system in Europe, this time in Romania. In contrast to the 2002 Strategic Offensive Reductions Treaty (SORT), which expired in 2009, New START would allow for onsite inspection in both countries, though critics noted that the treaty did not cover tactical nuclear weapons and did not mandate the destruction of removed warheads. The New START treaty was signed in April 2010 and eventually ratified by Congress in December 2010. The treaty was one of the main foreign policy achievements of the first term of President Obama. Its value was not in preventing an arms race with Russia, something that Russia neither desired nor could afford. Rather, it set an example of the leading powers cooperating in arms control, and thereby contributed to the more urgent task of preventing nuclear proliferation to other countries.

4.2. The economic dimension

Russia’s economic interests are closely tied to Europe. The European Union accounts for 50 percent of Russia’s trade, and the post-Soviet states, with Belarus and Ukraine also located in Europe, account for another 20 percent. Economic ties with Asia are limited, though set to rise with the development of energy projects such as the Sakhalin offshore oil and gas fields and the East Siberia–Pacific Ocean (VSTO) oil pipeline. These projects should boost the share of Russia’s oil sold to Asia from the current 8 percent to 30 percent by 2020. In 2009 China’s total trade with Russia was equal to that of Germany, each with $40 billion (Rosstat, 2011). In 2000, the respective figures were $4.2 billion for China and $12.7 billion for Germany.

The most important geo-economic debates have been those surrounding Russia’s transit pipelines to Europe, and the access of Western oil companies to Russian oil and gas deposits. The prevailing approach is to analyze these confrontations in terms of Russia’s strategic agenda (Stulberg, 2008). Hence the periodic shut-offs of gas supplies to Europe across Ukraine (that occurred in 2006 and 2009) are seen as part of Russia’s desire to gain influence over Ukraine’s domestic politics and establish a Soviet-type zone of influence in what the Russians used to call “the near abroad.” These debates certainly have a strategic dimension, couched in terms of “energy security,” but it must also be remembered that they are business transactions involving profit and loss calculations on both sides (Aalto, 2012). The principal actors involve not only corporations such as Gazprom, but also shadowy networks of international businessmen with links to organized crime, who are suspected of steering some of the profits of the gas trade into the pockets of corrupt politicians in Moscow and Kyiv through intermediaries such as the Rosukrenergo corporation. (Global Witness, 2006; Balmaceda, 2008). In such an environment it is unconvincing to insist on forcing Russian behavior into the frame of great power expansionism, when the evidence suggests that such a unified “rational actor” model does not correspond to the facts on the ground.

Russia has been negotiating for entry to the World Trade Organization since 1993. The European Union gave its approval to Russian entry in 2004, in return for Russia’s acceptance of the Kyoto accords (Rutland, 2007). The US foot-dragging on Russia’s WTO entry was partly based on the lobbying of some specific sectoral interests, such as pork exporters angered by Russian

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6 Technically, in August 2003 NATO took over the International Security Assistance Force in Afghanistan from the US.

sanitary rules; and Hollywood and Silicon Valley worries about intellectual property rights. But more generally the stalemate seems reflective of a broader cooling of relations between Moscow and Washington. In 2009 Putin began raising obstacles to WTO entry – something that he had previously supported. In June 2009 Putin announced that Russia would be withdrawing its individual bid to join the WTO, and would instead be pursuing a joint bid as part of a customs union with Kazakhstan and Belarus. WTO officials were taken aback, explaining that there is no provision for collective membership applications. Russia returned to the negotiating table, however, and succeeded in striking a deal on WTO entry in December 2011, with import tariffs set to fall from an average of 9.5 percent to 6 percent (Rutland, 2012). The State Duma ratified the treaty in July 2012. Repeal of the 1974 Jackson-Vanik amendment requiring certification of freedom of migration from Russia is still a problem for the American side.

4.3. The identity dimension

Identity politics is at least as important as military power or economic interests in assessing Russia’s position in the international system. But it is hard to say just what is the dominant geographical vector in Russia’s identity politics. Historically, at least since the break-up of the Mongol empire in the 15th century, Russia’s identity discourse has been oriented toward Europe (Hauner, 1992; Poe, 2003; Neumann, 1996). The key question was “Is Russia a part of Europe?”, and even if the most common answer was ‘no,’ Europe was the frame of reference (Kazantsev, 2010). In contrast, during the Cold War, Russia’s self-image was very much vested in its role as a global superpower, and hence was connected to its competition with the United States. That mutual rivalry ended with the end of the Cold War. Russia cannot hope to regain its former status as a global power equal to the US, still less as a successor to the US as the global superpower, given the rise of China.

The US remains an important reference point for Russian identity, but the love–hate relationship of Soviet times has now turned into a more diffuse anti-Americanism, one that is centered on the idea that America is to blame for the political turmoil and economic privations that Russia experienced during the 1990s. Whatever the historical truth (or lack thereof) behind this view, it is clear that such sentiments are an unsteady foundation on which to build a national identity for Russia heading into the 21st century. The hollowing out of America’s industrial base and the 2011 fiscal crisis indicate that Washington’s ability to maintain its hegemonic role is in doubt. Russians might experience some Schadenfreude in watching America’s decline – but this is no substitute for an affirmative, forward-looking construction of Russian identity.

With its retreat from the global stage, Russia’s cultural ties (educational exchanges, tourism flows, sports interests, and others) are increasingly embedded in Europe. Some 3 million Russians have left to live abroad since 1991, and the majority of them reside in Europe. They include a large slice of Russia’s New Rich, who dominate the elite housing market in London, Prague and Berlin, and the luxury yacht berths in Cannes (Hollingsworth and Lansley, 2009). The most recent and striking manifestation of this European orientation is the creation of a new Continental Hockey League in 2008, lavishly funded by Gazprom, as a rival to the American National Hockey League (Jokisipila, 2011). However, the fact remains that the gap between Russia and Europe is still considerable, in terms of living standards, level of democracy, degree of corruption and criminality. As a result only a minority of Russians regard themselves as European. According to a 2004 poll, 46 percent ‘never’ think of themselves as European, 17 percent ‘rarely,’ 18 percent ‘sometimes,’ and only 19 percent ‘often’ (New Russia Barometer, 2004). Moreover, the ‘never’ respondents had tripled from 15 percent in 2000, while the ‘sometimes’ halved from 35 percent.

Russia’s identification ties with Asia are weak, having reached a modest peak in the 1950s, prior to the Sino-Soviet split, when the Soviet Union was still actively engaged in developing Chinese science and industry. Since then Moscow has had very difficult relations with Beijing. Ties have slowly improved in the last 20 years as the benefits of economic cooperation became clear to both sides, but they are not rooted in any sense of common identity or civilizational worldview. The Russian Far East has developed intimate cross-border ties with its giant southern neighbor, but there is no doubt that its Russian residents regard themselves – and are regarded as – a European population in a foreign continent. Russia’s relations with Japan are even more estranged, because of the 60 year stand-off over the southern Kurile Islands (Northern Territories) seized by the Russians in 1945.

5. The three faces, in space and time

To some degree, the military, economic and identity dimensions of Russia’s international relations not only map onto different global regions, they also map onto different historical time periods. It could be said that Russia still lives in the military world of the 20th century, while engaging with the economic world of the 21st century global economy. Yet the identity debates seem to have regressed to 19th century categories: the Russian Idea, Eurasianism, the benefits of autocracy, the uniqueness of Orthodoxy, the challenge of modernization, and so on.

Military calculations are rooted in the Soviet past, with almost the entire stock of the weapons hardware and institutional software dating back to the pre-1991 regime. Even the institutional structures of the Soviet military live on, to a much greater extent than in other spheres of social and political life. They range from the maintenance of a strategic nuclear deterrent to the

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8 Anti-Americanism remains a minority viewpoint. According to a January 2011 poll, 60 percent of respondents had a positive attitude toward the US, and 28 percent negative (Levada Center, 2011b).
effective abandonment of the effort to replace the draft with a professional army, launched with the introduction of "contract soldiers" in 2004 and effectively abandoned by 2010 (Boudreaux, 2011).

Economic interests have some roots in the Soviet past to be sure (the export pipelines built during the Brezhnev era being the most salient example), but they are primarily oriented toward the present – and future. The oligarchs and the business corporations they head may have their origins in Soviet industrial enterprises – but with their listings on foreign stock exchanges and global acquisitions, they have transformed themselves in 20 short years.

Of course Russia is not unique in facing the challenge of heterogeneity in its relations with the outside world. To some extent this asymmetry of power domains is normal for any country. As Emerson (2010) notes, “the US has three faces, after all: westward-Pacific, yes, but eastward-Atlantic and southward-Hispanic as well.” The US conducts a high proportion of its trade with Canada and Mexico, but those countries do not loom large in the US defense posture review.9 In Asia, the US faces a contradiction between its dependence on trade with China and its commitment to the defense of Taiwan, and desire to limit the transfer of military technology to Beijing. But in the case of the US, these contradictions are anchored in a strong and enduring sense of national identity, and they have been around for decades (in the case of Taiwan) if not centuries (in the case of Canada).

The problem in Russia’s case is that the balance between the three power domains, and the three geographical vectors, shifted radically with the collapse of the Soviet Union and the domestic political gyrations of the 1990s. Domestic political institutions, interest groups and conceptual frameworks change much more slowly than the technological and economic revolutions that have transformed the global economy, so all countries are playing catch-up. But in Russia’s case these institutions had to be created more or less from scratch – or worse still from socio-political remnants of the Soviet regime.

6. The interplay between domestic and international systems

“Everything is being globalized except politics.”

David Singh Grewal (2009, 34)

What kind of domestic social structures and cultural norms are compatible with a state’s role in the contemporary international system? Does international integration presuppose that the participating states share common norms and congruent domestic socio-political structures? The Westphalian system required only a minimal set of conditions (sovereignty over territory and mutual recognition) and thus allowed for considerable heterogeneity across states within Europe (from religious belief to structures of government). The post-1945 United Nations system tried but largely failed to establish a broader set of norms, including the renunciation of wars of aggression and respect for human rights that would produce more homogeneous behavior amongst its member states. The 1990s saw renewed optimism about the scope for enforcement of international humanitarian law, with the creation of an International Criminal Court in 2002.

In US academic debates, the complex interplay between the three layers (military, economic and identity) has stimulated academic debate (Gallarotti, 2009; Cerny, 2010). But moving from the academic to the policy arena, one finds that debates remain heavily compartmentalized: the military talk about military threats; economists talk about how to prevent crises in the financial system and boost trade flows; NGO activists talk about human rights; oil people talk about oil. Discussions of identity are usually left to anthropologists and historians. There are a few areas of overlap – for example, the concept of “energy security” draws interest from both the security and economic communities (though more from the former than the latter).

In the security realm, the 1990s saw a shift from a bipolar to unipolar world view, with the US generally recognized as the global hegemon – albeit one whose power was exaggerated, both by its friends and its enemies (Walt, 2006; Wohlforth, 2009). This shift to US hegemony hit Russia harder than any other state. According to one estimate Russia had ranked #1 in military power in 1750, 1790, and 1870, #2 in 1950 through 1985, and then slipped to #5 in 2005 (Ikenberry et al., 2009, 11). Efforts to develop a multipolar system in which Russia played a leading role, when Yevgenii Primakov was foreign minister (1995–1998), did not produce anything of great substance (Ambrosio, 2005). The Shanghai Cooperation Organization (SCO) is sometimes invoked as an example of a multipolar balancing institution. But China’s main goal in creating the SCO in 2001 (jointly with Russia) was to promote political stability and economic development in Central Asia, more than deter US influence in the region. And the divergence of strategic interests between China and Russia has hamstrung the SCO’s development (Cooley, 2009). The problem with the multipolarity concept is that it rests on a 19th century European military balance of power model that simply does not match the polymorphous contemporary world order. And the US itself quickly discovered that unipolarity also fails to accurately capture the realities of power projection in the modern world. It turns out that interventions by the “global hegemons” require multilateral participation by allied powers – and preferably official approval from the United Nations – in order to stand a chance of success.

Political economy approaches identify globalization (meaning an increase in trans-border flows), and regionalization as the two most significant trends of the post-Cold War era. Globalization meant the increasing porousness of international borders, and the growing pluralization of the relevant actors in international affairs. Power was shifting away from the

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9 The US was however upset by Canada’s 2005 decision not to take part in the US missile defense program – although it continues to cooperate in the NORAD early warning system.
traditional unitary state – upwards toward international agencies such as the WTO, and downwards to non-government organizations and transnational diasporas. Such trends were particularly disturbing for Russia’s leaders (Blum, 2008), since they inherited a state tradition that was heavily vested in hierarchy and control, and because they took over a state apparatus which was in the process of collapsing. This led to a traumatic gap between aspirations and capacity.

It was widely assumed that globalization would produce greater homogeneity – of political institutions, of economic practices, and of cultural norms. The World Is Flat, as Thomas Friedman (2006) put it. But markets do not necessarily produce homogeneity across the board. On the contrary, they make possible greater heterogeneity, at least in some dimensions of human activity. Ever since Adam Smith’s discovery of the division of labor in the pin factory, it has been recognized that markets produce specialization and differentiation, and a dynamic inter-dependence between market participants. Such has also been the case with the spread and deepening of markets in the era of globalization. Countries can specialize not only in certain types of products but also in distinctive institutional arrangements. An obvious example, so obvious that it often goes unremarked: for half a century the United States has relied on dynastic–theocratic regimes in Saudi Arabia and Kuwait to guarantee the flow of oil to world markets. A democratic United States was more than happy to import oil from, and provide security guarantees for, Middle Eastern countries with very different cultural values and political institutions.

Since 1980 we have seen a new twist to this international division of labor, with the US acting as the consumer of last resort, fueling China’s long economic boom – and at the same time as the trusted banker, depository of the bulk of China’s colossal savings. The fact that the two countries have radically different political and economic institutional structures has not prevented their fruitful collaboration in economic development, for 30 years and counting (Ferguson, 2009). In some ways the co-dependency of the authoritarian regimes in Russia and China on the US as the backbone of the international financial system parallels the way that Japan and Europe outsourced their security to the US after 1945.

Meanwhile in the developing world, after 40 years of largely failed efforts to stimulate growth, there is a new recognition that “no generic formula exists” for bringing about development (Spence, 2008). The “Washington Consensus” was just that – the consensus amongst policy experts in Washington about the package of economic policies most likely to succeed (Williamson, 1990). But there was no guarantee, nor even an assumption, that the policy package would succeed in any country which tried to implement it, irrespective of local conditions. Even within the post-socialist region, there was no single successful transition model after the collapse of communism. On the contrary, we find a number of routes to capitalism emerging in the 1990s, with considerable variety even among the “success stories” of Eastern Europe, in terms of the pace and scope of privatization (fast in Czech Republic, measured in Poland), the degree of openness to foreign investment (high in Hungary), and the preservation of corporatist institutions (as in Slovenia) (Greskovits and Bohle, 2007).

One part of the homogenization that was foreseen was that globalization would threaten the capacity of individual states to craft policies independent of the ‘logic’ of global markets. Earlier work in the 1980s showed that this was not true for the specialized welfare states of Western Europe, or for the developmental autocracies of East Asia. And it also turns out that in the latest wave of globalization the state still plays a pivotal role in dealing with the consequences of uncertainty brought by increased exposure to international trade and technical change (Levy, 2006; Beck, 2009).

Optimism about regionalism peaked in mid 1990s visions of a “world of regions”, but the integration process now seems to have stalled. Security regions do not coincide with economic regions, which means that regional integration efforts have not managed to overcome the incongruence between economics and military power discussed above (Breslin, 2007). The European Union has impressively expanded in scale since 1991, from 12 to 27 nations. But that territorial enlargement seems to have reached a limit for the time being, in terms of managing the central decision making processes of such a large body, and coping with the economic and cultural diversity that accompanied enlarged. The EU has proved unable to move forward to deeper political or security integration. The EU is a very much an exception in the global system, the only example of a regional bloc that has substantially eroded national sovereignty in economic policy making. The European Union does not expect to see equivalent regional blocs to emerge any time soon, and seems to regard independent nation-states such as the BRICs (Brazil, Russia, India and China) as potential allies in a new more laterally-organized global system (Grevi and Vasconcelos, 2008).

The rise of the EU as an oddity in the international landscape has posed a challenge for Russia as a close and intimately connected neighbor, struggling to figure out how to interact with this new and complex entity. Russia is not seen as a serious contender for future EU entry, and it declined to participate in the European Neighborhood Policy (ENP) launched in 2003 (Wilson and Popescu, 2009). Russia would prefer to maintain its special bilateral relationship with the EU, including biannual meetings. It did not want to be lumped in together with the other post-Soviet states, not to mention the ten distant and disparate countries of the Southern Mediterranean, including Syria and the Occupied Palestinian Territories that are also part of the ENP. So, the further European integration proceeded eastwards, the more isolated Russia felt itself.

Russia is still a member of the Organization for Security and Cooperation in Europe (OSCE), and joined the Council of Europe in 1996, so it has some institutional ties to the continent. But rather than generating a sense of comity and belonging, these are more often than not a source of dispute and frustration. The OSCE has proved inadequate to the task of dealing with “frozen” conflicts in Moldova, Georgia and Karabakh. Russia has been embarrassed in the Council of Europe and Parliamentary Assembly of the OSCE when challenged over its policies in Chechnya.10

10 On Russia’s experiences at the Strasbourg European Court of Human Rights, see Sperling (2009), ch. 5.
The closest analogous organization to the EU elsewhere in the world would probably be the Association of South-East Asian Nations (ASEAN), which began as a free-trade association and has not yet progressed beyond that stage. It is spawning broader entities such as the East Asia Summit (EAS), but the inclusion of the giant China, and the question of whether to include or exclude India and the United States, are challenges to deeper integration (Emerson, 2010). Russia itself does have a physical presence in Asia, but only a tenuous political presence. President Putin attended the inaugural EAS in 2005 in Kuala Lumpur, but only as a guest invited by the Malaysian host, and Russia has been trying to become a member ever since.

The 1990s saw the rise of the “democratic peace” paradigm, according to which the surge of democratization that followed the fall of the Berlin Wall would also bring about a sharp reduction in inter-state warfare – as indeed has occurred. After a period of Atlanticism in the early 1990s under Foreign Minister Andrei Kozyrev, from 1995 on Russia came to see the democratic peace paradigm as a formula for the expansion of US hegemony. Far from embracing the “democratic peace,” Russian leaders saw it as a direct threat to Russian national interests – and to their own ability to stay in power. This fear was heightened by the wave of “color revolutions” that toppled authoritarian leaders from Belgrade to Bishkek between 2000 and 2005. It was one of the key factors leading to the authoritarian retrenchment that was evident in Putin’s second term as president (2004–2008). It stands as a vivid example of the interplay between international forces and domestic political regimes – in this case, with a negative feedback effect, in that efforts to spread democracy in the former Soviet states accelerated its diminution in Russian Federation.

However, the colored tide receded just as quickly as it had arrived. Already by the early 2000s American enthusiasm for democracy promotion was starting to wane (Carothers, 2002). There was disillusion with the performance of the new democratic leaders of Ukraine, Georgia and Kyrgyzstan. By 2007, of the 15 post-Soviet states only the Baltic countries and Ukraine were rated as ‘free’ by Freedom House, while Armenia, Georgia, and Moldova were rated as ‘partly free.’ The remaining eight were ‘unfree.’ There was grudging recognition in Washington that some hard cases (China, Belarus and Uzbekistan being prominent examples) may resist democratization entirely. Already in the 1990s it was apparent that partial democratization may be destabilizing, in that countries in transition to democracy seem prone to engage in conflict either with internal secessionists or with neighboring states.\(^{11}\) Examples range from the outbreak of secessionist wars in Azerbaijan and Georgia in the early 1990s to the election of Hamas in Palestine in 2005.

The evidence from beyond the former Soviet Union also does not support the “Washington Hypothesis” that globalization promotes democratization (Rudra, 2005). Increased trade and capital flows do not correlate with democracy, unless one includes social spending in the model.

Nevertheless the mainstream of the Obama foreign policy establishment continues to insist that democracy promotion should remain a cornerstone of US foreign policy, though prior to 2011 this was more of a long-term conviction about the vector of history than a call for specific country interventions (Fukuyama and McFaul, 2007). The Arab Spring caught the Obama administration by surprise: the president was slow to call for the resignation of President Hosni Mubarak in Egypt, and he left it to France and Britain to take the lead in the military intervention in Libya. Still, the drop-off of interest in democracy promotion came as a relief to the Kremlin and perhaps gives them a little more room for maneuver in coming up with an identity politics more in harmony with European partners, and based on the pursuit of common interests with the US without triggering a hostile reaction from Russian nationalists complaining of US encirclement.

A popular new framework for discussing how the different dimensions fit together is the concept of “soft power” developed by Nye (2004) – in contrast to the “hard power” of military capacity which was the traditional concern of Realist international relations theory, and the “hard power” of economic leverage.\(^{12}\) (It is a common misperception to assume that economic levers are “soft power”: they are not.) Through “soft power” one country may convince another to act in the way it desires through persuasion rather than coercion. Changing the other country’s view of how the world works, and how to conceive their own interests, may be less costly and more effective than using the carrots and sticks of traditional diplomacy.

One drawback to the “soft power” approach is that it was developed specifically with reference to the US, at a time (the 1990s) when the US was the unchallenged hegemon. The concept presupposes a hierarchy of power: soft power is a way for the US to achieve its objectives by persuading other countries to act in a certain way without having to rely on hard power. But US ability to exercise soft power was in practice predicated on the knowledge that the US had a wealth of hard power at its disposal. It is not at all clear that the “soft power” concept is of any utility to a power that is not at the top of the power hierarchy, or that occupies an ambiguous place in the hierarchy. It does seem to have some relevance for China, a rising power that credibly aspires to some sort of parity with the US over the next century. China’s attitude toward US “soft power” is vividly summarized in this editorial from the People’s Daily (2009):

> Of course, influence in international affairs through moral force does not mean completely throwing away big sticks and picking up sweet carrots. Wrapping a big stick in a layer of soft sponge or putting a carrot at the front and a big stick at the back, the US has never given up its powerful military force.

For Russia, deployment of “soft power” is only likely to draw attention back to the period in the past when it occupied a higher place in the international hierarchy – based on “hard power.” Russian talk of “soft power” is most often associated with spreading Russian language and culture among the ethnic Russian “compatriots” living in the “Russian world” (Russkii

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11 As of 2006, according to Goldsmith (2008) there were 77 democracies, 21 autocracies, and 58 semi-democratic systems.

12 Nye had originally coined the term in 1990, but it only took off after the publication of his book in 2004.
extraordinary amount of attention among Western scholars among a radical intellectual fringe. The concept (it would be an exaggeration to call it a late 19th century, doomed by its geography and history to be on the periphery of Europe, and the periphery of Asia. Neither personal freedom, and in the assertion of national identity among the component peoples of the USSR. legible state of affairs, although this stability in political self-identity came at the price of stagnation as a military and ideological competitor with the United States (Parshev, 2000; Chugrov, 1993). That was a fairly stable and as hard power measures of success in assessing China as a military and ideological competitor with the United States (Parshev, 2000; Chugrov, 1993). That was a fairly stable and as hard power measures of success in assessing China for natural resources – with the concomitant distortions to Russia’s political and economic development that are associated with the “resource curse.” It is Russian identity that remains the great unknown in Russia’s global integration, and the variable most vulnerable to unpredictable shifts in Russia’s domestic political landscape.


To what extent is the political regime of any state path dependent? Specifically, is there a distinctive Russian Tradition which dooms Russia to a certain political structure (Hedlund, 2009)? If the answer is yes, then what are the implications for Russia’s role in the international order? If no, if Russia is capable of evolving into a different type of political regime, then what kinds of change will have to happen to bring Russia into line with its international partners? And how may outside players help – or hinder – this process?

A similar process of self-discovery is under way in China, although their challenge is handling a rise rather than decline in international influence. China did not experience the state collapse of the USSR, though the Cultural Revolution was deeply traumatic. But it is clear that in China – as in Russia – perceptions of identity and relative cultural status are just as important as hard power measures of success in assessing China’s role in the international system (Deng, 2008; Callahan, 2010). The Soviet Union’s international identity was rooted in its prominent role on the global stage. That centered on its position as a military and ideological competitor with the United States (Parshnev, 2000; Chugrov, 1993). That was a fairly stable and legible state of affairs, although this stability in political self-identity came at the price of stagnation – in living standards, in personal freedom, and in the assertion of national identity among the component peoples of the USSR.

Since the Soviet Union’s demise, the central paradigm in Western historiography has been to portray Russia as a country doomed by its geography and history to be on the periphery of Europe, and the periphery of Asia. Neither fish nor fowl, a perpetual outsider. Over the centuries the Russian state has struggled to deal with this situation by developing a distinctive political regime, by expanding Russian territory, and by importing Western ideas and technology. Thanks to these herculean efforts, Russia still exists as a going concern, but it remains a peripheral and seemingly vulnerable entity. As a result of these struggles, successes and setbacks, the Russian state evolved into a particular type of political regime: an autocratic, centralized state with a “service class” elite, and a weak and dependent civil society (Hellie, 2005; Blank, 2009). This regime was forged under Tsarism; was reborn in the guise of Soviet socialism; and seems to be in the process of rebirth for the third time in the post-Soviet period. Many Russians are understandably uncomfortable with these harsh dichotomies – Europe or Asia; embrace or reject the Soviet past. Some Russian thinkers have turned to the concept of Eurasianism (Laruelle, 2008, 2009). The term arose in the late 19th century, flourished among émigré intellectuals in the 1920s, and then disappeared until its revival in the 1990s among a radical intellectual fringe. The concept (it would be an exaggeration to call it a ‘movement’) has drawn an extraordinary amount of attention among Western scholars – attention arguably out of proportion to the concept’s importance. For Russia, Eurasianism is arguably a fantasy, a form of political escapism with no solid grounding in political, economic or social structures.

One way of making sense of Eurasianism is to ask what is its opposite. Clearly, the antipode to Eurasianism is ‘Atlanticism’ – that is, a role for the United States in Europe. So Eurasian is essentially an intellectual repackaging of anti-Americanism, reflecting a desire to exclude the US from the Eurasian land-mass. This approach is deeply rooted in the world view of Harold Mackinder, whose influential writings on geopolitics at the turn of the 20th century focused on the idea of a strategic ‘heartland’ in the landmass of Eurasia. Mackinder’s approach still has its defenders in Russia – who point to the problems NATO faced in projecting power into mountainous landlocked regions such as Bosnia, Kosovo and Afghanistan. But Mackinder’s vision overlooks the fact that the prosperity of modern economies and their strategic security rests on easy access to oceanic transport. The economic dynamism and cultural identity of Europe and Asia have become yet more embedded in

14 For Kazakhstan, perhaps, the approach has more direct relevance. In Kazakhstan it has been embraced by the ruling president, and not just by a small group of intellectuals.
these oceanic networks in the course of the post-1980s wave of globalization. Russia has the choice to embrace that world, or to hunker down in a mythic memory of its past.

8. Conclusion: understanding the Russian dilemma

Russia is facing a double challenge: learning to live in a post-Soviet and post-modern world. The interplay between shifting forces in security and economics poses a challenge even for well-established states with strong national identities and capable bureaucracies. How much more difficult it is for Russia to navigate its way through the new world order. Simplistic notions of Russia as a recidivist empire, or a nascent market democracy, do not match this complex reality.

Componentalization of these disparate spheres (de-linkage) seems like a logical way to go, and this indeed represents the EU's approach to its own challenge of integration in previous decades. However, the dynamics of domestic politics inside Russia seem to be pulling in the opposite direction, blending together military, economic, cultural and sporting life in an effort to weave a more plausible and robust narrative of national identity.

If one accepts a relatively deterministic approach to Russian history, and does not expect any radical transformation of its domestic political regime anytime soon, then what are the implications for Western policy? Essentially, it leaves the West as an interested but relatively powerless bystander (Council on Foreign Relations Task Force, 2006; Aslund and Kuchins, 2009; Saunders, 2011). The conventional thinking these days seems to be, in the words of one Obama administration official, that 90 percent of the variance in Russian behavior is driven by factors internal to Russia. And, one might add, for the remaining 10 percent it is hard to predict whether any given Western action will help or hinder the transition to democracy.

Russia's challenge is to recognize the reality of its reduced military ties to the US, and to scale down the security anxiety of its European neighbors. At the same time it has to sort out its identity, its sense of place in the world – which arguably centers on it geographical, economic, political and cultural attachment to Europe.

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Contrary to widespread belief, the main attraction of the PRC for foreign capital has not been its huge and low-priced reserves of labor as such—there are plenty of such reserves around the world but nowhere have they attracted capital to the extent that they have in China. The main attraction, we shall argue, has been the high quality of those reserves—in terms of health, education, and capacity for self-management—in combination with the rapid expansion of the supply and demand conditions for the productive mobilization of these reserves within China itself. Moreover, this combination was not created by foreign capital but by a process of development based on indigenous traditions—including the revolutionary tradition that gave birth to the PRC. Foreign capital intervened late in the process, sustaining it in some directions but undermining it in others.

The “matchmaker” that facilitated the encounter of foreign capital and Chinese labor, entrepreneurs, and government officials was Chinese diaspora capital.1 This role of matchmaker was made possible by the determination with which the PRC under Deng sought the assistance of the overseas Chinese in opening China to foreign trade and investment and in seeking the recovery of Hong Kong, Macau, and—eventually—Taiwan in accordance with the “One Nation, Two Systems” model. This alliance proved far more fruitful for the Chinese government than its open-door policy towards US, European, and Japanese corporations. Bothered by the regulations that restricted their freedom to hire and fire labor, to buy and sell commodities, and to remit profits out of China, these corpora-

tions tended to keep their investments to the bare minimum needed to keep a foothold in the PRC. The overseas Chinese, in contrast, could bypass most regulations, thanks to familiarity with local customs, habits, and language, to the manipulation of kinship and community ties—which they strengthened through generous donations to local institutions—and to the preferential treatment that they received from CCP officials. Thus, while foreign corporations kept complaining about the "investment climate," Chinese entrepreneurs began moving from Hong Kong into Guandong almost as fast as (and far more massively than) they had moved from Shanghai to Hong Kong forty years earlier. Encouraged by the success, in 1988 the Chinese government redoubled its efforts to win the confidence and assistance of overseas Chinese capital by extending to Taiwan's residents many of the privileges previously granted to Hong Kong's residents.

Well before the Tienanmen crackdown, a political alliance was thus established between the CCP and overseas Chinese business. The cooling of US-Chinese relations after Tienanmen dampened further Western enthusiasm for investment in China. Although the Chinese share of Japan's total direct investment in East Asia increased rapidly—from 5 percent in 1990, to 24 percent in 1993—the increase did not re-establish the position of leadership in the process of regional economic integration and expansion that Japan held in the 1970s and 1980s (see Chapter 11). Rather, it reflected the attempt of Japanese business to catch up with the overseas Chinese in reaping the profitable opportunities opened up by economic reforms in the PRC. By 1990, when Japanese investment took off, the combined investments of US$ 12 billion from Hong Kong and Taiwan accounted for 75 percent of all foreign investment in China, almost thirty-five times the Japanese share. No matter how fast Japanese investment grew thereafter, it followed rather than led the boom of foreign investment in China. As the Chinese ascent gained momentum under its own steam in the 1990s, Japanese, US, and European capital flocked ever more massively to China. Foreign direct invest-

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ment, which had totaled only $20 billion for the whole decade of the 1980s, soared to $200 billion by 2000 and then more than doubled to $450 billion in the next three years. “But if the foreigners were investing,” comments Clyde Prestowitz, “it was only because the Chinese were investing more.”

Foreign capital, in other words, jumped on the bandwagon of an economic expansion which it neither started nor led. Foreign direct investment did play a major role in boosting Chinese exports. As Figure 5.1. shows, however, the boom in Chinese exports was a late episode of the Chinese ascent. In any event, even then foreign (especially US) capital needed China far more than China needed foreign capital. US companies from Intel to General Motors, “face a simple imperative: invest in China to take advantage of the country’s cheap labor and its fast-growing economy or lose out to rivals.” Once just a manufacturing center, China has become the place to develop and sell high-tech goods. “Everybody and their brother wants to go to China. There are 1.2 billion consumers over there,” says the head of US tech trade group AEA. The vice-president of tech component maker Corning agrees: “There are few other countries that look like they could become this significant.”

But how did China become this significant? To what combination of actions and circumstances can we trace its extraordinary economic transformation, “probably the most remarkable . . . in history,” according to Stiglitz? And how does the present economic renaissance relate to earlier traditions of non-capitalist market-based development, to the hundred-year eclipse that followed the opium wars, and the revolutionary tradition that gave birth to the PRC? In seeking answers to these questions, let us begin by disposing of the myth that the Chinese ascent can be attributed to an alleged adherence to the neo-liberal creed.

**The China Opening: Smith versus Friedman**

It is often observed that China’s economic expansion differs from the earlier Japanese expansion by being more open to foreign trade and

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investment. The observation is correct, but not the inference that China has thereby adhered to the neo-liberal prescriptions of the Washington Consensus. The inference has been as common among left intellectuals as among the promoters of the Consensus. Deng Xiaoping, for example, figures prominently, along with Reagan, Pinochet, and Thatcher, on the front cover of Harvey’s *A Brief History of Neoliberalism*, and a whole chapter of the book is dedicated to “Neoliberalism ‘with Chinese characteristics.’” Likewise, Peter Kwong argues that both Reagan and Deng “were great fans of the neo-liberal guru Milton Friedman.”

It is intriguing how early the Chinese had searched out Friedman for guidance—only one year after Thatcher began her brutal “there is no other alternative” reforms. So just as Ronald Reagan started his “revolution” in America by stripping away social and welfare safety nets that had been in place since the FDR era, Deng and his supporters followed Friedman’s recipe to “get the government off the people’s back,” ushering China into the neo-liberal universe.

At the opposite end of the ideological spectrum, the institutional promoters of the Washington Consensus—the World Bank, the IMF, the US and UK Treasuries, backed by opinion-shaping media such as the *Financial Times* and *The Economist*—have boasted that the reduction in world income inequality and poverty, which has accompanied China’s economic growth since 1980, can be traced to Chinese adherence to their policy prescriptions. The claim is contradicted by the long series of economic disasters that actual adherence to these prescriptions have provoked in Sub-Saharan Africa, Latin America, and the former USSR. In light of this experience, James Galbraith wonders whether we should continue to consider the 1990s a “golden age of capitalism” rather than “something closer to a golden age of reformed socialism in two places (China and India)—alongside an age of disasters for those who followed the prescriptions favored by *The Economist.*”

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7 David Harvey, *A Brief History of Neoliberalism* (New York, Oxford University Press, 2005).
Both China and India steered free from Western banks in the 1970s, and spared themselves the debt crisis. Both continue to maintain capital controls to this day, so that hot money cannot flow freely in and out. Both continue to have large state sectors in heavy industry to this day. . . . Yes, China and India have done well, on the whole. But is this due to their reforms or to the regulations they continued to impose? No doubt, the right answer is: Partly to both.10

Focusing exclusively on China, and leaving aside for now the question of whether it has been practicing “reformed socialism” rather than some variant of capitalism, Galbraith’s claim that China’s reforms have not followed neo-liberal prescriptions finds support in Stiglitz’s contention, quoted in Chapter 1, that the success of Chinese reforms can be traced to not having given up gradualism in favor of the shock therapies advocated by the Washington Consensus; to having recognized that social stability can only be maintained if job creation goes in tandem with restructuring; and to having sought to ensure the fruitful redeployment of resources displaced by intensifying competition. Although China welcomed the World Bank’s advice and assistance from the start of the reforms, it always did so on terms and at conditions that served the Chinese “national interest,” rather than the interests of the US Treasury and Western capital. As Ramgopal Agarwala recalls from his own experience in Beijing as a senior World Bank official,

China is perhaps the best example of a country that has listened to foreign advice but has made decisions in the light of its own social, political, and economic circumstances. . . . Whatever else may be the basis for China’s success, it was definitely not a blind adoption of the policies of the Washington [Consensus]. Reform with “Chinese characteristics” was the defining feature of China’s reform process.11

The Chinese government also welcomed foreign direct investment, but again only if they saw it as serving China’s national interest. Thus, in the early 1990s Toshiba and other Japanese big companies

were told rather unceremoniously that, unless they brought along their parts makers, they should not bother to come at all. More recently, Chinese automotive companies have been in the enviable position of having simultaneous joint-venture agreements with rival foreign competitors, such as Guangzhou Automotive's with Honda and Toyota, something Toyota never agreed to do anywhere else. This arrangement has enabled the Chinese partner to learn best practices from both competitors and be the only one in the three-player network to have access to all others.

More generally, deregulation and privatization have been far more selective, and have proceeded at a far slower pace, than in countries that have followed neo-liberal prescriptions. Indeed, the key reform has not been privatization but the exposure of state-owned enterprises (SOEs) to competition with one another, with foreign corporations, and, above all, with a mixed bag of newly created private, semi-private, and community-owned enterprises. The competition did result in a sharp decline in the share of SOEs in employment and production in comparison with the period 1949–79; but as we shall see presently, the role of the Chinese government in promoting development did not subside. On the contrary, it poured huge sums of money in the development of new industries, in the establishment of new Export Processing Zones (EPZs), in expanding and modernizing higher education, and in major infrastructure projects, to an extent without precedent in any country at comparable levels of per capita income.

Thanks to the continental size and huge population of the country, these policies have enabled the Chinese government to combine the advantages of export-oriented industrialization, largely driven by foreign investment, with the advantages of a self-centered national economy informally protected by language, customs, institutions, and networks accessible to outsiders only through local intermediaries. A good illustration of this combination are the huge EPZs that the Chinese government built from scratch and now house two-thirds of the world's total numbers of EPZ workers. Sheer size has enabled China to build three basic manufacturing clusters, each with its own specialization: the Pearl River Delta, specializing in labor-intensive manufacturing, production of spare parts, and their assembly; the Yangtze River Delta, specializing in capital-intensive industry and the


production of cars, semi-conductors, mobile phones, and computers; and Zhongguan Cun, Beijing, China’s Silicon Valley. More than elsewhere, here the government intervenes directly to foster the collaboration of universities, enterprises, and state banks in the development of information technology.\(^{14}\)

The division of labor among EPZs illustrates also the Chinese government’s strategy of promoting the development of knowledge-intensive industries without abandoning labor-intensive industries. In the pursuit of this strategy, which has transformed several Chinese cities into hotbeds of high-tech research, the Chinese government has modernized and expanded the educational system at a pace and on a scale without precedent even in East Asia. Building on the exceptional achievements of the Mao era in primary education, it increased the average length of schooling to about eight years and the student population to 340 million. As a result, China’s state colleges produce graduates in absolute numbers comparable to much wealthier countries. In 2002, for example, China had 590,000 college graduates majoring in science and technology, in comparison to Japan’s 690,000 only one or two years earlier. Moreover, Chinese institutions of higher education are showing greater openness to outside influences than their Japanese and Korean counterparts. Not only are its top universities upgrading their infrastructure and academic personnel; in addition, China has the largest contingent of foreign students in the United States, and rapidly growing contingents in Europe, Australia, Japan, and elsewhere. While the Chinese government has been offering all kinds of incentives to entice Chinese students abroad to return on completion of their degrees, many of them, including

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\(^{14}\) Loong-yu Au, “The Post MFA Era and the Rise of China,” *Asian Labour Update*, 56 (Fall 2005), pp. 10–13. In addition to these and other EPZs, industrial clusters of all kinds have proliferated all over the country. “Although manufacturing clusters aren’t new, with Italy especially known for them, the Chinese have taken it to a new scale,” creating giant industrial districts each “built to specialize in making just one thing, including some of the most pedestrian of goods: cigarettes, lighters, badges, neckties, fasteners.” In the Datang area, more than 10,000 households in 120 villages make their living off socks. In 2004 they made 9 billion pairs of socks, while the Appalachian town of Fort Payne—which once declared itself “Sock Capital of the World”—made less than 1 billion. Datang’s sock-related businesses include about 1,000 textile material processors, 400 yarn dealers, 300 sewing firms, 100 pressing operations, 300 packagers and 100 forwarders, as well as thousands of sewing shops, with an average of 8 knitting machines each. D. Lee, “China’s Strategy Gives it the Edge in the Battle of Two Sock Capitals,” *Los Angeles Times*, April 10, 2005.
practicing scientists and executives, are lured back by the opportunities afforded by a fast-growing economy.\textsuperscript{15}

In short, the relative gradualism with which economic reforms have been carried out, and the countervailing actions with which the government has sought to promote the synergy between an expanding national market and new social divisions of labor, show that the utopian belief of the neo-liberal creed in the benefits of shock therapies, minimalist governments, and self-regulating markets has been as alien to Chinese reformers as it was to Smith. In Smith’s conception of market-based development sketched in Chapter 2, governments use markets as instruments of rule and, in liberalizing trade, do so gradually not to upset “public tranquility.” They make capitalists, rather than workers, compete with one another, so that profits are driven to a minimum tolerable level. They encourage division of labor among, rather than within, production units and communities, and invest in education to counter the negative effects of the division of labor on the intellectual qualities of the population. They assign priority to the formation of a domestic market and to agricultural development as the main foundation of industrialization and, over time, of foreign trade and investment as well. However, if and when this priority clashes with “the first duty of the sovereign”—“protecting the society from the violence and invasion of other independent societies”—Smith admits that priority should be given to industry and foreign trade.

Most features of China’s return to a market economy fit this conception of market-based development better than Marx’s conception of capitalist development—a conception according to which governments play the role of committees for managing the common affairs of the bourgeoisie and, as such, facilitate the separation of the direct producers from the means of production and the tendency of capitalist accumulators to shift competitive pressures from their

midst onto workers. To be sure, in promoting exports and the import of technological know-how, the Chinese government has sought the assistance of foreign and Chinese diaspora capitalist interests to a far greater extent than the governments of Ming and pre-opium wars Qing China, not to speak of the PRC under Mao, ever did. Indeed, its relation with Chinese diaspora capital closely resembles the relation of political exchange that sixteenth-century Spain and Portugal entertained with the Genoese capitalist diaspora. However, as noted above, in these relations the Chinese government has retained the upper hand, itself becoming one of the main creditors of the dominant capitalist state (the US) and accepting assistance on terms and at conditions that suit China’s national interest. By no stretch of the imagination can it be characterized as the servant of foreign and Chinese diaspora capitalist interests.\(^{16}\)

More difficult to assess is whether the Chinese government is in the process of becoming a committee for managing the common affairs of the national bourgeoisie that is emerging within mainland China itself. We shall later return to this issue, but for now another Smithian feature of China’s transition to a market economy suggests caution in characterizing it as a transition to capitalism. This other feature is the government’s active encouragement of competition, not just among foreign capitals, but among all capitals, whether foreign or domestic, private or public. Indeed, the reforms put greater emphasis on the intensification of competition through the breakup of national monopolies and the elimination of barriers, than on privatization.\(^{17}\) The result has been a constant over-accumulation of capital and downward pressure on rates of profits, which has been characterized as “China’s jungle capitalism” but looks more like a Smithian world of capitalists driven by relentless competition to work in the national interest.

A new product is introduced, often by a foreign company, and within months a throng of manufacturers, many of them private

\(^{16}\) The latest proof of this is the spate of new hurdles that in 2006 the Chinese government has created for foreign investors—including increased scrutiny of foreign-backed mergers and proposed restrictions in areas from banking to retailing to manufacturing—which foreign companies found particularly alarming because they stem from the government’s growing preoccupation with helping China’s expanding universe of domestic companies and pressing social issues such as poverty and income inequality. A. Batson and M. Fong, “In Strategic Shift, China Hits Foreign Investors with New Hurdles,” *Wall Street Journal*, August 30, 2006, A1.

Chinese companies, start cracking them out. Raging competition sets in, sending prices sliding. And before long producers look to new markets, increasingly overseas. Driving all this is a jumble of forces that have spawned one of the world’s most competitive markets. A tidal wave of foreign investment . . . has taught the country some of the most modern manufacturing techniques. A ferocious appetite for foreign technology has powered productivity gains across the economy, while nationwide entrepreneurial zeal has sprouted from the shambles of its once centrally planned system.18

Cut-throat competition among public and private enterprises did, of course, result in major disruptions in the security of employment enjoyed by urban workers in the Mao era, as well as in countless episodes of super-exploitation, especially of migrant workers.19 As we shall see in the chapter’s concluding section, the hardships suffered by laid-off urban workers and the super-exploitation of migrant workers have been among the main causes of the escalation of labor unrest and social conflict of the late 1990s and early 2000s. Nevertheless, workers’ hardships and rebellions must be put in the context of government policies that, also in this respect, did not embrace the key neo-liberal prescription of sacrificing workers’ welfare to boost profitability. Not only have medical, pension, and other “mandatory benefits” for workers in joint ventures remained more generous, and the firing of workers more difficult, in China’s formal sector than in countries at comparable or even higher levels of per capita income; more important, the expansion of higher education, the rapid increase in alternative employment opportunities in new industries, and rural tax relief and other reforms, which are encouraging villagers to put more labor into the rural economy, have combined in creating labor shortages that are


Undermining the foundations of the super-exploitation of migrant labor. "We're seeing the end of the golden period of extremely low-cost labor in China," declares a Goldman Sachs economist. "There are plenty of workers, but the supply of uneducated workers is shrinking. . . . Chinese workers . . . are moving up the value chain faster than people expected."20

The Smithian features of China's reforms thus far examined—the gradualism of reforms and state action aimed at expanding and upgrading the social division of labor; the huge expansion of education; the subordination of capitalist interests to the national interest; and the active encouragement of inter-capitalist competition—have all contributed to this emerging shortage. But the most critical factor has probably been another Smithian feature of China's reforms: the leading role which they assigned to the formation of the domestic market and the improvement of living conditions in rural areas. To this most crucial factor we now turn.

Accumulation without Dispossession

As Smith would have advised, Deng's reforms targeted the domestic economy and agriculture first. The key reform was the introduction in 1978–83 of the Household Responsibility System, which returned decision-making and control over agricultural surpluses from communes to rural households. In addition, in 1979 and again in 1983 agricultural procurement prices were increased substantially. As a result, farm productivity and returns to farm activity increased dramatically, strengthening the earlier tendency of commune and brigade enterprises to produce non-agricultural goods. Through various institutional barriers to spatial mobility, the government encouraged rural labor to "leave the land without leaving the village." In 1983, it nonetheless gave permission to rural residents to engage in long-distance transport and marketing to seek outlets for their products. This was the first time in a generation that Chinese farmers were given the right to conduct business outside their home villages. In 1984, regulations were further relaxed to allow farmers to work in nearby towns in the
The emergence of TVEs was prompted by two other reforms: fiscal decentralization, which granted autonomy to local governments in the promotion of economic growth and in the use of fiscal residuals for bonuses; and a switch to the evaluation of cadres on the basis of the economic performance of their localities, which provided local governments with strong incentives to support economic growth. TVEs thus became the primary loci of the reorientation of the entrepreneurial energies of party cadres and government officials towards developmental objectives. Mostly self-reliant financially, they also became the main agency of the reallocation of agricultural surpluses to the undertaking of labor-intensive industrial activities capable of absorbing rural surplus labor productively.

The result was an explosive growth of the rural labor force engaged in non-agricultural activities, from 28 million in 1978 to 176 million in 2003, most of the increase occurring in TVEs. Between 1980 and 2004 TVEs added almost four times as many jobs as were lost in state and collective urban employment. Although between 1995 and 2004 the increase of jobs in TVEs fell far short of the decrease in state and collective urban employment, by the end of the period TVEs still employed more than twice as many workers as all foreign, private and jointly owned urban enterprises combined.


The dynamism of rural enterprises took Chinese leaders by surprise. The development of the TVEs—acknowledged Deng Xiaoping in 1993—"was totally out of our expectations." By then the government had stepped in to legalize and regulate TVEs. In 1990 collective ownership of the TVEs was assigned to all inhabitants of the town or village. Local governments, however, were given authority to appoint and fire managers or to delegate this authority to a governmental agency. The allocation of TVE profits was also regulated, mandating the reinvestment of more than half within the enterprise, to modernize and expand production and to increase welfare and bonus funds, and the remittance of most of what was left to the construction of agricultural infrastructure, technology services, public welfare, and investment in new enterprises. In the late 1990s, attempts were made to transform vaguely defined property rights into some form of shareholding or purely private ownership. All regulations—including those mandating the allocation of profits—were nonetheless hard to enforce, so that TVEs came to be characterized by such a variety of local arrangements and practices that makes their categorization extremely difficult.23

And yet despite, or perhaps because of, their organizational variety, in retrospect TVEs may well turn out to have played as crucial a role in the Chinese economic ascent as vertically integrated, bureaucratically managed corporations did in the US ascent a century earlier. Their contributions to the success of the reforms are manifold. First, their labor-intensive orientation enabled them to absorb rural surplus labor and raise rural incomes without a massive increase in migration to urban areas. Indeed, most labor mobility in the 1980s was the movement of farmers out of farming to work in rural collective enterprises. Second, since TVEs were relatively unregulated, their entry into numerous markets increased competitive pressure across the board, forcing not just SOEs but all urban enterprises to improve their performance.24 Third, TVEs have been a major source of rural tax revenue, reducing the fiscal burden on peasants. Since taxes and levies have been a primary source of peasant grievances, they thereby


24 Cai, Park, and Zhao, "The Chinese Labor Market."
contributed to social stability. Moreover, by taking on many of the taxes and charges that used to be levied on peasants, they have also helped shelter peasants from predatory local governments. Fourth, and in key respects most important, by reinvesting profits and rents locally, TVEs have expanded the size of the domestic market and created the conditions for new rounds of investment, job creation, and division of labor.

As Gillian Hart has noted in summing up the developmental advantages of China in comparison with South Africa—where the African peasantry has long been dispossessed of the means of production without a corresponding creation of the demand conditions for its absorption in wage employment—much of Chinese economic growth can be traced to the contribution that TVEs have made to the reinvestment and redistribution of industrial profits within local circuits, and to their use in schools, clinics, and other forms of collective consumption. Moreover, in TVEs with a relatively egalitarian distribution of land among households—like the ones she visited in 1992 in Sichuan and Hunan provinces—residents could procure their livelihood through a combination of intensive cultivation of tiny plots with industrial and other forms of non-agricultural work. Indeed, “a key force propelling [TVEs] growth is that, unlike their urban counterparts, they do not have to provide housing, health, retirement, and other benefits to workers. In effect, much of the cost of reproduction of labor has been deflected from the enterprise—but, at least in some instances, is being supported through redistributive mechanisms.” This pattern, Hart goes on to suggest, could be observed not just in China but in Taiwan as well.

What is distinctive about China and Taiwan—and dramatically different from South Africa—are the redistributive land reforms beginning in the late 1940s that effectively broke the power of the landlord class. The political forces that drove agrarian reforms in China and Taiwan were closely linked and precisely opposite. Yet in both socialist and post-socialist China, and in “capitalist” Taiwan, the redistributive reforms that defined agrarian transformations were marked by rapid, decentralized industrial accumulation without dispossession from the land. . . . That some of the

26 Lin and Yao, “Chinese Rural Industrialization.”
most spectacular instances of industrial production in the second half of the twentieth century have taken place without dispossessions of the peasant-workers from the land not only sheds light on the distinctively "non-Western" forms of accumulation that underpin global competition . . . [It should also compel us to] revise the teleological assumptions about "primitive accumulation" through which dispossession is seen as a natural concomitant of capitalist development.27

From the perspective developed in this book, Hart's plea for a revision of assumptions about primitive accumulation may be reformulated as follows. The separation of agricultural producers from the means of production has been more a consequence of capitalism's creative destruction than one of its preconditions. The most persistent and crucial form of primitive accumulation—or, as Harvey has renamed the process, of accumulation by dispossession—has been the use of military force by Western states to provide the endless accumulation of power and capital with spatial fixes of increasing scale and scope. However, US attempts to bring about the ultimate spatial fix by turning itself into a world state backfired. Instead of creating a world state, it created a world market of unprecedented volume and density in which the region endowed with the largest supplies of low-price, high-quality labor has a decisive competitive advantage. It is no historical accident that this region is East Asia—the heir of a tradition of market economy which, more than any other, mobilized human rather than non-human resources and protected rather than destroyed the economic independence and welfare of agricultural producers.

This is yet another reformulation of Sugihara's thesis of the continuing significance of the East Asian Industrious Revolution. Hart's observation that in the TVEs the intensive cultivation of small plots of land is combined with industrial and other forms of non-agricultural work, and with investments in the improvement of the quality of labor, confirms the validity of the thesis. But so does the frequent observation that, even in urban areas, the chief competitive advantage of Chinese producers is not low wages as such but the use of techniques that use inexpensive educated labor instead of expensive machines and managers. A good illustration is Wanfeng automotive factory near Shanghai, where "there is not a single robot in sight." As in many other Chinese factories, the assembly lines are occupied by

scores of young men, newly arrived from China’s expanding technical schools, working with little more than large electric drills, wrenches, and rubber mallets.

Engines and body panels that would, in a Western, Korean or Japanese factory, move from station to station on automatic conveyors are hauled by hand and hand truck. This is why Wanfeng can sell its handmade luxury Jeep Tributes in the Middle East for $8,000 to $10,000. The company isn’t spending money on multimillion-dollar machines to build cars; instead, it’s using highly capable workers [whose] yearly pay . . . is less than the monthly pay of new hires in Detroit.28

Generally speaking, as a report in the Wall Street Journal points out, accounting statements that show the payroll of a finished product to be only 10 percent of its costs are misleading, because they exclude the full payroll cost of the purchased components and company overheads. When these costs are added in, total labor costs are more in the order of 40 to 60 percent of the final product cost, and in China those labor costs are lower across the board. Indeed, for the most part, the main competitive advantage of China is not that its production workers typically cost 5 percent of their US counterparts but that its engineers and plant managers cost 35 percent or less. Similarly, statistics showing US workers in capital-intensive factories to be several times more productive than their Chinese counterparts ignore the fact that the higher productivity of US workers is due to the replacement of many factory workers with complex flexible-automation and material-handling systems, which reduces labor costs but raises the costs of capital and support systems. By saving on capital and reintroducing a greater role for labor, Chinese factories reverse this process. The design of parts to be made, handled, and assembled manually, for example, reduces the total capital required by as much as one-third.29

Moreover, as one would expect from Sugihara’s thesis, Chinese businesses substitute inexpensive educated labor, not just for expensive machinery, but for expensive managers as well. Vindicating


Smith’s poor opinion of corporate bureaucratic management, a self-managed labor force “keeps management costs down too.”

Despite the enormous numbers of workers in Chinese factories, the ranks of managers who supervise them are remarkably thin by Western standards. Depending on the work, you might see 15 managers for 5,000 workers, an indication of how incredibly well self-managed they are.\(^\text{30}\)

As previously noted, government policies in the field of education have endowed China with a pool of human resources which, along with a huge supply of literate and industrious laborers, includes a large and rapidly expanding supply of engineers, scientists, and technicians. This expanding supply of knowledge-workers facilitates, not only the substitution of inexpensive educated labor for expensive machines and managers, but also—as Smith advocated—the upgrading of the social division of labor towards knowledge-intensive production and innovations. Suffice it to mention that in 2003, while spending nearly five times what China did on research and development, the United States had less than double the number of researchers (1.3 million to 743,000). Moreover, over the past dozen years, China’s R&D spending has grown at an annual rate of 17 percent, against the 4–5 percent reported for the United States, Japan, and the European Union.\(^\text{31}\)

**Social Origins of the Chinese Ascent**

The close fit between the ongoing transformation of the Chinese political economy and Smith’s conception of market-based development does not mean that Deng’s reforms were in any way inspired by Smith’s texts. As previously noted, the practices of the eighteenth-century official Chen Hongmou anticipated what Smith later theorized in *The Wealth of Nations*. Those practices originated, not in theory, but in a pragmatic approach, inspired by Chinese traditions, to problems of governance in mid-Qing China. Whether or not Deng ever read Smith’s texts, his reforms


originated in an equally pragmatic approach to problems of governance in post-Mao China.

Thus, Wang Hui of Tsinghua University has recently traced the origins of the reforms to a reaction—widely approved inside and outside the CCP—against “the factional struggles and chaotic character of politics during the latter years of the Cultural Revolution.” While thoroughly repudiating the Cultural Revolution, the CCP nonetheless “did not repudiate either the Chinese Revolution or socialist values, nor the summation of Mao Zedong thought.” Two effects ensued.

First, the socialist tradition has functioned to a certain extent as an internal restraint on state reforms. Every time the state-party system made a major policy shift, it had to be conducted in dialogue with this tradition. . . . Secondly, the socialist tradition gave workers, peasants and other social collectivities some legitimate means to contest or negotiate the state’s corrupt or inegalitarian marketization procedures. Thus, within the historical process of the negation of the Cultural Revolution, a reactivation of China’s legacy also provides an opening for the development of a future politics.

For what concerns the relation between the reforms and China’s socialist tradition, there are at least two good reasons why the CCP under Deng repudiated the Cultural Revolution but not the tradition established by the Chinese Revolution. First, the factional struggles and political chaos of the latter years of the Cultural Revolution completed, but at the same time threatened to destroy, the achievements of the Chinese Revolution. And second, the onslaught of the Cultural Revolution did not spare the CCP, seriously undermining the bureaucratic foundations of the power and privileges of its cadres and officials. Deng’s reforms thus had a double appeal: to party cadres and officials as a means of reconstituting on new foundations their power and privileges; and to the citizenry at large as a means of consolidating the achievements of the Chinese Revolution which the Cultural Revolution had jeopardized.

On the first appeal, the reforms created myriad opportunities for the reorientation of entrepreneurial energies from the political to the economic sphere, which party cadres and officials eagerly seized upon.

to enrich and empower themselves in alliance with government officials and managers of SOEs—often influential party members themselves. In the process, various forms of accumulation by dispossession—including appropriations of public property, embezzlement of state funds, and sales of land-use rights—became the basis of huge fortunes. It nonetheless remains unclear whether this enrichment and empowerment has led to the formation of a capitalist class and, more important, whether such a class, if it has come into existence, has succeeded in seizing control of the commanding heights of Chinese economy and society. Under Jiang Zemin (1989–2002), a positive answer to both questions seemed quite plausible. But under Hu Jintao and Wen Jiabao—despite the shorter time span for assessing their orientation—a reversal seems to be occurring which makes such an answer, especially to the second question, far less plausible.

As for the appeal of Deng’s reforms to the citizenry at large, we must first acknowledge the considerable extent to which the success of the reforms has been based on prior achievements of the Chinese Revolution. When Western and Japanese observers praise the education, willingness to learn, and discipline of China’s labor, including rural migrants, in comparison to India’s, notes Au Loong-

33 Yingyi Qian, “Enterprise Reforms in China: Agency Problems and Political Control,” *Economics of Transition*, 4, 2 (1996); X.L. Ding, “The Illicit Asset Stripping of Chinese State Firms,” *The China Journal*, 43 (2000); Lee and Selden, “Durable Inequality.” These and other forms of accumulation by dispossession occurred in conjunction with the accumulation without dispossession emphasized by Hart. It is of course very hard to tell which tendency prevailed at different times in a country of the size and complexity of China, and even more which tendency is more likely to prevail in the future. The position advanced in the text below is that under Jiang Zemin accumulation by dispossession was on the rise and, were it not for the change in policies under Hu Jintao prompted by the escalation of social unrest, it might have eventually prevailed.

34 The reversal has been signaled, not just by the change of policies and the greater preoccupation of the new leadership with social issues, but also in the use of an ongoing anti-corruption campaign to purge the party apparatus of Jiang’s followers and to bolster the capacity of the CCP and the central government to effectively implement the change in policies. See J. Kahn, “China’s Anti-Graft Bid Bolsters Top Leaders,” *International Herald Tribune*, October 4, 2006; R. McGregor, “Push to Bring the Provinces into Line,” *Financial Times*, December 12, 2006. Whether the reforms have strengthened or weakened the capacity of the top leadership of the CCP and of the central government to enforce policies effectively at the provincial and local level remains a disputed fact. For opposite views on this issue, see Maria Edin, “State Capacity and Local Agent Control in China: CCP Cadre Management from a Township Perspective,” *The China Quarterly*, 173 (2003) and Ho-fung Hung, “Rise of China and the Global Overaccumulation Crisis,” paper presented at the Society for the Study of Social Problems Annual Meeting, Montreal, August 2006.
yu, "it never occurs to them that one of the contributing factors to this achievement is the great transformation in land reform earlier, and the collective provision of rural infrastructure and education that followed, not anything related to the market reform later." 35

The boom in agricultural production of 1978–84 did have something to do with the reforms, but only because they built on the legacy of the Mao era. Between 1952 and 1978, the communes had more than doubled China’s irrigated farmland and disseminated improved technology, such as greater use of fertilizers and high-yielding semi-dwarf rice, which by 1977 occupied 80 percent of China’s rice land. “It was the combination of the productive base built during [the] Mao era along with the incentives provided by the household responsibility system that created the boom in agricultural production.” 36

As Figures 12.1 and 12.2 show, China’s greatest advances in per capita income (shown by upward movements of the curves) have occurred since 1980. But the greatest advances in adult life expectancy, and to a lesser extent in adult literacy, that is, in basic welfare (shown by rightward movements of the curves), occurred before 1980. This pattern strongly supports the claim that China’s economic success was built on the extraordinary social achievements of the Mao era. In a report published in 1981, even the World Bank recognized the significance of these achievements.

China’s most remarkable achievement during the past three decades has been to make the low-income groups far better off in terms of basic needs than their counterparts in most other poor countries. They all have work; their food supply is guaranteed through a mixture of state rationing and collective self-insurance; most of their children are not only at school but are also comparatively well taught; and the great majority have access to basic health care and family planning services. Life expectancy—whose dependence on many other economic and social variables makes it


probably the best single indicator of the extent of real poverty in a country—is outstandingly high for a country at China's per capita income level.\(^{37}\)

Whether Deng's reforms have consolidated or undermined these achievements is a controversial issue which will not be entertained here except for two observations. First, the indicators of basic welfare of China's population (adult life expectancy and literacy rate) had improved so much before the reforms that there was little room for further major improvements. And yet, by the indicators shown in Figures 12.1 and 12.2, in the reform era there was further improvement, especially in adult literacy. From this standpoint, therefore, the reforms appear to have consolidated, rather than undermined, the prior achievements of the Chinese Revolution.

Second, the importance of China's advances in per capita income in the reform era should not be belittled, even if they did not involve a proportional improvement in basic welfare. In a capitalist world, as we have repeatedly underscored, national wealth, as measured by per

\[\text{Figure 12.1  Per capita income and adult life expectancy, 1960–2000.}\]

Source: calculations based on GNP, adult life expectancy, and population from World Bank—World Development Indicators 2004 and 2001.

capita income, is the primary source of national power. Even if the purpose of the pursuit of national power is the transformation of the world in a socialist direction, the CCP had little choice but to play the game of world politics by the extant capitalist rules, as Mao himself always understood very well. Once impending defeat in Vietnam forced the United States to readmit China to normal commercial and diplomatic intercourse with the rest of East Asia and the world at large, it made perfect sense for Communist China to seize on the opportunities offered by that intercourse to boost its national wealth and power. Even before the US invasion of Iraq added new momentum to the Chinese ascent, Richard Bernstein and Ross Munro crudely but perceptively identified the true political significance of China’s switch to a market economy.

The irony in Sino-American relations is that when China was in the grip of ideological Maoism and displayed such ideological ferocity that Americans believed it to be dangerous and menacing, it was actually a paper tiger, weak and virtually without global influence. Now that China has shed the trappings of Maoism and embarked on a pragmatic course of economic development and global trade, it appears less threatening but it is in fact acquiring...
the wherewithal to back its global ambitions and interests with real power.\footnote{Richard Bernstein and Ross H. Munro, “The Coming Conflict with America,” \textit{Foreign Affairs}, 76, 2 (1997), p. 22.}

A more accurate version of this assessment is that, as long as China was cut off from global trade by US Cold War policies and felt threatened militarily by the USSR, the CCP was driven to use ideology as the main weapon in the struggle to consolidate its power nationally and internationally. But when, in the latter years of the Cultural Revolution, the ideological weapon began to backfire, at about the same time that the United States sought an alliance with China in the Cold War with the USSR, the stage was set for a pragmatic use of the market as an instrument of empowerment of the CCP nationally, and of the PRC internationally. While on the empowerment of the CCP the jury is still out—since it is not clear whether its hold on Chinese state and society has been strengthened or weakened—on the empowerment of the PRC, the verdict is that the economic reforms have been a resounding success.

Why then change course, as the CCP has been doing under its new leadership? What has prompted the change, and in which direction can it be expected to lead China’s economy and society? Wang Hui’s observations concerning the relation between Deng’s reforms and the tradition of the Chinese Revolution provide us with a clue to answering these questions. The foundation of that tradition has been a distinct Chinese brand of Marxism-Leninism, which first emerged with the formation of the Red Army in the late 1920s but developed fully only after Japan took over China’s coastal regions in the late 1930s. This ideological innovation had two main components.

First, while the Leninist principle of the vanguard party was retained, the insurrectional thrust of Leninist theory was abandoned. In the deeply fragmented statal structure of warlord–GMD China, there was no “Winter Palace” to be stormed or, rather, there were too many such palaces for any insurrectionary strategy to have any chance of success. The insurrectional aspects of Leninist theory were thus replaced by what Mao later theorized as the “mass line”—the idea that the vanguard party ought to be not just the teacher but also the pupil of the masses. “This from-the-masses-to-the-masses concept”—notes Fairbank—“was indeed a sort of democracy suited to Chinese tradition, where the upper-class official had governed
best when he had the true interests of the local people at heart and so governed on their behalf.”

Second, in seeking a social base the CCP gave priority to the peasantry rather than to the urban proletariat—Marx’s and Lenin’s revolutionary class. As the 1927 GMD’s massacre of Communist-led workers in Shanghai had demonstrated, the coastal regions where the bulk of the urban proletariat was concentrated were far too treacherous a ground from which to challenge foreign domination and the GMD’s hegemony over the Chinese bourgeoisie. Driven ever farther from the seats of capitalist expansion by the Western trained and equipped GMD armies, the CCP and the Red Army had no choice but to thrust their roots among the peasantry of poor and remote areas. The result was, in Mark Selden’s characterization, “a two-way socialization process,” whereby the party-army molded the subaltern strata of Chinese rural society into a powerful revolutionary force, and was in turn shaped by the aspirations and values of these strata.

The combination of these two features with the modernist thrust of Marxism-Leninism has been the bedrock of the Chinese revolutionary tradition and helps to explain key aspects of the Chinese developmental path before and after the reforms, as well as the recent change of policies under Hu. It helps in explaining, first of all, why in Mao’s China, in sharp contrast to Stalin’s USSR, modernization was pursued, not through the destruction, but through the economic and educational uplifting of the peasantry. Second, it helps in explaining why, before and after the reforms, Chinese modernization has been based, not merely on the internalization of the Western Industrial Revolution, but on the revival of features of the indigenous, rural-based, Industrious Revolution. Third, it helps in explaining why under Mao the tendency towards the emergence of an urban bourgeoisie of state-party officials and intellectuals was fought through their “re-education” in rural areas. Finally, it helps in explaining why Deng’s reforms were launched first in agriculture, and why Hu’s new course focuses on the expansion of health, education and welfare benefits in rural areas under the banner of a “new socialist countryside.”

At the roots of this tradition lies the fundamental problem of how to govern and develop a country with a rural population larger than the entire population of Africa, or Latin America, or Europe. No other

country, except India, ever had a remotely comparable problem. From this standpoint, however painful an experience for urban officials and intellectuals, the Cultural Revolution consolidated the rural foundations of the Chinese Revolution and laid the groundwork for the success of the economic reforms. Suffice it to mention that, partly as a result of policies and partly as a result of the disruption of urban industries by factional fights, the products of rural enterprises were in great demand, leading to a major expansion of the commune and brigade enterprises out of which many of the TVEs later emerged.

At the same time, the Cultural Revolution jeopardized, not just the power of state-party officials and the social and political achievements of the Chinese Revolution, as previously noted, but also the entire modernist component of the revolutionary tradition. Its repudiation in favor of economic reforms was thus presented and perceived as essential to a revival of that component. Over time, however, the very success of the revival swung the pendulum in the opposite direction, seriously undermining the revolutionary tradition by the mid to late 1990s. Two developments in particular signaled this tendency: a huge increase in income inequality and growing popular discontent with the procedures and outcomes of the reforms.

**Social Contradictions of Economic Success**

The huge increase in income inequality within and between urban and rural areas, as well as among different classes, social strata, and provinces is one of the best-established facts about China’s switch to a market economy. As long as this trend could be credibly presented

41 As the Chinese scholar Pei Minxin has noted, counting periods where the central government has lost control of large swaths of territory, China has experienced 1,000 years of internal chaos. Quoted in M. Naim, “Only a Miracle Can Save China from Itself,” Financial Times, September 15, 2003.


as the result of a strategy of unbalanced development that created opportunities of advancement for most, resistance to increasing inequality was limited and could be easily neutralized or repressed. Over time, however, increasing inequality has clashed with the revolutionary tradition seriously undermining social stability.44

The traditions of the “mass line” and of the “two-way socialization process” apparently played a role in the reforms themselves.45 Nevertheless, the more local and provincial party cadres and officials redirected their entrepreneurial energies to the economic sphere and engaged in acts of accumulation by dispossession, the more the tradition of the “mass line” became a fiction, and the “two-way socialization process” between the party-state and the subaltern strata of Chinese society was displaced by a similar process between the party-state and the emerging bourgeoisie. And yet, as Samir Amin claims in a passage quoted in Chapter 1, the revolutionary tradition had endowed China’s subaltern strata with a self-confidence and combativeness with few parallels elsewhere in the global South and, we may add, in the global North as well. And as Wang Hui points out, the continuing official adherence of the party-state to that tradition has given some legitimacy to this self-confidence and combativeness.

44 In explaining why the huge increase in income inequality did not become a socially destabilizing factor until recently, three considerations should be borne in mind. First, as previously noted, basic welfare continued to improve during the reforms. The greater relative deprivation entailed by increasing inequality was thus accompanied by less absolute deprivation. Second, in China the increase in inequality—as measured by synthetic indicators like the Gini—has been largely due to an improvement (rather than a deterioration) in the position of middle-income groups. See, especially, Wu and Perloff, “China’s Income Distribution over Time,” figures 2 and 3. Finally, according to Research Group for Social Structure in Contemporary China, Social Mobility in Contemporary China (Montreal, America Quantum Media, 2005) p. ch. 4, increasing inequality during the reform period was accompanied by an increase in the inter-generational (parents occupation/children occupation) and intra-generational (first occupation/current occupation) mobility. Individuals in the lower-income occupations had thus greater chances than in the pre-reform period to turn the income gap between occupations into a personal gain by moving to a higher-income occupation, and the greater the gap, the greater the gain.

45 In his dealings with Chinese policy makers, for example, Agarwala “found senior leaders demonstrate greater interest in interaction with various levels of society than in more democratically organized societies such as India’s” The rise of China, p. 90). In a similar vein, Stiglitz has noted that “George Bush has shown the dangers of excessive secrecy and confining decision-making to a narrow circle of sycophants. Most people outside China do not fully appreciate the extent to which its leaders, by contrast, have engaged in extensive deliberations and consultations as they strive to solve the enormous problems they face” (“Development in Defiance of the Washington Consensus.” See also Rawski, “Reforming China’s Economy,” p. 142.
The result has been a proliferation of social struggles in urban and rural areas alike. Officially reported cases of “public order disruptions”—a reference to protests, riots, and other forms of social unrest—escalated from about 10,000 in 1993 to 50,000 in 2002, 58,000 in 2003, 74,000 in 2004, and 87,000 in 2005, declining only slightly in the first six months of 2006. In rural areas, until about 2000 the main grievances prompting mass action were taxes, levies, fees, and various other “burdens.” More recently, diversion of land from farming to industrial, real estate, and infrastructural development, environmental degradation, and the corruption of local party and government officials have become the most incendiary issues. Episodes like the 2005 Dongyang riot over pollution from a pesticide factory, in which more than 10,000 residents routed the police leading to the suspension of operations at the plant, have “entered Chinese folklore as proof that determined citizens acting en masse can force the authorities to reverse course and address their needs.”

In the urban areas, the “old” working class of the SOEs has since the late 1990s responded to mass lay-offs with a wave of protests that often appealed to standards of justice of the socialist tradition and to the “iron rice bowl” social contract between the working class and the state that prevailed throughout the first four decades of the PRC. For the most part, a combination of repression and concessions easily contained this wave of protest. More recently, however, an unprecedented series of walkouts has heralded the spread of unrest to the “new” working class of mostly young migrants, who constitute the backbone of China’s export industries. Combined with growing unrest among urban workers in the service sectors, these two waves are putting to rest the notion common in the West that “there is no labor movement in China”: “you can go to almost any city in the country now”—notes Robin Munro of China Labour Bulletin—“and there will be several major collective worker protests going on at the same time.” It is a spontaneous and relatively inchoate labor move-

ment; but so was the US labor movement during its golden age of the 1930s.\textsuperscript{47}

As noted in Chapter 1, this enormous upsurge of social unrest in rural and urban areas has posed an entirely new challenge to the leadership of the CCP and has prompted it to change rhetoric and policies in the pursuit of a more balanced development between rural and urban areas, between regions, and between economy and society, and, most recently, to introduce new labor legislation aimed at expanding workers' rights. Whether the change will actually rescue the socialist tradition and redirect development in a more egalitarian direction is still anybody's guess. What concerns us here, however, is not so much the fate of the socialist tradition in China, as the broader implications of the Chinese ascent for inter-civilizational relations in the world at large. It is to these implications that we now turn.

Will China’s Rise Lead to War?

Why Realism Does Not Mean Pessimism

Charles Glaser

The rise of China will likely be the most important international relations story of the twenty-first century, but it remains unclear whether that story will have a happy ending. Will China’s ascent increase the probability of great-power war? Will an era of U.S.-Chinese tension be as dangerous as the Cold War? Will it be even worse, because China, unlike the Soviet Union, will prove a serious economic competitor as well as a geopolitical one?

These issues have been addressed by a wide range of experts—regionalists, historians, and economists—all of whom can claim insight into certain aspects of the situation. But China’s unique qualities, past behavior, and economic trajectory may well turn out to be less important in driving future events than many assume—because how a country acts as a superpower and whether its actions and those of others will end in battle are shaped as much by general patterns of international politics as by idiosyncratic factors. Such broader questions about the conditions under which power transitions lead to conflict are precisely what international relations theorists study, so they, too, have something to add to the discussion.

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Will China's Rise Lead to War?

So far, the China debate among international relations theorists has pitted optimistic liberals against pessimistic realists. The liberals argue that because the current international order is defined by economic and political openness, it can accommodate China's rise peacefully. The United States and other leading powers, this argument runs, can and will make clear that China is welcome to join the existing order and prosper within it, and China is likely to do so rather than launch a costly and dangerous struggle to overturn the system and establish an order more to its own liking.

The standard realist view, in contrast, predicts intense competition. China's growing strength, most realists argue, will lead it to pursue its interests more assertively, which will in turn lead the United States and other countries to balance against it. This cycle will generate at the least a parallel to the Cold War standoff between the United States and the Soviet Union, and perhaps even a hegemonic war. Adherents of this view point to China's recent harder line on its maritime claims in the East China and South China seas and to the increasingly close relations between the United States and India as signs that the cycle of assertiveness and balancing has already begun.

In fact, however, a more nuanced version of realism provides grounds for optimism. China's rise need not be nearly as competitive and dangerous as the standard realist argument suggests, because the structural forces driving major powers into conflict will be relatively weak. The dangers that do exist, moreover, are not the ones predicted by sweeping theories of the international system in general but instead stem from secondary disputes particular to Northeast Asia—and the security prevalent in the international system at large should make these disputes easier for the United States and China to manage. In the end, therefore, the outcome of China's rise will depend less on the pressures generated by the international system than on how well U.S. and Chinese leaders manage the situation. Conflict is not predetermined—and if the United States can adjust to the new international conditions, making some uncomfortable concessions and not exaggerating the dangers, a major clash might well be avoided.
A GOOD KIND OF SECURITY DILEMMA

Structural realism explains states' actions in terms of the pressures and opportunities created by the international system. One need not look to domestic factors to explain international conflict, in this view, because the routine actions of independent states trying to maintain their security in an anarchic world can result in war. This does not happen all the time, of course, and explaining how security-seeking states find themselves at war is actually something of a puzzle, since they might be expected to choose cooperation and the benefits of peace instead. The solution to the puzzle lies in the concept of the security dilemma—a situation in which one state's efforts to increase its own security reduce the security of others.

The intensity of the security dilemma depends, in part, on the ease of attack and coercion. When attacking is easy, even small increases in one state's forces will significantly decrease the security of others, fueling a spiral of fear and arming. When defending and deterring are easy, in contrast, changes in one state's military forces will not necessarily threaten others, and the possibility of maintaining good political relations among the players in the system will increase.

The intensity of the security dilemma also depends on states' beliefs about one another's motives and goals. For example, if a state believes that its adversary is driven only by a quest for security—rather than, say, an inherent desire to dominate the system—then it should find increases in the adversary's military forces less troubling and not feel the need to respond in kind, thus preventing the spiral of political and military escalation.

The possibility of variation in the intensity of the security dilemma has dramatic implications for structural realist theory, making its predictions less consistently bleak than often assumed. When the security dilemma is severe, competition will indeed be intense and war more likely. These are the classic behaviors predicted by realist pessimism. But when the security dilemma is mild, a structural realist will see that the international system creates opportunities for restraint and peace. Properly understood, moreover, the security dilemma suggests that a state will be more secure when its adversary is more secure—because insecurity can pressure an adversary to
adopt competitive and threatening policies. This dynamic creates incentives for restraint and cooperation. If an adversary can be persuaded that all one wants is security (as opposed to domination), the adversary may itself relax.

What does all this imply about the rise of China? At the broadest level, the news is good. Current international conditions should enable both the United States and China to protect their vital interests without posing large threats to each other. Nuclear weapons make it relatively easy for major powers to maintain highly effective deterrent forces. Even if Chinese power were to greatly exceed U.S. power somewhere down the road, the United States would still be able to maintain nuclear forces that could survive any Chinese attack and threaten massive damage in retaliation. Large-scale conventional attacks by China against the U.S. homeland, meanwhile, are virtually impossible because the United States and China are separated by the vast expanse of the Pacific Ocean, across which it would be difficult to attack. No foreseeable increase in China's power would be large enough to overcome these twin advantages of defense for the United States. The same defensive advantages, moreover, apply to China as well. Although China is currently much weaker than the United States militarily, it will soon be able to build a nuclear force that meets its requirements for deterrence. And China should not find the United States' massive conventional capabilities especially threatening, because the bulk of U.S. forces, logistics, and support lie across the Pacific.

The overall effect of these conditions is to greatly moderate the security dilemma. Both the United States and China will be able to maintain high levels of security now and through any potential rise of China to superpower status. This should help Washington and Beijing avoid truly strained geopolitical relations, which should in turn help ensure that the security dilemma stays moderate, thereby facilitating cooperation. The United States, for example, will have the option to forego responding to China's modernization of its nuclear force. This restraint will help reassure China that the United States does not want to threaten its security—and thus help head off a downward political spiral fueled by nuclear competition.
BUT WHAT ABOUT THE ALLIES?

The preceding analysis, of course, overlooks a key feature of U.S. foreign policy—the important security alliances the United States maintains with Japan and South Korea, as well as other U.S. security commitments in Northeast Asia. Yet although adding U.S. allies yields a more complex picture, it does not undercut the overall optimism about China’s rise. Instead, it raises the question of just how essential regional alliances in the Pacific are to U.S. security.

The United States’ alliance commitments have been remarkably stable since the beginning of the Cold War, but China’s rise should lead to renewed debate over their costs and benefits. Arguing along lines similar to those mentioned above—that the United States can be secure simply by taking advantage of its power, geography, and nuclear arsenal—so-called neo-isolationists conclude that the United States should end its alliances in Europe and Asia because they are unnecessary and risky. If the United States can deter attacks against its homeland, they ask, why belong to alliances that promise to engage the United States in large wars on distant continents? Protecting U.S. allies in Asia might require the United States to engage in political skirmishes and military competition that will strain its political relations with China. According to neo-isolationists, in short, China’s rise will not jeopardize U.S. security, but maintaining current U.S. alliances could.

Advocates of selective engagement, in contrast—an approach similar to existing U.S. policy—claim that their chosen strategy is also consistent with the broad outlines of structural realism. Whereas neo-isolationists want the United States to withdraw from forward positions in order to avoid being sucked into a regional conflict, those favoring selective engagement argue that preserving U.S. alliance commitments in Europe and Asia is the best way to prevent the eruption of a conflict in the first place.

Examining how existing U.S. alliance commitments are likely to interact with China’s rise is thus a crucial issue, with implications for both regional policy and U.S. grand strategy more generally. If the United States maintains its key alliance commitments, as is likely, it will need to extend its deterrent to Japan and South Korea while facing significantly larger and more capable Chinese conventional military
forces. In many ways, this challenge will be analogous to the one the United States faced in extending its deterrent to Western Europe during the Cold War. Both superpowers had robust nuclear retaliatory capabilities, and the Soviet Union was widely believed to have superior conventional forces that were capable of invading Europe.

Back then, experts debated whether U.S. capabilities were sufficient to deter a massive Soviet conventional attack against Europe. They disagreed over whether NATO’s doctrine of flexible response—which combined large conventional forces with an array of nuclear forces—enabled the United States to make nuclear threats credible enough to deter a Soviet conventional attack. Doubts about U.S. willingness to escalate reflected the clear danger that U.S. escalation would be met by Soviet nuclear retaliation. Nevertheless, the stronger argument in this debate held that U.S. strategy did provide an adequate deterrent to a Soviet conventional attack, because even a small probability of U.S. nuclear escalation presented the Soviets with overwhelming risks. The same logic should apply to a future Chinese superpower. The combination of clear alliance commitments, forward deployed conventional forces, and large survivable nuclear forces should enable the United States to deter a Chinese attack on either Japan or South Korea.

Confidence in the U.S. deterrent is likely to be reinforced by relatively good relations between the United States and China. Those who feared that the United States could not extend its deterrent to Western Europe believed that the Soviet Union was a highly revisionist state bent on radically overturning the status quo and willing to run enormous risks in the process. There is virtually no evidence suggesting that China has such ambitious goals, so extending the U.S. deterrent should be easier now than during the Cold War. And even in the unlikely event that China evolved into such a dangerous state, deterrence would still be possible, albeit more difficult.

Some realist pessimists argue that in order to be highly secure, China will find itself compelled to pursue regional hegemony, fueling

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Current international conditions should enable both the United States and China to protect their vital interests without posing large threats to each other.
Charles Glaser

conflict along the way. However, China’s size, power, location, and nuclear arsenal will make it very challenging to attack successfully. China will not need to push the United States out of its region in order to be secure, because a forward U.S. presence will not undermine China’s core deterrent capabilities. A major U.S. withdrawal, moreover, would not automatically yield Chinese regional hegemony, because Japan and South Korea might then acquire stronger conventional military capabilities and nuclear capabilities of their own, greatly reducing China’s coercive potential. A Chinese drive for regional hegemony, therefore, would be both unnecessary and infeasible.

The United States’ forward military presence does enhance its power-projection capabilities, which threaten China’s ability to protect its sea-lanes and coerce Taiwan. But the U.S. alliance with Japan also benefits China by enabling Japan to spend far less on defense. Although the United States’ power far exceeds Japan’s, China has seen the alliance as adding to regional stability, because it fears Japan more than the United States. As China grows more powerful, it may increasingly resent U.S. influence in Northeast Asia. But unless U.S.-Chinese relations become severely strained, China is likely to accept a continuing U.S. presence in the region, given the alternatives.

ACCOMMODATION ON TAIWAN?

THE PROSPECTS for avoiding intense military competition and war may be good, but growth in China’s power may nevertheless require some changes in U.S. foreign policy that Washington will find disagreeable—particularly regarding Taiwan. Although it lost control of Taiwan during the Chinese Civil War more than six decades ago, China still considers Taiwan to be part of its homeland, and unification remains a key political goal for Beijing. China has made clear that it will use force if Taiwan declares independence, and much of China’s conventional military buildup has been dedicated to increasing its ability to coerce Taiwan and reducing the United States’ ability to intervene. Because China places such high value on Taiwan and because the United States and China—whatever they might formally agree to—have such different attitudes regarding the legitimacy of the status quo, the issue poses special dangers and challenges for the
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U.S.-Chinese relationship, placing it in a different category than Japan or South Korea.

A crisis over Taiwan could fairly easily escalate to nuclear war, because each step along the way might well seem rational to the actors involved. Current U.S. policy is designed to reduce the probability that Taiwan will declare independence and to make clear that the United States will not come to Taiwan’s aid if it does. Nevertheless, the United States would find itself under pressure to protect Taiwan against any sort of attack, no matter how it originated. Given the different interests and perceptions of the various parties and the limited control Washington has over Taipei’s behavior, a crisis could unfold in which the United States found itself following events rather than leading them.

Such dangers have been around for decades, but ongoing improvements in China’s military capabilities may make Beijing more willing to escalate a Taiwan crisis. In addition to its improved conventional capabilities, China is modernizing its nuclear forces to increase their ability to survive and retaliate following a large-scale U.S. attack. Standard deterrence theory holds that Washington’s current ability to destroy most or all of China’s nuclear force enhances its bargaining position. China’s nuclear modernization might remove that check on Chinese action, leading Beijing to behave more boldly in future crises than it has in past ones. A U.S. attempt to preserve its ability to defend Taiwan, meanwhile, could fuel a conventional and nuclear arms race. Enhancements to U.S. offensive targeting capabilities and strategic ballistic missile defenses might be interpreted by China as a signal of malign U.S. motives, leading to further Chinese military efforts and a general poisoning of U.S.-Chinese relations.

Given such risks, the United States should consider backing away from its commitment to Taiwan. This would remove the most obvious and contentious flash point between the United States and China and smooth the way for better relations between them in the decades to come. Critics of such a move argue that it would result in not only direct costs for the United States and Taiwan but indirect costs as well: Beijing would not be satisfied by such appeasement; instead, it would find its appetite whetted and make even greater demands afterward—spurred by Washington’s lost credibility as a defender of
its allies. The critics are wrong, however, because territorial concessions are not always bound to fail. Not all adversaries are Hitler, and when they are not, accommodation can be an effective policy tool. When an adversary has limited territorial goals, granting them can lead not to further demands but rather to satisfaction with the new status quo and a reduction of tension.

The key question, then, is whether China has limited or unlimited goals. It is true that China has disagreements with several of its neighbors, but there is actually little reason to believe that it has or will develop grand territorial ambitions in its region or beyond. Concessions on Taiwan would thus risk encouraging China to pursue more demanding policies on those issues for which the status quo is currently disputed, including the status of the offshore islands and maritime borders in the East China and South China seas. But the risks of reduced U.S. credibility for protecting allies when the status quo is crystal clear—as is the case with Japan and South Korea—should be small, especially if any change in policy on Taiwan is accompanied by countervailing measures (such as a renewed declaration of the United States’ other alliance commitments, a reinforcement of U.S. forward deployed troops, and an increase in joint military exercises and technological cooperation with U.S. allies).

Whether and how the United States should reduce its commitment to Taiwan is clearly a complex issue. If the United States does decide to change its policy, a gradual easing of its commitment is likely best, as opposed to a sharp, highly advertised break. And since relations between Taiwan and China have improved over the past few years, Washington will likely have both the time and the room to evaluate and adjust its policy as the regional and global situations evolve.

The broader point is that although China’s rise is creating some dangers, the shifting distribution of power is not rendering vital U.S. and Chinese interests incompatible. The potential dangers do not add up to clashing great-power interests that can be resolved only by risking a major-power war. Rather, the difficulty of protecting some secondary, albeit not insignificant, U.S. interests is growing, requiring the United States to reevaluate its foreign policy commitments.
Will China's Rise Lead to War?

The Dangers of Exaggeration

Realist analyses of how power transitions will play out are based on the assumption that states accurately perceive and respond to the international situations they face. Realist optimism in this case thus rests on the assumption that U.S. leaders appreciate, and will be able to act on, the unusually high degree of security that the United States actually enjoys. Should this assumption prove incorrect, and should the United States exaggerate the threat China poses, the risks of future conflict will be greater. Unfortunately, there are some reasons for worrying that the assumption might in fact be wrong.

For example, the popular belief that a rising China will severely threaten U.S. security could become a self-fulfilling prophecy. Should Washington fail to understand that China's growing military capabilities do not threaten vital U.S. interests, it may adopt overly competitive military and foreign policies, which may in turn signal to China that the United States has malign motives. Should China then feel less secure, it will be more likely to adopt competitive policies that the United States will see as more threatening. The result would be a negative spiral driven not by the international situation the states actually faced but by their exaggerated insecurities.

Moreover, states have often overestimated their insecurity by failing to appreciate the extent to which military capabilities favored defense. Before World War I, Germany exaggerated the ease of invasion and therefore believed that Russia's growing power threatened its survival. As a result, Germany launched an unnecessary preventive war. During the Cold War, the United States exaggerated the nuclear threat posed by the Soviet Union, failing to appreciate that large improvements in Soviet forces left the key aspect of the American deterrent—a massive retaliatory capability—entirely intact. This did not lead to war, thankfully, but it did increase the risks of one and led to much unnecessary tension and expenditure. Washington will have to guard against making similar errors down the road as China's conventional and nuclear forces grow and as clashes over secondary issues strain relations.

There has been no U.S. overreaction to the growth in China's military capabilities yet, but the potential for one certainly exists. The current U.S. National Security Strategy, for example, calls for the United
States to maintain its conventional military superiority, but it does not spell out why this superiority is required or what forces and capabilities this requires. For the foreseeable future, China will lack power-projection capabilities comparable to those of the United States, but its military buildup is already reducing the United States’ ability to fight along China’s periphery. This will soon raise questions such as precisely why the United States requires across-the-board conventional superiority, what specific missions the U.S. military will be unable to perform without it, and how much the inability to execute those missions would damage U.S. security. Without clear answers, the United States may well overestimate the implications of China’s growing military forces.

The danger of an exaggerated security threat is even greater in the nuclear realm. The Obama administration’s 2010 Nuclear Posture Review holds that “the United States and China’s Asian neighbors remain concerned about China’s current military modernization efforts, including its qualitative and quantitative modernization of its nuclear arsenal.” The NPR, however, does not identify just what danger China’s military modernization poses. There is no prospect that any conceivable nuclear modernization in the foreseeable future will enable China to destroy the bulk of U.S. nuclear forces and undermine the United States’ ability to retaliate massively. The most such modernization might do is eliminate a significant U.S. nuclear advantage by providing China with a larger and more survivable force, thereby reducing the United States’ ability to credibly threaten China with nuclear escalation during a severe crisis.

The NPR says that the United States “must continue to maintain stable strategic relationships with Russia and China,” but China has always lacked the type of force that would provide stability according to U.S. standards. If the United States decides that its security requires preserving its nuclear advantage vis-à-vis China, it will have to invest in capabilities dedicated to destroying China’s new nuclear forces. Such an effort would be in line with the United States’ Cold War nuclear strategy, which placed great importance on being able to destroy Soviet nuclear forces. This kind of arms race would be even more unnecessary now than it was then. The United States can retain formidable deterrent capabilities even if China modernizes its arsenal,
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and a competitive nuclear policy could well decrease U.S. security by signaling to China that the United States is hostile, thereby increasing Chinese insecurity and damaging U.S.-Chinese relations.

There is no question that China's conventional and nuclear buildups will reduce some U.S. capabilities that Washington would prefer to retain. But the United States should not rush to impute malign motives to those buildups and should instead be sensitive to the possibility that they simply reflect China's legitimate desire for security. When Donald Rumsfeld was U.S. secretary of defense, he said, apropos of China's increased defense spending, that "since no nation threatens China, one must wonder: Why this growing investment? Why these continuing large and expanding arms purchases?" The answer should have been obvious. If China were able to operate carrier battle groups near the U.S. coast and attack the U.S. homeland with long-range bombers, Washington would naturally want the ability to blunt such capabilities, and if the United States had a strategic nuclear force as vulnerable and comparatively small as China's (now somewhere between a tenth and a hundredth the size of the U.S. force), it would try to catch up as quickly as it had the resources to do so. Those actions would not have been driven by any nefarious plan to subjugate the world, and so far there are strong reasons to believe that the same holds true for China's course.

In sum, China's rise can be peaceful, but this outcome is far from guaranteed. Contrary to the standard realist argument, the basic pressures generated by the international system will not force the United States and China into conflict. Nuclear weapons, separation by the Pacific Ocean, and political relations that are currently relatively good should enable both countries to maintain high levels of security and avoid military policies that severely strain their relationship. The United States' need to protect its allies in Northeast Asia complicates matters somewhat, but there are strong grounds for believing that Washington can credibly extend its deterrent to Japan and South Korea, its most important regional partners. The challenge for the United States will come in making adjustments to its policies in situations in which less-than-vital interests (such as Taiwain) might cause problems and in making sure it does not exaggerate the risks posed by China's growing power and military capabilities.
Currency Wars, Then and Now
How Policymakers Can Avoid the Perils of the 1930s

Liaquat Ahamed

In June 1933, a thousand representatives from 66 countries gathered in London for the World Economic Conference—the grandest collection of world leaders since the Paris Peace Conference of 1919. Among those attending were a king, eight prime ministers, 20 foreign ministers, and 80 other cabinet ministers and heads of central banks.

The global economy was still mired in a depression that had begun more than three years earlier. In the two countries hardest hit, Germany and the United States, unemployment was above 30 percent. The United Kingdom, the nations of the British Empire, and a handful of other European countries with close commercial ties to London had abandoned the gold standard in late 1931, leaving exchange-rate arrangements in complete disarray. Meanwhile, Germany, after a banking crisis in the summer of 1931, had suspended payments on most of its international debts and imposed severe currency and capital controls.

The purpose of the conference, originally conceived in the last days of U.S. President Herbert Hoover’s administration, was to spur a joint effort to repair the severely damaged international financial system. But the new U.S. president, Franklin Roosevelt, made it clear that his first priority was to get the U.S. economy back on its feet; international considerations would have to take second place. In the first month of his administration, after successfully stabilizing the domestic

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Although Chinese leaders and analysts believe it is too early to judge the U.S. to be in fundamental decline, they do recognize that “newly emerging powers” (xinxing daguo) are an increasingly important force in international politics. In the past couple of years, the BRICs (Brazil, Russia, India, and China) have transformed themselves from an abstract notion into a more formal political grouping. For China, besides helping to minimize dependence on the U.S. and possibly to constrain American unilateralism, BRIC cooperation serves several other functions. China also benefits from this cooperation by stabilizing its international environment, helping other developing countries, strengthening its identity as a developing country, coordinating its position with other BRICs to maximize leverage, and hiding in a group to avoid negative attention. This recent cooperation and interaction with the BRICs has been important, but the space for future BRIC cooperation is limited by fundamental differences among the BRICs, the continued importance of the U.S. for each of the BRICs, and intra-BRIC competition. To date, there is little evidence that China and the BRICs are trying to overthrow the existing international order. Instead, China has accepted and joined the existing order, and has been working together with other powers to reform its shortcomings. Although this negotiation is in its early stages and will likely be difficult, the willingness of China and the BRICs to work within the system and the openness of western countries to meet some of their demands makes it much less likely that China and other rising powers will try to overthrow the order.
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Even before the current global economic crisis, but much more after its onset, analysts and observers have predicted a decline in American power and a return to a multipolar world. Whether one prefers the phrase “non-polarity,” “post-American world,” or “rise of the rest,” the common picture which emerges is one of decreased U.S. power and influence and increased power and influence for the newly emerging powers.1 The prediction of Goldman Sachs economists that the BRIC economies (Brazil, Russia, India, and China) will surpass the G7 economies before the middle of this century shows how significant and fundamental this shift in the distribution of power is likely to be.2

Although there seems to be broad consensus about the probable changes in power dynamics, there is much less agreement about how the process will unfold. Will any individual rising power, such as China, decide to boldly challenge the existing order and try to overthrow it? As other rising powers, such as the BRICs, become more powerful, will they unite to challenge the United States collectively? With many of these rising powers located in Asia, will they threaten each other and end up in rivalry and conflict among themselves? Will the rising powers use their increased power and influence to safeguard the international order and behave according to former Deputy Secretary of State Robert Zoellick’s vision of a “responsible stakeholder?” Or, relatedly, will the rising powers behave as true partners in Secretary of State Clinton’s vision of a “multi-partner world” in which countries cooperate to overcome “collective action problems” and effectively address global problems?

This article examines China’s recent cooperation with the BRICs to better understand its emergence and implications, and also to provide some initial insight into how this process of shifting power might unfold. Although Chinese leaders and analysts believe it is too early to judge the U.S. to be in fundamental decline, they do recognize that “newly emerging powers” (xinxing daguo) are an increasingly important force in international politics. Under enduring unipolarity, structural constraints incentivize China to cooperate with the U.S. and make sure that a rising China is not perceived to be fundamentally challenging.

American interests. Despite these constraints, in the past couple of years, the BRICs have transformed themselves from an abstract notion into a more formal political grouping, which has included official BRIC summits and joint communiqués.

China's cooperation with the BRICs, and BRIC cooperation more generally, should not be seen as solely a response to U.S. power. For China, besides helping to minimize dependence on the U.S. and possibly to constrain American unilateralism, BRIC cooperation serves several other functions. China also benefits from this cooperation by stabilizing its international environment, helping other developing countries, strengthening its identity as a developing country, coordinating its position with other BRICs to maximize leverage, and hiding in a group to avoid negative attention. Although this recent cooperation and interaction with the BRICs has been important, the space for future BRIC cooperation is limited by fundamental differences among the BRICs, the continued importance of the U.S. for each of the BRICs, and intra-BRIC competition. Not only is there little evidence that China has cooperated with the BRICs in an effort to hard balance against the United States, but any attempt to move the BRICs in such a direction would likely lead to its collapse.

Given instability that rising powers have provoked in recent history, many are worried that a rising China, either by itself or in cooperation with others, will try to overthrow the international order. There is little evidence to support these fears to date; as China has become more powerful it has become more integrated with and more accepting of the international order. In general, China has been very satisfied with the international order and come to recognize itself as a major beneficiary of that order. There are aspects of the order that it would like to see changed, but China has adopted a strategy of trying to participate and fix these defects from the inside. Although China and the BRICs have recently been more assertive in challenging the dollar and pushing to make international institutions more inclusive, these examples do not suggest that as China and the BRICs get more powerful they will try to overthrow the order. On the issue of representativeness, the western countries have shown a willingness to compromise and meet the demands of China and the BRICs. Although this negotiation is in its early stages and will likely be difficult, the willingness of China and the BRICs to work within the system and the openness of western countries to meet some of their demands makes it much less likely that China and other rising powers will try to overthrow the order.

This article proceeds as follows. First, I will explore the structural constraints of unipolarity and how they shape China’s foreign policy. Second, I will explain how China has benefited from cooperation with the BRICs. Third, I will analyze the degree to which China and the BRICs have tried to challenge the existing
international order. Fourth, I will describe the limits that will likely prevent BRIC cooperation from going too far. Lastly, I will offer some conclusions and brief speculation about the future of the BRICs.

Rising Powers and Unipolarity: Structural Incentives for Cooperation

After the collapse of the Soviet Union and the end of the Cold War, many international relations theorists found themselves unable to explain or predict international dynamics in a unipolar world. Some relied on structural realism and balance of power theory to predict that unipolarity would not last long, as new great powers would rise to balance the U.S. and multipolarity would re-emerge.3 By the mid-to-late 1990s, as the system remained unipolar, scholars developed new theories to account for this lack of balancing and explain the implications of a unipolar distribution of power for international politics.

According to the theory of unipolar stability, a unipolar distribution of power imposes severe constraints on the behavior of other states, while the unipole's massive power advantage leaves it free from constraints.4 Under unipolarity, even if the other major powers combined their efforts, they would still not be powerful enough to challenge or check the unipole. Balancing is not only futile but also counterproductive, as such attempts would likely lead the dominant state to retaliate. Structural constraints limit the potential strategic choices for other states and incentivize them to cooperate with the unipole.

At the same time, the unipole may perceive relatively minor challenges as particularly threatening.5 Goldstein persuasively argues that in response to a rising power, the unipole "has strong incentives to remain vigilant against this possibility [of the rise of a potential peer competitor]." Applying this argument to the rise of China, he suggests: "Unipolarity provides strong incentives for the United States to pay close attention to increases in China's capabilities inasmuch as it is one of a small handful of states that may have the necessary ingredients to emerge one

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day as a peer competitor; arguably it is the leading candidate for this role.”

Structural constraints should be especially tight for a rising power as the unipole is likely to be very sensitive to changes in relative power and likely to be vigilant in responding to potential competitors, hoping to eliminate them before they become legitimate challengers.

Chinese analysts recognize the structural constraints of unipolarity. According to Peking University Professor Zhu Feng, “The unipolar ‘American system’ and ongoing U.S. efforts to make its hegemonic position ‘unchallengeable’ have reduced China’s balancing options and compelled China to bandwagon with the United States.” Chinese experts also explicitly recognize the added difficulty of being a rising power in a unipolar world. Peking University Professor Jia Qingguo writes, “A unipolar system poses the greatest challenges for a rising power.” In the mid-1990s, Chinese scholars began to explore western theories that linked rising powers with the onset of major wars, as well as historical examples of rising powers such as Germany and Japan that had provoked such conflicts. These scholars concluded that if a rising China did not want to repeat this historical experience, and hoped to avoid preventive American action, it needed to cooperate with the United States. Theoretical analyses of rising powers and China’s rise not only highlight the need to cooperate with the unipole, but also recognize the difficulties of preventing the unipole’s vigilant response to increases in material power.

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8. See Zhu Feng, “China’s Rise will be Peaceful,” in China’s Ascent, 37. For a similar, though less theoretical, argument, see Wang Jisi, “China’s Search for Stability with America,” Foreign Affairs (September–October 2005). All translations are the author’s.


Since the late 1980s, Chinese foreign policy has largely followed the predictions and causal logic of unipolarity stability theory. In formulating Chinese foreign policy, Chinese leaders make judgments about trends in the international environment, which then help determine the policy choice. For the last twenty-five years, one of the major debates has been over how to properly characterize international structure (guoji geju), which was judged to be bipolar through most of the Cold War. From the late 1980s until today, Chinese leaders have consistently characterized multipolarization (duojihua) as the global trend, though there has been less agreement as to whether the international structure itself is currently unipolar, multipolar, or in transition.¹¹

Most Chinese leaders and analysts expected a rapid transition to post-Cold War multipolarity. However, in the early 1990s, as America's power advantage was still great, Chinese leaders decided they had no choice but to cooperate with the United States.¹² Even hard-line analysts such as Yan Xuetong from the China Institutes of Contemporary International Relations (CICIR) recognized that balancing against the U.S. would be too costly, and that China's weakness gave it no choice but to cooperate.¹³ By the mid-1990s, as a multipolar world had failed to emerge, many Chinese strategists endorsed the view that although multipolarization remained the trend, the current international structure was one of "one superpower, many great powers" (yichaoduoqiang).¹⁴

As a result of the Kosovo War, America's continued rapid economic growth, and President George W. Bush's effort to create what was perceived to be an American empire, Chinese analysts judged the multipolarization trend to have run into "difficulties" and been on a "tortuous path."¹⁵ Although

¹¹. For an excellent discussion of the origins of the multipolarization assessment and its evolution throughout the 1990s, see Michael Pillsbury, China Debates the Future Security Environment (Honolulu: University Press of the Pacific, 2005 [2000]), ch. 1.


¹³. See Yan Xuetong, "Dangqian wo guo waijiao mianlin de tiaozhan he renwu" [The challenges and tasks that our country's diplomacy currently faces], Shijie Jingji yu Zhengzhi (1993).


multipolarization remained the trend, the formation of a multipolar world remained unlikely for many years.\textsuperscript{16}

In general, cooperation and accommodation has been the strategic approach China has tried to adopt in its relations with the U.S. throughout the last two decades.\textsuperscript{17} Chinese leaders and analysts concluded that as long as the international structure was not multipolar, systemic constraints gave China few options other than cooperation. When China’s behavior in the South China Sea and towards Taiwan in 1995–1996 was perceived as aggressive, the U.S. and regional actors assertively balanced against a relatively weak China.\textsuperscript{18} Learning how tight these constraints were not only further pushed China towards cooperating with the U.S., but also showed the difficulty in cooperating with a potentially hyper-vigilant unipole.\textsuperscript{19}

The unipole’s hyper-sensitivity to potential challenges also meant that it could overreact to increased cooperation between the rising power and others, interpreting low-level cooperation as a potential alliance that needed to be dealt with. The characterization of post-Cold War Sino-Russian relations by some analysts as a bloc or anti-American alliance provides some evidence of such an overreaction.\textsuperscript{20} Under the constraints imposed in a unipolar world, the rising power is likely not only to cooperate with the dominant state, but to be especially careful so that its unilateral actions or relations with others are not perceived as a potential challenge.

\textbf{Chinese Perceptions of Enduring Unipolarity}

In the last couple of years, several American and European scholars and analysts have been arguing that the U.S. is fundamentally in decline and the world will soon become multipolar, if it has not already. Under those conditions, the


\textsuperscript{19} The emphasis in post-Cold War defense reports on preventing the rise of a potential peer competitor, and discussions of China in this context, is further evidence for hypersensitivity. See Lu Gang and Guo Xuetang, chief eds., \textit{Zhongguo Weixie Shei, Jiedu ‘Zhongguo Weixielun’} [Who Does China Threaten? Interpreting ‘China Threat Theory’] (Shanghai: Xuelin Press, 2004).

constraints on China would loosen considerably, and it would have a much larger range of potential strategic choices. However, the majority of Chinese analysts and scholars reject claims of American decline and deny the world is about to enter a new era of multipolarity.\(^\text{21}\)

Some Chinese analysts see an end to unipolarity in the near future, but they are clearly in the minority. In probably the most well-known example, Li Hongmei, an editor and columnist for the *People’s Daily* online, boldly predicted the “unambiguous end to the U.S. unipolar system after the global financial crisis.” She continued, “The U.S. is no longer ‘King of the hill,’ as a new phase of multipolar world power structure will come into being in 2009, and the international order will be correspondingly reshuffled.”\(^\text{22}\) Others have specifically highlighted how the global financial crisis has ended America’s dominant financial and economic position in the world.\(^\text{23}\)

Yet the strong majority among Chinese academics and government think-tank researchers conclude that there has been no substantive change in the international balance of power. Most also argue that “one superpower, many great powers” remains the international structure, the world trend is still multipolarization but a multipolar order will not emerge for a long time, and the U.S. continues to be the lone superpower.\(^\text{24}\) Recent discussions among these experts show that the global financial crisis has not altered these assessments.\(^\text{25}\) According to Qin Yaqing, Executive Vice President at the China Foreign Affairs University, “The financial crisis has not substantively changed the distribution of power in the international system, America’s position as the one superpower has not been fundamentally challenged.”\(^\text{26}\) Major General Peng Guangqian observes: “America’s position as the ‘one superpower’ (yichao) still has not

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changed.\textsuperscript{27} In a clear refutation of declinist arguments, Wang Jisi, Dean of Peking University’s School of International Studies, contends, “There really is no reliable basis for saying that at this point the United States has had a setback from which it cannot recover . . . and there is no question that its position as the only superpower will continue for 20–30 years.”\textsuperscript{28}

Chinese analysts recognize that America’s image and power have relatively declined as a result of the Iraq War and the financial crisis, but they argue that it is still too early to declare that the U.S. is in fundamental decline or that the international structure will soon change. According to Fu Mengzi: “The U.S. position as sole superpower is still unprecedented and will continue for a rather long period, but the burden of the Iraq War and financial crisis, with the economic recession likely to continue, will unavoidably lead American power into a state of relative atrophy.”\textsuperscript{29} Although China has reduced the relative power gap in recent years, analysts highlight America’s immense power advantage, China’s status as a weak developing country facing severe domestic problems, and the potential negative effect of the financial crisis on China.\textsuperscript{30} In an important December 2008 speech marking the thirtieth anniversary of China’s “reform and opening,” President Hu Jintao offered the official judgment that “China is still in the initial stage of socialism and will be so for a long time.”\textsuperscript{31} Given this starting point, most experts argue that the process of multipolarization will be long and a multipolar world is unlikely to emerge for decades.\textsuperscript{32}

Given that the trend of multipolarization has been a part of the government’s position since the late 1980s, recent official assessments also do not suggest that the leadership sees the U.S. in decline or the emergence of a multipolar world in the near term. The most recent defense white paper, released in January 2009, declared that multipolarization was “gaining momentum.”\textsuperscript{33} These assessments

\begin{itemize}
\item \textsuperscript{31} See “Hu Jintao: zai Jinian Dang de shiyijie zhongguanxu zhaokai 30 zhounian dahui shang de jianghua” [Hu Jintao: Speech at Meeting to Commemorate the 30th Anniversary of the Third Plenary Session of 11th CCP Central Committee], \textit{Xinhua}, December 18, 2008.
\item \textsuperscript{33} See “China’s National Defense in 2008,” Beijing, January 2009.
\end{itemize}
suggest that Chinese leaders and experts expect the U.S. to remain the superpower for a long time, the system to continue to be unipolar for the foreseeable future, and the constraints of crafting foreign policy under unipolarity to endure as well. Therefore, in general, China should be expected to continue trying to accommodate and cooperate with the U.S. and try to make sure that a rising China’s actions are not perceived as a potential challenge to the United States.

Cooperation with the BRICs: How Does China Benefit?

Despite fundamental differences between the four countries and structural constraints of unipolarity that might have kept them from cooperating, the BRICs have surpassed most expectations in recent years in forming a nascent political grouping. On the foundation of other meetings between newly emerging powers, most importantly the trilateral Russia-India-China (RIC) arrangement, the BRIC foreign ministers began meeting in 2006. BRIC cooperation expanded to include two finance ministers’ summits, leaders’ meetings, and a stand-alone BRIC leaders’ summit in June 2009, which included a joint communiqué. Russia and Brazil have been the driving forces that have transformed the BRICs from an abstract financial notion into a genuine political grouping. However, the Chinese have also agreed to participate and cooperate. In a lengthy interview on the BRICs on the eve of the leaders’ summit, Director-General Wu Hailong of the International Department at the Ministry of Foreign Affairs characterized the formation of the BRIC grouping as an “evolution from a hypothetical (xunti) into a realistic platform for international cooperation.” This characterization corresponds to that of other Chinese analysts, who characterize China’s cooperation with the BRICs as developing in a gradual, step-by-step manner, with no real clear point where a decision to “join the BRICs” occurred. Chinese academics have characterized it as a “logical choice” (shunlichengzhang).

China needs the BRICs much less than the other three countries do. As the world’s second largest economy, a nuclear weapons state, a permanent member of U.N. Security Council, the largest holder of foreign exchange reserves, and a rising power whose influence is spreading across the globe, the rest of the world has already recognized China’s status as one of the most important countries in the world. Having China as a partner has helped raise the status and profile of the other three BRICs countries, but China has less need for an association.

35. Author’s interviews with Chinese academics, Washington, DC, spring 2009.
with the BRICs.\textsuperscript{36} Even if this cooperation is logical for China, it is also costly and risky. As Chinese leaders’ time is limited and valuable, participation in meetings has an opportunity cost. Moreover, China also risks being perceived as participating in a political bloc whose aim is to challenge and undermine the U.S. and the western liberal order.

First, there is little evidence that the BRICs should be seen as a coalition that is trying hard to balance against the United States. Chinese leaders, as well as those of most of the other BRICs, have bent over backwards to prove to the U.S. that the BRICs are not trying to confront the U.S., and they remain very sensitive to the possibility that increased cooperation may be seen as a challenge to the United States. Chinese leaders rejected Prime Minister Primakov’s 1998 proposal of a “strategic triangle” between China, Russia, and India in large part because they believed it would be seen as too confrontational by American leaders.\textsuperscript{37} China and India only agreed to trilateral cooperation because it was based on the principles of “no alliance, no confrontation, and not targeted at a third country.”\textsuperscript{38} These principles also served as the foundation of BRIC cooperation. According to Foreign Ministry official Wu Hailong, “Four country [BRIC] cooperation is open and transparent cooperation, not aimed at third parties.”\textsuperscript{39} Other analysts recognize that any attempt to turn the BRICs into an anti-U.S. alliance would backfire and damage China’s interests and its prospects for development.\textsuperscript{40}

Second, BRIC cooperation is not solely an anti-Bush, anti-U.S., or anti-western phenomenon, but is based on deeper common interests. BRIC cooperation has developed during President Bush’s second term, when his policies were less unilateralist, and President Obama’s first term. Moreover, U.S.-China and U.S.-India relations have never been better, but BRIC cooperation has continued. Lastly, BRIC cooperation is not a product of the current global economic and financial crisis. It has undoubtedly played a role in elevating this cooperation but the momentum for cooperation and earliest BRIC meetings predated the onset of the crisis.

Although Chinese officials have made several statements about China’s cooperation with the BRICs in the last couple of years, most of these are filled with diplomatic niceties. We need to look beyond the public pronouncements to


\textsuperscript{37} One analyst observed: “Establishing an anti-hegemonic united front has costs and no benefits.” See Yan Xuetong, “Guoji Huanjing ji Waijiao Sikao” [International Environment and Reflections on Diplomacy], \textit{Xiandai Guoji Guanxi} 8 (1999): 11.


\textsuperscript{39} See Liu Xinyu, “Jinzhuan Fenghui shouxiu Mouhua Hezuo Zouxiang.”

\textsuperscript{40} See “BRICs Xianxiang’ de Pouxi” [An Analysis of the BRICs Phenomenon], \textit{Xiandai Guoji Guanxi} 9 (2004).
appreciate why China has deepened cooperation with the BRICs or how it benefits from this cooperation. In the rest of this section, I will analyze the various ways that China has benefited from its cooperation with the BRICs.

Stabilize International Environment and Prevent Encirclement

Since Deng initiated “reform and opening” in the late 1970s, the fundamental goal of China’s diplomacy has been to create a stable and peaceful international environment that is conducive to economic development. China shares a land border with fourteen other states, and faces many potential threats on its periphery. India and Russia are two of China’s most powerful neighbors, with a great capacity to threaten China, complicate its international environment, and force it to divert resources away from economic modernization. Moreover, China fought wars with both during the Cold War, which has left a legacy of mistrust. China’s efforts to cooperate with the BRICs are a small part of a larger effort, through bilateral and multilateral channels, to stabilize its international environment and reassure India and Russia that China will not threaten them or challenge their interests as it grows more powerful. Although Brazil is less important in China’s international environment, as Chinese interests have spread across the globe, China has faced the need to reassure all nations that its rise will not damage their interests and that it wants to maintain friendly, cooperative relations.

Improving relations with India and Russia not only make it less likely that they will directly threaten China, but it also makes them less likely to join with the U.S. in encircling China by joining an anti-China balancing coalition. According to Huang Renwei, Vice President of the Shanghai Academy of Social Sciences, “Developing common interests with other late developing great powers . . . prevent[s] the U.S. from pulling them into a strategic coalition to contain China.” Cooperation through the BRICs grouping is only one part of a larger effort to build cooperative relations with these powers, but BRICs cooperation helps to stabilize China’s international environment.

41. For example, see “Yang Jiechi Attends the Chinese, Russian, Indian, and Brazilian Foreign Ministers’ Meeting,” Xinhua, May 16, 2008.
42. Zhang Yunling, the Director of the Institute of Asia-Pacific Studies at the Chinese Academy of Social Sciences (CASS) characterizes China’s moves to improve relations with Russia as an attempt to “strive to create a more favorable space for survival and development under the current international structure.” See Zhang Yunling, chief ed., Houban haishi Duishou: Tiaozhengzhong de ZhongMeiRiE Guanxi [Partner or Adversary: Adjustments in Sino-American-Japanese-Russian Relations] (Beijing: Shehui Kexue Wenxian Chubanshe, 2001), 40.
Exchange Ideas and Experiences

Cooperation with the BRICs, moreover, provides China with an excellent opportunity to share its development experiences with the other BRICs, as well as learn from their experiences. In Director-General Wu Hailong's discussion of BRIC cooperation, he noted the importance of “sharing experiences, exchanging what one has learned” (fenxiang jingyan, jiaoliu xinde). The BRICs face common challenges as developing countries and global challenges often affect them in a similar way. In addition to discussions about how to respond to the financial crisis, the BRICs have exchanged ideas and experiences on food security, agriculture, disease, foreign aid, energy, and global warming. Sharing these experiences not only helps the BRICs themselves, but also allows them to share experiences and “best practices” with the developing world and expand South-South cooperation.

Coordinate BRIC Positions and Improve Bargaining Position with Western Countries

China and the BRICs have learned that exchanging ideas also allows them to coordinate positions and maximize their bargaining leverage in meetings with western powers. Chinese leaders and experts have realized that if they want to increase their say in world affairs and reform the international order, they need to do so through engaging the West. However, they have also learned from observing Russia’s marginalization in the G8 that the best way to engage the western powers is as a united group. A Chinese columnist observes, “The four governments, if better coordinated and choreographed, could initiate fresh ideas and grab more decision-making powers from the developed ones.”

In the last couple of years, officials from China and the BRICs have emphasized coordination. They have also recognized the need for their own dialogue mechanism to exchange ideas, reach consensus, and develop a more unified vision. After the last two G5 outreach group (Brazil, China, India, Mexico, and South Africa) meetings, the two BRIC finance ministers meetings, and the BRIC leaders' summit, the participants presented their consensus positions in joint communiqueés. Moreover, these meetings have been organized so that the developing countries can coordinate positions right before engaging

47. For an excellent discussion of this increased emphasis on coordination, see Pang Zhongying, “Xinxing Daguo, youxian Hezuo” [Newly Emerging Great Powers, Limited Cooperation], Dongfang Zaobao [Oriental Morning Post], December 30, 2008.
with western countries, thereby maximizing leverage. Xue Lei, a researcher at the Shanghai Institute of International Studies, explicitly praised the role of the BRIC leaders' summit in helping the BRIC countries coordinate their position in advance of the next G20 summit in fall of 2009.48

There is some evidence that these efforts to coordinate positions have led to increased leverage. According to reports, the initial draft of the communiqué from the November 2008 G20 summit did not mention giving emerging nations a greater say. However, after considerable pressure from the developing nations, the final version of the communiqué not only stated that emerging and developing countries “should have a greater voice and representation,” but also called for the expansion of the Financial Stability Forum. According to Russian Deputy Finance Minister Dmitry Pankin: “The G20 summit showed that if we [BRIC] act in concert we have a very good chance of having our voice heard.”49 Moreover, BRIC leaders are not only coordinating their positions, but also beginning to coordinate strategies for pushing the western countries to adopt their preferred reforms. At the July 2009 G8 summit in Italy, a major portion of Chinese State Councillor Dai Bingguo’s remarks related to how the G5 countries needed to exert more efforts to push the international community to make needed reforms.50

Hide in a Group while Advancing its Agenda

If China made an aggressive, unilateral push to reform the international order, it would risk being marginalized as a single voice or being perceived as a threat that would provoke a hyper-vigilant response.51 By engaging the western powers through the BRICs, China is able to hide behind others and not be perceived as the greatest threat to U.S. interests, especially as the other BRICs have been much more outspoken in their criticisms.52 Moreover, because China is able to engage the western powers in a group, it is less likely that the demands of the BRICs can be easily ignored.

On several issues, the other BRICs’ open criticism of U.S. and western behavior has made it relatively easy for the Chinese to lay low. Russian and Brazilian leaders and officials have been far more direct and confrontational in blaming

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48. See Xue Lei, “Zhongguo Waijiao Zoujin Duobian Xietiao Shidai” [China’s Diplomacy Enters the Era of Multilateral Coordination], Wen Hui Bao, June 18, 2009.
49. See Vladimir Radyuhin, “BRIC Nations Played Crucial Role at G20 Summit,” Guardian, November 26, 2008; and Song Guoyou, “Buyao Qingyan G20 Daiti G8” [Do Not Casually Declare that the G20 has Replaced the G8], Guoji Xianqu Daobao [International Herald Leader], November 20, 2008.
51. Author’s interviews with Chinese scholars and think tank researchers, Washington, DC, spring 2009.
52. For a discussion of the continued logic behind this approach, see Yuan Peng, “Meiguo Weixielun: Rang Bieren Shuo ba” [U.S. Threat Theory: Let Others Say It], Huanqiu Shibao [Global Times], February 14, 2007.
the U.S. for the financial crisis and calling for a new financial order. Russia has also been more vocal in its criticisms of U.S. policy on issues such as the Balkans, Kosovo, the Iraq War, and Iran’s nuclear program. Although far less provocative than Russian behavior, India and Brazil have directly challenged western nations over free trade during various rounds of WTO negotiations, most notably at the 2003 Cancun meeting.

As the other BRICs in effect run interference for China through their open criticisms, it can still work to reform the international order. There is some worry that confrontational behavior by the other BRICs may challenge the U.S. too directly, and implicate China through “guilt by association.” However, Chinese experts are optimistic that through engagement and cooperation, they can limit how confrontational the other BRICs are.

Work for the Interests of the Global South and Secure its Political Status as a Developing Country

China maintains its identity as a developing country. As its power has increased, Chinese leaders have pledged to improve the lives of its brothers in the developing world. In addition to directly sharing “best practices,” Chinese cooperation with the BRICs to make the international system more democratic and representative, and more reflective of the needs of the developing world, helps the global South. At the preparatory meeting for the BRIC leaders’ summit, Ambassador Zhang Yan declared that “BRIC is a guardian of the interests of developing countries.”

Perhaps just as important for China, cooperating with the most important group of emerging developing countries to safeguard the interests of the rest of the developing world helps secure China’s status as a developing country. China has some legitimate claim to being a developing country, given that it still has not entered the top 100 in the world in terms of per capita GDP but its booming economy and increasing international influence is leading some developing

54. For thorough discussions of these numerous challenges, see Lo, Axis of Convenience; and Dmitri Trenin, “Russia leaves the West,” Foreign Affairs (July-August 2006).
56. Author’s interviews with Chinese scholars, Washington, DC, spring 2009.
58. See “Address at the Inauguration of Pre-BRIC Summit Preparatory Meeting by H. E. Mr. Zhang Yan, Chinese Ambassador to India,” May 13, 2009.
countries to question its developing-country credentials. In addition to the value of this status for China’s identity, Chinese leaders have repeatedly invoked its status as a developing country to deflect calls by western countries to bear more international responsibility and international burden. If the rest of the developing world does not see China as a developing country, then China may be forced to either take on more international responsibility or open itself to more criticism and pressure from the western world, either of which could undermine its economic modernization.59

Restrain U.S. Hegemonism and Revisionism

All of the BRIC countries are deeply concerned that America’s dominant power position will allow it to behave as it pleases and damage their fundamental interests.60 Chinese leaders and analysts refer to such behavior as hegemonism and power politics, and have been very critical of American interventionism, interference in the internal affairs of others, willingness to violate existing rules and norms, and efforts to revise the international order in its favor.61 Although realistic about how successful these four relatively weak countries may be at restraining the hegemon, the leaders of the BRICs recognize that they will be more successful as a group than they would be as individual states. They also hope that working as a group would attract the support of other countries, especially if American behavior was especially threatening and revisionist.

Explore Options other than the United States

Each of the BRIC nations recognizes that in a unipolar world, its relations with the U.S. are most important. However, each also wants to limit its excessive dependence on the U.S. by developing important relations with other countries to try to increase its options and freedom.62 Improving relations with the other BRICs is an important way for China to minimize its excessive dependence on the United States.


China and the BRICs as a Challenge to International Order

Given historical experiences of rising powers trying to overthrow the international order and provoking wars, the emergence of China and other new powers has led many to fear that history will repeat itself. As China has deepened its cooperation with the BRICs, some have wondered whether this new grouping represents an effort to disrupt and overthrow the existing international structure. Yet despite displeasure with certain aspects of the international order, China has mostly accepted that order and decided to fix its problems by reforming it from the inside. Although China and the BRICs have recently undermined the dollar as the reserve currency and pressured the western powers to make the international order more inclusive and representative, these limited efforts do not suggest a grand plan to overthrow the order that the BRICs will implement as they grow stronger. Moreover, the willingness of the western countries to accommodate BRIC demands make it more likely that the BRICs will be satisfied with the existing order and behave as “responsible stakeholders” to protect it. However, it remains a possibility that China’s cooperative behavior and acceptance of the international order is a short-term tactic to allow China to get stronger, and that once it does it will destroy the existing order and establish a new one.

Acceptance of the International Order

Chinese government officials and experts have accepted the existing international order, decided to participate in it, and recognized that China has benefitted from this participation. In a 2007 speech analyzing Chinese diplomacy, Ambassador Shen Guofang characterized China as “an active participant (jiji canyuzhe) that had integrated with the world.”63 As the January 2009 Defense White Paper puts it, “China has become an important member of the international system, and the future and destiny of China have been increasingly closely connected with the international community. China cannot develop in isolation from the rest of the world, nor can the world enjoy prosperity and stability without China.”64

In one of the clearest statements of China’s more favorable assessment of the international order, Chinese leaders have dropped the long-standing formulation(tifa) of calling for a “new international political and economic

order". The 2007 work report for the 17th Party Congress changed the wording to a need to “work to make the international order fairer and more equitable.” In recent years, Chinese foreign ministry officials have also expressed a more positive evaluation of America’s presence in East Asia.

Chinese academic and think tank experts echo this favorable evaluation of the international order. Pang Zhongying, a professor at Nankai University, characterizes mainstream Chinese views in these terms: “China has peacefully joined the international system, and there is no need to change the fundamentals of the contemporary international order.” CICIR President Cui Liru argues that China also became a noticeable beneficiary and key proponent of the system. More recently, Jin Canrong has suggested, “China is satisfied with the existing international order.” Most recent analysis by China experts in the U.S. concludes that China has shown its increasing acceptance of the international order and its norms in a variety of issue areas.

Reform and Improve the International Order to Address Areas of Dissatisfaction

Although China has largely come to accept the international order, there are still some aspects that it considers unfair or unjust. However, rather than seeking to overthrow the order, Chinese officials and experts have recently emphasized the need to reform it. Yang Jiemian, President of the Shanghai Institute of International Studies, maintains that “the newly emerging powers have chosen to make some improvements and developments, on the foundation of the current

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65. Deng Xiaoping first used this formulation in 1988 and it was subsequently endorsed by all of Chinese leaders, and included in the work reports of the Party Congresses. See “China Eager to Establish New International Order,” Xinhua, February 28, 1991.

66. Although this change may appear small, changing a tifa that was first enunciated by Deng Xiaoping and had been repeated for almost twenty years is very significant.


70. See Jin Canrong, “Weli 30tian qujueyu meiguo nenglou Jiena Zhongguo Jueqi” [The Next 30 Years Depend on whether or not the U.S. can accept China’s Rise], Dongfang Zaobao, January 7, 2009.

existing international systems.”72 Focusing mostly on the positive aspects of the international order, Ambassador Shen Guofang and Ruan Zongze, who subsequently became an official in the U.S. Embassy, refer to China’s desire to work with other powers to become a “builder” (jian she zhe) of international order.73 Pang Zhongying notes that although there are some unfair aspects of the international order that deserve criticism, China challenged the order during the Cold War as an outsider whereas today Chinese complaints are voiced from within the system and matched by a desire to protect and reform it.74

Despite Chinese recognition that the country has been a primary beneficiary of the international order, China identifies several features that it considers unfair or unjust. One common critique is that the international order was established at the end of World War II by western powers to serve their interests and there was no input from China or other developing countries.75 More recently, as China and the BRICs have become more powerful, the critique has been that international institutions have not evolved to give these countries a greater voice and greater influence. For example, China’s voting rights in the IMF and World Bank are less than those of France and Britain, even though the Chinese economy is larger.76 In addition to the problems of not being representative, others have argued that post-World War II international institutions need to be reformed to deal with the new threats and challenges of the globalized world.77 Chinese experts are also unhappy that the North-South gap has grown in recent years, as many poor countries have been left behind by an order focused on protecting the interests of the western powers.

Chinese officials and experts also criticize certain U.S. behavior, which is not necessarily endemic to it but sometimes becomes associated with the western order. For example, China objects to U.S. interference in the domestic affairs of China and other countries, support for Taiwan and other separatist movements, efforts to export democracy and western values, and willingness to use force to

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75. See Men Honghua, Jiangou Zhongguo Dazhanlue de Kuangjia.
76. For discussions of this critique, see Bob Davis, “Brazil, Russia, India, China Offer IMF Financial Aid for Wider Policy Role,” Wall Street Journal, April 27, 2009; and “Zhongguo shi ge Daguo ma?”
settle disputes. With the onset of the global economic crisis, China has joined other countries in criticizing the lack of regulation, supervision, and information in the international financial system. Moreover, the crisis has also highlighted China’s discomfort with the vulnerability that comes from holding a huge amount of dollar-denominated assets.

Limited Vision for Future Order

Although China and the other BRICs have identified aspects of the international order they would like to improve, none has a concrete and constructive agenda for change or vision for a future world order. There is agreement on what actions or changes they do not support in the international order, but there is much less well-developed thinking on a positive agenda. After the BRIC leaders’ summit, Rand researcher Andrew Weiss posed the key question and offered a cautious response: “but is this array of BRIC concerns . . . matched by a meaningful vision for the future? It’s doubtful.” Notwithstanding fears in certain quarters that China and the BRICs have a plan to challenge and overthrow the existing order, it is not clear what they would do even if they were given the opportunity to remake the international order in any way they wanted.

Since the founding of the PRC, Chinese leaders have offered abstract visions for how nations should interact and proposed vague principles that should form the foundation of a just international order. In negotiations with India in 1953–1954, Premier Zhou Enlai first introduced the Five Principles of Peaceful Coexistence—mutual respect for sovereignty and territorial integrity, mutual non-aggression, non-interference in each other’s internal affairs, equality and mutual benefit, and peaceful coexistence. After the end of the Cold War, Jiang Zemin proposed the New Security Concept as a set of normative principles that were opposed to what was viewed as the “Cold War mentality.” In 2005, Hu Jintao proposed “harmonious world” as the new ideal vision for international relations. In a recent analysis of international order, former Chinese

79. See Andrew S. Weiss, “BRIC-a-Brac,” Foreign Policy (online), June 2009.
80. It is usually summarized as consisting of the principles of mutual trust, mutual benefit, equality, and cooperation. See “China’s Position Paper on the New Security Concept,” June 8, 2002.
Ambassador to the EU Ding Yuanhong summarized the content of a just order: all powers are equal; all countries treat each other with mutual respect; mutual non-interference in internal affairs is acceptable; bullying of weak countries by the strong is opposed; countries are allowed to make decisions on their own without outside interference; the use of force to solve problems is opposed; the goal is protecting world peace and promoting common development. It is difficult to object to most of these principles in the abstract, but it is also difficult to interpret them as a concrete vision for world order that challenges the West.

In response to the global economic crisis, Chinese demands for a new financial order have been more specific and concrete than the principled visions discussed above. Chinese officials have not only insisted upon improved regulation and supervision to prevent future financial crises, but have urged reform of the voting shares in international financial institutions to make them more inclusive and representative. However, if China or the BRICs were given free reign to introduce concrete plans to get out of the economic crisis, redesign the international financial order, or thoroughly reform the international order, it is still not clear that they could present any concrete vision that could be implemented.

Recent Challenges to International Order: Attacking the Dollar and Linkages at the April G20 Summit

Although I argue above that China has mostly been satisfied with the international order, there are at least two recent exceptions. First, China and the BRICs have challenged the power of the dollar by suggesting the need to move to a more diversified reserve currency and by beginning to explore settling bilateral trade in local currency. Second, China and the BRICs drew a clear link between reforming the voting shares in the IMF and World Bank and providing additional funds to the IMF. These challenges have been significant, but they do not necessarily foreshadow more aggressive moves to undermine and destroy the existing international order. And despite China’s support for both challenges, it has pulled back in recent months and limited its challenge to the dollar. Moreover, on both issues, significant forces within

83. Pang Zhongying, then a professor at Nankai University, argues that China’s “proposals are empty, too focused on principle and have the flavor of political propaganda. There are few proposals that are concrete and workable or can be implemented.” See Pang Zhongying, “Zhongguo zai Guoji Tixizhong de Diwei yu Zuozyong,” 18.
84. In addition to President Hu’s speeches at the G20 summits and BRICs leader’s summit, see Wang Qishan, “G20 Must Look Beyond the Needs of the Top 20,” The Times, March 27, 2009.
the liberal western order also support changes on these fronts, and, as I argue later, the order itself is in the process of changing to become more inclusive and representative.

Although Russian officials had called for replacing the dollar as the global reserve currency earlier, March 2009 statements by People's Bank of China Governor Zhou Xiaochuan drew international attention. Zhou raised the need to "create an international reserve currency that is disconnected from individual nations and is able to remain stable in the long run, thus removing the inherent deficiencies caused by using credit-based national currencies."85 He specifically raised special drawing rights (SDRs), an IMF reserve asset whose value would be based on a basket of currencies, as a potential future substitute. Although the dollar no longer being the global reserve currency would have huge geopolitical impact and would greatly undermine America's financial power, China's raising this issue was as much a result of China's weakness as it was a power play.86 Chinese leaders have realized that by purchasing so many dollar-denominated assets, they have made the Chinese economy extremely vulnerable to changes in the value of the dollar. General concern about the value of the dollar, and fears that U.S. efforts to stimulate the economy could trigger inflation, thus harming China's interests, led China to issue this warning. Although China wishes to diversify and become less dependent on the dollar, Chinese bankers are well aware that any rapid moves away from the dollar will dramatically reduce the value of the remaining dollar-denominated assets.87 In addition to the potential domestic gains from standing up to the West, the major aim of this push seemed to be to pressure the U.S. to maintain the stability of the dollar.88 Zhou's statements were as much a result of China being caught in a dollar trap of its making as they were a powerful rising power challenging the system.

China has also slowly backed away from this challenge. Although Zhou raised the issue before the April G20 summit, there are no reports that China specifically raised the issue of replacing the dollar during the G20 summit. China did not broach the subject during the BRIC leaders' summit either. According to one reporter, "China . . . was largely silent in Yekaterinburg. It did not echo Russian and Brazilian calls for the BRIC powers to try to loosen the grip of the dollar on the world financial system."89 Before the 2009 G8 summit, Chinese government officials were quick to refute press reports that China had proposed it as a topic

for the G8 + 5 outreach session. Although making it clear that China hoped the U.S. maintained the stability of the dollar, Vice Foreign Minister He Yafei characterized the dollar as “the most important major international reserve currency of the day, and for years to come . . . . That’s the reality.” He also characterized the replacement of the dollar as the reserve currency as “now a discussion among academics. It is not the position of the Chinese government.”

Moreover, rather than being a revolutionary idea designed to overthrow western order, SDRs and diversification have been endorsed recently by westerners such as Joseph Stiglitz and George Soros, and historically by John Maynard Keynes. Not only have experts in other developed countries expressed support for this direction, the National Intelligence Council’s “Global Trends 2025” predicts that the dollar’s role as preeminent reserve currency will erode.

China has also begun trying to limit its dependence on the dollar by exploring the use of local currencies in trade. In June 2009 Russia and China agreed to expand this practice; China and Brazil are exploring this possibility as well. Other countries are also considering this option, in part because it reduces transaction costs by eliminating the fee for exchanging into dollars. For the agreements involving China, the amount of trade to be settled in this manner is unknown, but it is likely to start small and proceed slowly given that the Chinese Renminbi is still not fully convertible. This issue is worth paying attention to in the future, but is both a relatively small issue for the time being and as much a product of China’s weakness as it is strength.

The second area in which China and the BRICs have challenged the international order has been in drawing linkages between their willingness to provide more funds to the IMF to help other countries recover from the crisis and demands that the April G20 summit endorse changes in IMF and World Bank voting shares. The Chinese public statements on this implicit blackmail threat were less blunt and provocative than those from Brazil and others, but the Chinese seemed to make the linkages clear.

promised to provide more financing to the IMF at the April G20 summit, including $40 billion from China, but the G20 also agreed to implement the changes in voting shares and even accelerate future reviews. 97 Although a clear example of China and the BRICs pressuring the western powers, this was far from the frontal assault on the existing order that others worry may come from rising powers.

Recent changes in the international order after the April G20 summit and through other processes suggest that the order is becoming more inclusive. This should not only make China and the BRICs more satisfied with the international order, but also potentially more willing to play the role of “responsible stakeholder.” Many of the demands for changes in the international order were included in the communiqués issued after the November 2008 BRIC finance ministers’ meeting, the March 2009 BRIC finance ministers’ meeting, and the June 2009 BRIC leaders’ summit. In addition to demanding improved regulation and supervision, these communiqués, as well as statements by Chinese leaders, all insisted on more equitable participation in the international order, and specifically called for reviews of the voting shares in the World Bank and IMF and broadening the membership of the Financial Stability Forum.

The statement after the April 2009 G20 summit and pledges by the western great powers have shown a willingness to address many of these concerns and accommodate their demands by revising some of the core features of the international order to make it more inclusive. The G20 statement included a pledge to “reform our international financial institutions.” Not only did the G20 agree to expand the FSF to include all G20 countries, but it pledged to implement existing reforms in IMF and World Bank voting shares and promised to complete the next round of reforms in IMF quotas by January 2011 and accelerate the timetable for the next round of reforms in World Bank quotas to spring 2010. The G8 summit has also become more inclusive in recent years with the initiation in 2007 of the Heiligendamm Process, which invites Brazil, China, India, Mexico, and South Africa (G5) to attend a special G8 + 5 outreach session. At the 2009 G8 summit in Italy, this process was expanded into the Heiligendamm-L’Aquila Process (HAP), which not only continued the outreach sessions but expanded the mandate to include discussions on any topic. HAP would allow others to join as well.

Moreover, in the past few years, the United States has displayed a new-found willingness to cooperate multilaterally and support moves to make the

international order more inclusive. In response to the economic crisis, rather than relying on the liberal western G7 countries to plan a response, President Bush called a leaders’ summit of the more inclusive G20. Reports also suggest that the U.S. has been willing to support reform of the voting shares in the IMF. In a July 2009 major foreign policy address, Secretary of State Clinton not only signaled a continuing commitment to making the international order more inclusive, but also repeated ideas that Chinese leaders and BRIC communiqués had proposed. In explaining how the countries of the world will address the world’s challenges, she said: “we’ll work through existing institutions and reform them.” Citing President Obama’s statement after the G8 summit, she suggested that “we are seeking institutions that ‘combine the efficiency and capacity for action with inclusiveness.’” And in a clear endorsement of a more inclusive approach to global governance, she promised that the U.S. “will offer a place at the table to any nation, group, or citizen willing to shoulder a fair share of the burden.”

These developments have met with mixed evaluations in China and the other BRICs. Some Chinese leaders and experts have very positively evaluated the recent moves by the established powers, including some references to “turning points” and a “new order.” However, others still express doubt that the western countries will keep their promises, worry that the developing countries will really be allowed full participation, and suspect that this apparent accommodation is only a short-term product of the financial crisis.

A recent China Daily article contends, “It is unfair to ask the developing world to share the responsibility without listening to its views on how to address global issues.” Renmin University Professor Shi Yinhong argues that the U.S. and China “should work to move from a ‘power transition’ to a structural transformation (geju zhuanhuan) from U.S.-led to something more shared.” He further adds: “China would have confidence in that system.” The recent adjustments in the international order have at least begun to move in the

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direction of being more inclusive and more shared, making it easier and more likely that China will behave as a "responsible stakeholder" for the sake of this order.

This discussion does not suggest that the U.S., China, and the BRICs have fundamentally escaped the "tragedy of great power politics" or that they are on the verge of accomplishing "peaceful change." However, in his seminal work Robert Gilpin argues that "peaceful international change appears to be most feasible when it involves changes in an international system and to be most difficult when it involves changes of an international system."\(^{104}\) The general acceptance of the order by China and the BRICs and their relatively modest calls for reform, combined with the western powers' openness to address some of these concerns, suggest that we are currently in a process of negotiation and mutual accommodation over the existing order from countries firmly entrenched in that order. Yuan Peng, director of CICIR's Institute for American Studies, seems to agree with this assessment. He writes, "The struggle over international order evolved into a struggle over whether or not China can be a responsible stakeholder within the international order."\(^{105}\) Although this process is likely to be difficult, and could ultimately result in rising powers becoming dissatisfied with the order and seeking to overthrow it, the current evolving process of mutual negotiation over the nature of the order is a generally positive development for world peace and stability.

**Limits on Advances in BRIC Cooperation**

Although BRIC cooperation has so far exceeded most expectations, limiting factors are likely to constrain it in the future. The anticipated decline in American power may reduce the structural constraints that incentivize the BRICs not to challenge the United States. When this happens, the BRICs could move to formally unite to challenge a weakened United States. However, the fundamental differences within the BRICs and intra-BRIC competition make advances in this direction unlikely. Moreover, as the U.S. declines and India, China, and Russia grow more powerful, these intra-BRIC tensions may become even more serious, making deeper cooperation not particularly likely.


Differences within the BRICs

In addition to the great economic potential of each BRIC nation and reasonable chance of fulfilling it, which Goldman Sachs analysts highlighted when they coined the term, the BRICs also share a broadly similar worldview and belief that their voice and the interests of the developing world are underrepresented in the international order. However, there are fundamental differences among the BRICs, including diverse political systems, varied economies, and dissimilar views on key policy issues such as free trade, energy pricing, and how to reform existing institutions. Lastly, as BRIC commonalities and shared interests are excessively shallow, there has been little evidence of any “BRICs mentality,” and one is unlikely to form given the differences. After a thorough analysis of similarities and differences, Leslie Armijo concluded, “The notion of the BRICs countries as a set thus appears forced.”

Although Chinese government officials stress the broad similarities between the four countries, Chinese analysts are more frank about fundamental differences. CICIR analyst Lin Limin asks, “Why does it put Brazil, Russia, India, and China together and coin a new word? These four countries are actually quite different from each other in many ways and even in fundamental nature.” Commentary from Chinese analysts around the time of the BRIC leaders’ summit also could not avoid calling attention to the important disparities among the four countries.

The Importance of the U.S

The central importance of relations with the U.S. for each of the BRICs is also an important limiting factor for the development of the BRIC grouping. Any moves to turn the BRICs into an anti-U.S. alliance or to ask the BRICs to risk their relations with the U.S. for the sake of the BRICs are likely to lead to the collapse of the BRICs as a grouping. The U.S. is not only the most powerful actor in the system, but it is also the most important source of trade, investment, and technology, which developing countries rely on for economic growth. Moreover, mounting a challenge to the U.S. not only risks potential retribution, but also the

106. See Leslie Elliott Armijo, “The BRICs Countries (Brazil, Russia, India, and China) as Analytical Category: Mirage or Insight,” Asian Perspective 31 (2007): 9. For other discussions of these differences, see Andrew Hurrell, “Hegemony, Liberalism and Global Order: What Space for Would-be Great Powers.”

107. See “BRICs Xianxiang de Pouxixi.”

loss of cooperative relations, especially as most of the BRICs have a closer relationship with the U.S. than any of them have with each other.109

_Intra-BRIC Mistrust and Competition_

Even without inherent differences and the centrality of the U.S., the deep mistrust between BRIC countries would likely limit how close the grouping could become. Although some suggest that the threat from the U.S. has helped drive the BRICs together, the reality may be that the BRICs already see each other as the greater potential threat. This is much less true for Brazil, but the other three countries view each other with deep mistrust. Although Sino-Indian relations have improved in recent years, the 1962 war, unresolved border disputes, China’s support for Pakistan, and China’s perception of India’s continued support for Tibet continue to complicate relations. Moreover, as both countries have developed economically, modernized their militaries, and expanded their regional and global interests, new sources of mistrust and potential competition have emerged. The Indians are threatened by China’s moves to improve relations with and provide limited assistance to Myanmar, Pakistan, Bangladesh, and Sri Lanka, and worry that these ties are forming a ring of encirclement around India to restrain its influence. The early manifestations of India’s “Look East” policy have also threatened China’s interests, as it perceives India as intruding upon its sphere of influence in Myanmar and Indochina. Mutual suspicions have also been stirred by each nation’s military build-up and by evidence of the early stages of competition over control of the Indian Ocean and a potential arms race.110

Although generally more cooperative than Sino-Indian relations, Sino-Russian relations have their areas of friction as well. The historical legacies of the relationship include Russian encroachments on Chinese territory in the nineteenth century, China’s perceived unfair treatment and ultimate abandonment in the Sino-Soviet alliance, the 1969 border war, and military confrontation throughout the 1970s and early 1980s. Although relations during the post-Cold War period have improved significantly, the Chinese have repeatedly felt abandoned by Russia’s mild response to U.S. withdrawal from the ABM Treaty and its quick moves to repair relations with the U.S. after the September 11th


attacks. In recent years, there have also been delays and difficult bargaining over Chinese imports of weapons and Russian plans to establish an oil pipeline to serve China. The Russians are also concerned that as China continues to develop economically, Russia will be left as nothing but a provider of raw materials to the regional economic juggernaut. 111 Although tensions in Sino-Indian and Sino-Russian relations have not prevented the establishment of stable relations or the formation of a BRIC grouping, the many issues suggest that the limited trust in most of the bilateral relations will limit how far BRIC cooperation can go.

Conclusion

The BRICs have come together in a political grouping in a way that has far exceeded most expectations. For China, cooperation with the BRICs has occurred under the structural constraints of unipolarity, which incentivize China to cooperate with the U.S. and make sure that a rising China’s behavior is not seen as a threat to which the hyper-sensitive unipole needs to respond. However, as this article has shown, China has benefitted from its cooperation with the BRICs in significant ways. Looking forward, one of the major challenges for China in its engagement with the BRICs is how to maximize its benefits from cooperation while making sure that the U.S. does not perceive its cooperation with the BRICs as a threat. Zhao Gancheng, a researcher at the Shanghai Institute of International Studies, perfectly captures this dilemma in an analysis of BRIC cooperation. He argues that “[China’s] objective is through cooperation, strengthen its position in international system, but at the same time, don’t try to challenge the U.S. in a confrontational mode.” 112 China does not see its cooperation with the BRICs as part of an anti-U.S. hard balancing coalition. If anyone tried to move the BRICs in that direction, China would oppose the attempt, as would several other participating states. Although BRIC cooperation has been significant, fundamental differences among the BRICs, the continued importance of the U.S., and intra-BRIC competition and rivalry are important limits on how much further BRIC cooperation can go. Looking to the future, as the U.S. declines and the BRICs continue to rise, it is very possible that intra-BRIC competition and rivalry will become extreme, further limiting BRIC cooperation.

U.S. policy is an important factor that could potentially overcome these limits and push the BRICs towards deeper cooperation. If the U.S. perceives limited BRIC cooperation as an anti-U.S. bloc and adopts a more hostile policy towards this

111. See Lo, Axis of Convenience; and Yu Bin, “China and Russia: Normalizing their Strategic Partnership,” in Power Shift, 228–46.
“alliance,” it may drive these countries closer together and create a self-fulfilling prophecy. Moreover, if the U.S. and other western countries refuse BRIC demands for limited changes in the international order, the BRICs may become disillusioned, see themselves as forced to mount a sweeping challenge, and seek to replace it with an order more in their interests. Thus far, this scenario looks unlikely. Western countries have started to show openness to reforming the order and accommodating some of the BRIC demands. Although negotiation over reforming international order is likely to be a lengthy and difficult process, the willingness of western countries to entertain BRIC proposals should increase the BRICs’ satisfaction with the international order, make them more likely to act as “responsible stakeholders,” and reduce the prospect that they will challenge that order.

Looking to the future, China’s power will likely provide a challenge to BRIC cooperation and the BRICs as a grouping. Although the other three powers have gained in prestige through their association with the rising Chinese juggernaut, analysts have begun to suggest that China’s overwhelming power relative to the other three will undermine the BRICs as a coherent grouping. For instance, recent unofficial calls for a Sino-American G2 to address global challenges and manage global order suggest that China is no longer an emerging power or a developing country. Although this is undoubtedly a concern for BRIC coherence, China is already much more powerful than the other BRICs by most measures and its advantages have not affected the positive momentum of BRIC cooperation. In addition, although foreign analysts may call for a G2, Premier Wen Jiabao and most Chinese experts have criticized the concept as inappropriate and infeasible, arguing that China is too weak to take on such responsibility and recognizing that endorsing the idea would harm China’s diplomacy and isolate it from the developing world. In fact, rather than being eager to be seen as part of a G2 leading and managing the world, China’s leaders are much happier to continue to maintain a relatively low profile as a developing country, cooperate with other emerging developing countries, and benefit from this cooperation while not being seen as confronting the United States.