

China: Globalization and the Emergence of a New Status Quo Power?

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Abstract

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

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The remarkable economic growth of China in the past two decades has generated both admiration and concern. The rest of the world, the US in particular, made great efforts to hasten Chinese economic liberalization. But when China actually did open up, the West reacted to its rapid progress with mixed feelings. The advanced industrial countries now face growing trade frictions with China and a new wave of domestic protectionist pressures as Chinese products become omnipresent in their home markets. Moreover, the effects of China's rise are not only economic: they are even more complicated at the political and strategic levels. As an "undemocratic capitalist" country, a term coined by David Zweig,¹ the grand strategy and true intentions of Beijing once it becomes stronger are under scrutiny by the rest of the world. It is hard to know whether China's activism will undermine the Western agenda to advance political reform, human rights, and free trade in Latin America and Africa. The difficult question is whether Beijing is going to be a "revisionist" or a "status quo" player in global politics. The developing world's relations with China are also both sweet and sour. Economically, China's rise has brought developing countries both opportunities and challenges. The dramatic increase of China's imports from the developing world has provided a new market for export diversification--but some poor and middle income countries have also had to compete intensively with Chinese products in third markets. For some of Beijing's neighbors in Asia, as well as middle income countries in Latin America, there is

mounting worry that China's competition in the global goods and capital markets may adversely affect their own growth prospects. Moreover, Asian countries in particular share with the Western countries unease over China's growing military might and its potential impact on regional stability.

Globalization is the deepening integration of world economies as a result of cross-border trade, investment, and production. The past decade has witnessed increasingly rapid globalization in the world economy. Globalization has become the central organizing principle of the post Cold-War world.² This paper examines how economic globalization has transformed national policy preferences within a major state, China. The paper explores China's foreign economic policy and recent activism in regionalism, multilateralism, and within geographic regions that China had minimal contact with as recently as ten years ago. In so doing, it seeks to address two questions. First, as China turns itself into a locomotive of global economic growth and has a much higher level of dependence on overseas markets than most economies do, is it more likely for China to support the existing international order or to challenge it? Second, if China so far has become more cooperative with other states and more supportive to multilateralism than before, is it the result of China being socialized by international institutions (an external factor) or by its highly globalized national economy (an internal factor)?

The paper's first section provides a brief overview of the current debate on the rise of China. Sections II and III explore the unparalleled degree of integration of the Chinese economy into the global economy and the ways in which China's economic interests have shaped its participation in regional and universal trade liberalization fora. Sections four and five analyze China's complex relationship with developing countries

and with the major powers, respectively. I conclude with brief comments on the implications of China's rise for the future of existing global governance regimes.

I. The Debate on China's Rise

Both realist and liberal institutionalist theorists of international relations have employed their mental models to interpret this new development in the post-Cold War era: Chinese ascendancy.³ Not surprisingly, these analysts have come to two sets of conflicting conclusions and two distinctive policy suggestions: "China poses a threat that must be contained," or "China offers an opportunity and should be engaged." Both approaches provide useful interpretation and prediction about the rise of China. The emphasis of the realists is on the redistribution of power in the structure of international system, while the more hopeful focus of liberal institutionalists emphasizes institutional learning and socialization within multilateralism. This paper, in contrast, argues that by highlighting system-level factors neither fully captures the dynamics of the new developments within China. Today's China is not truly comparable with Japan in the 1950s and 1960s, or with South Korea in 1970s and 1980s. Instead, economic globalization has fundamentally shaped both the structure of the Chinese economy and the mix of opportunities and constraints faced by China in its international interactions. This underlying empirical shift has significantly contributed to forming a new worldview in Beijing since late 1990s and accordingly a new emphasis in Chinese foreign policy. Thus it may be irrelevant to argue over whether today's China adopts the aggressive posture predicted by Western realists or the increasingly cooperative attitude expected by some liberal institutionalists. Instead, we should inquire into the degree China has been

irretrievably economically globalized and, as a direct result of that, what policy options are left for China to pursue.

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

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

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

II. China's Economic Globalization

China has significantly profited from globalization. Since the beginning of its economic liberalization in 1978, China has averaged 9.4 percent annual expansion of its gross domestic product (GDP), one of the highest ever growth rates over such a sustained period. China's sizzling economy grew 11.5 percent in the third quarter of 2007. This rate of expansion puts the country on track to overtake Germany as the world's third-largest economy. China has tripled its share of global production since 1980, whether one employs market exchange rates or purchasing power parity equivalences to make this calculation.⁸ In 1978, China's total foreign trade (the absolute value of imports plus that of exports) was \$20.6 billion, while in 2006 it reached \$1.76 trillion, exceeded only by the trade of the US and Japan.⁹ Perhaps even more significantly, China's share of trade in GDP in 2005 was an astonishing 64 percent, extraordinary for an economy of its size.¹⁰

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

China's comparative advantage but also a result of today's global division of labor. Thus, a crucial characteristic of China's production profile is its highly transnational and globalized nature. For example, China has welcomed foreign direct investment (FDI) on a scale unprecedented in Asia, accepting a total \$650 billion since 1978, ten times the total stock of FDI Japan accumulated between 1945 and 2000, and far more than any other emerging market economy.¹³ China is the third largest FDI recipient after the UK and the US. Large FDI inflows have fueled the growth of both exports and imports. World-class multinational corporations take advantage of China's competitive wages to employ the country as an export platform. With incentives offered through duty exemptions for export production, this processing trade has surged.¹⁴ In 2005, for example, multinational corporations accounted for 59 percent of Chinese imports and 58 percent of China's exports. Both foreign-owned and Chinese industrial companies depend heavily on designs, critical components, and manufacturing equipment they import from the US and other advanced industrialized economies, and raw materials, including energy imports, from the developing countries.

Unfortunately, China's highly globalized production process has not yet offered the rest of the world an open and liberal Chinese market. Intensive government policy protection of its domestic industry and market through subsidy, tax, capital registration, and other trade and investment barriers still exists. In recent years the United States and European Union have filed a number of WTO complaints against China, alleging violations of the principle of national treatment on issues such as the value-added tax (VAT) rebate policy on integrated circuits, discrimination against imported auto parts, and market access barriers for copyrighted products. In fact, the high percentage of

exports accounted for by multinational investors reflects the Chinese government's powerful export incentives for foreign firms. Thus, leveling the playing field and creating two-way trade with China has become the policy priority of the industrial countries. Chinese economic liberalization is thus a work in progress

III. China and the World Trade Organization

Some—and many in the US—have suggested that China is not living up to its WTO accession commitments. From the viewpoint of most Chinese scholars and officials, this seems an egregious misjudgment. As a major exporter with a persistent trade surplus, it is hardly surprising that China strongly supports the existing mostly economically liberal global trading regime, whose major institutional enforcer, and symbol, is the World Trade Organization. China also has hedged its bets by increasingly active participation in East and Southeast Asian regional trade negotiations and institutions.

China initially accepted greater interdependence largely out of economic necessity and participated with great caution, as was the case with many other developing countries that formerly had had comparatively closed economies while pursuing state-led industrialization via import substitution. In 1978, Beijing initiated its “open door” policy. However, in contrast with the “shock therapy” policy packages adopted by Russia and Poland in the late 1980s, the Chinese leadership has preferred a more gradual approach to economic reform. In the words of Deng Xiaoping, the architect of China's open door policy, China should reform in a way that constituted “crossing the river by touching every stone.” As an experiment, China initially opened up only 14 coastal cities for foreign investment. After the economic success in these “special economic zones,” Beijing began to expand the same policy to more cities and provinces.

China's engagement with the international governmental organizations (IGOs) has evolved considerably over the past three decades. In the era of Chairman Mao Tse Tung (1949-1976), Beijing adopted an isolationist policy in the belief that the Bretton Woods organizations--the General Agreement on Tariffs and Trade (GATT), International Monetary Fund (IMF), and the World Bank--were "instruments of western imperialism and hegemonism." After 1959 China also rejected participation in the international institutions of the "Soviet bloc," instead calling itself a "non-aligned" state. Beginning in the 1970s, China moved toward closer relations with the US as a way to counterbalance the Soviet Union. China gradually returned to the international community with the help and support of the United States. In 1971 the People's Republic of China replaced Taiwan as the holder of China's seat in the United Nations, thereby gaining a permanent seat on the UN Security Council. Soon after, China joined the World Bank and IMF. In 1986, China formally applied to rejoin the GATT and began its protracted accession negotiation. In the 1990s, China once again confronted a strategic choice of participating or rejecting globalization. The Asian financial crisis of 1997-1999, which largely bypassed China but hit many of its Asian neighbors very hard, provoked an intense debate between the forces pro and anti-globalizers within the government. By carefully weighing the advantages and disadvantages of economic openness--including its implications for regime survival--Beijing opted for continued opening, re-initiating negotiations to join the successor IGO in the trade arena, the WTO, and deepening pro-market economic reform at home.¹⁵

China has played an active and generally supportive role in the WTO, pushing for improved market access abroad while gradually reducing its domestic trade barriers.¹⁶

Though China participated in the G20 (also known as G22) coalition of developing countries led by Brazil and India, it has not been a proactive member. Chinese trade officials admit that it was not in China's best interest to stand too closely with its developing country friends.¹⁷ After all, China has been the largest beneficiary of economic globalization. Moreover, China already made tremendous concessions upon its WTO entry, and as a result, China does not share the interests that many developing countries have in delaying full external economic liberalization. In fact, China instead shares with the US and EU a desire for bold trade liberalization in developing economies, allowing easier market access for Chinese exports. As one Chinese trade official noted, "It is in China's interest to see other countries to match the level China offered in terms of market liberalization."¹⁸

In fact, China's GATT/WTO accession negotiation process is the most extended one on record, requiring 15 years for completion (1986-2001). Besides the multilateral negotiation, fully 37 WTO members conducted parallel bilateral talks with China, which is also a record in GATT/WTO history. Similarly, China's WTO entry has been, so far, the largest liberalization package in the WTO history.¹⁹ Most importantly, the bulk of the deal involved unilateral concessions by Beijing---improving access to China's markets for foreign competition, not enhancing Chinese access to other markets. By fulfilling China's WTO accession commitments, China currently has the lowest protection of any developing country in the world. Today, over half of China's imports come into the country duty-free, and actual duty collection is about 3 percent of the import value.²⁰ China was so determined to join the WTO that it accepted terms that Nicholas Lardy, a China expert at the prestigious Washington, DC think tank, the Institute for International

Economics, describes as “so onerous they violate fundamental WTO principles,” as illustrated in Table 1.²¹ China’s overall tariff rate offer is only 8.9 percent, compared After China joined the WTO, economist Jagdish Bhagwati concluded that China had become a “paper tiger,” since “China’s WTO entry will make it easier for countries to shield themselves from Chinese competition that violates international norms” and they “won’t have to take on Beijing all by themselves.”²² With its entry into the WTO, China thus made the voluntary decision to bind itself by international regimes.

<Table 1 about here.>

At the same time as it has negotiated to join the WTO, China increasingly has engaged with regional institutions of trade and economic integration. Many developing countries perceive regionalism as superior to comprehensive trade multilateralism, simply because a process of initial regional liberalization is slower and more incremental. Because of its great success as a global trader, Beijing’s first best policy preference is clearly for multilateral trade liberalization. However, China fears exclusion from the regionalism process, which it observes has picked up around the globe, and furthermore remains somewhat uncertain about the future of multilateral trade liberalization. Chinese officials worry, for example, about the many regional and bilateral trade deals in which the US is involved, as well as rising protectionism in both the US and Europe. Consequently, China has adopted a more proactive approach toward Asian economic regionalism since the beginning of the new century.

IV. The Geopolitics of China’s Trade and Investment in Natural Resources

Global trade and investment patterns have fundamentally shaped China’s foreign economic policy. Since 1990, China has been the largest recipient of FDI among all

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

< Figure 1 about here.>

Regional Ties: East and Southeast Asia

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

remaining states trust neither one. Some prefer to bring in the US as an outside balancer, though others do not. The outcome has been a looser regional organization, the Asia Pacific Economic Cooperation (APEC) group, since its founding in 1989 built on the principle of consensus and voluntary action, or open regionalism, instead of binding agreements. The 18 nations of APEC include all the states which have a Pacific Rim border, including the US, Canada, Russia, Peru, Chile, New Zealand and Australia. The institution includes the three largest economies in the world — the United States, Japan and China. APEC decided at its Bogor, Indonesia summit in November 1994 to achieve “free and open trade and investment in the region” by 2010 for its industrialized members, which account for about 90 per cent of its trade, and by 2020 for the rest. But, and significantly, this goal should be achieved through voluntary domestic adjustment.

In 1967, Indonesia, Malaysia, the Philippines, Singapore, and Thailand began a formal framework for political and economic cooperation in Southeast Asia in 1967: the Association of Southeast Asian Nations (ASEAN). They were later joined by Brunei, Cambodia, Laos, Myanmar, and Vietnam. The ten members share various levels of economic development, uneven natural resource distribution, different size of populations and territory, and divergent economic development strategies, and thus did not reach consensus on further trade liberalization until 1990s.²⁴ Lacking an effective forum in East Asia, China has recently joined a new group known as “ASEAN+3,” which includes the ten ASEAN members plus three northeast Asian states-- China, Japan, and South Korea. ASEAN countries hope that this new grouping will re-build economic stability and renew growth that was shaken by the Asian financial crisis of the late 1990s. However, the hard core of this grouping is still the ASEAN countries and China’s role will be limited.

Furthermore, trade patterns between China and its Asian neighbors are not exactly complementary. The intra-regional export share for the East Asian region reached only 41.5 percent in 2000, lower than the figure of 47 percent in 1996. They all export labor-intensive manufacturers, mainly to the US.

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

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

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

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

Similarly, in a matter of just five or six years, China has emerged as a trade and financial giant in Latin America. During Chinese president Hu Jintao's 2004 visit to five Latin American countries, he signed \$100 billion worth of investment commitments in ten days.²⁹ Most of these loans and investments are in oil, gas, and mining projects and other infrastructure developments, mainly located in resource-rich nations such as Bolivia, Ecuador, Cuba, and Venezuela. In 2006 Andes Petroleum, a consortium owned by the Chinese firms Chinese National Petroleum Company (CNPC) and Sinopec, purchased four major oil concessions and a 36 percent leading share in a new heavy crude pipeline, linking new oil development in the Ecuadorian Amazon to the Pacific Coast for export.³⁰

Growing hand in hand with the direct investment is the volume of bilateral trade between China and these two regions. Africa's annual trade with China rose from \$10.6 billion in 2000 to \$60 billion in 2006, and is projected to reach \$100 billion by 2010. China now absorbs about 10 percent of African exports and is already the continent's third largest trading partner, behind only the US and France. Other emerging powers,

most notably India, have also sought energy and natural resources in Africa. Similarly, China's trade with Latin American and Caribbean has exploded since 1999, increasing seven-fold in the last five years. Again, the growth has been a market response to Chinese demand for raw materials running into domestic supply constraints, so that the region's exports are overwhelmingly of primary commodities. Although China accounted for almost 6 percent of the region's total exports in 2004, the shares for individual countries ranges from less than 1 percent of total exports in Columbia, Ecuador, Mexico to around 10 percent in Chile, Jamaica, and Peru.³¹ The main products exported from the region are soya, iron ore, copper, pulp, fish meal, and leather. Most South American countries have a trade surplus with China, while Mexico and much of the Caribbean have deficits.

As a newly dominant economic power in Latin America and especially Africa, China has received accusations of being a new imperialist or neoimperialist. The Chinese government's response is that it carefully balances its resource search with other "normal" diplomacy, an attitude loudly praised by some African leaders, including Omar Bongo Ondimba, president of Gabon.³² Besides its heavy investment in energy and natural resources sectors, China has offered select developing countries concessional loans to pay for the construction, by Chinese firms, of turnkey infrastructure projects including roads, dams, stadiums, and agricultural infrastructure. The Chinese have invested over \$20 billion in Sudan in recent years, including in the Merowe Dam, a \$1.2 billion hydropower project on the Nile.³³ Not all observers are pleased. Both governments and non-governmental organizations (NGOs) in the US and EU have been highly critical of the environmental, social, and developmental impacts of the Chinese investments. For example, the earnings from China's timber imports from Liberia may have gone directly

to the country's dictator, Charles Taylor, fueling a devastating civil war. Similarly, Beijing's economic cooperation with the Sudanese government arguably has undercut the effectiveness of international condemnation of the government's massive human rights violations in Darfur, although in 2007 Beijing finally agreed to join a United Nations resolution censuring the Khartoum government. As one Chinese diplomat stated, "After all, business is business. There is no need to mix politics into business, which was the mistake we made in 1960s and 1970s."³⁴

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

The concerns over China's growing economic influence in Latin America, meanwhile, are more about deindustrialization. The current China-driven commodity boom may benefit the trade balance of many Latin American countries in the short term, but over the medium run competition from China's manufactured exports could weaken the industrial capacity which these developing countries vied for decades to build.³⁸

Because much of Latin America is now securely democratic, China's political influence in the Western Hemisphere is likely to remain small compared with Africa.

Large Emerging Powers, Including the BRICs Countries

Not surprisingly, the structure of China's economic ties with the other three BRICs, Russia, India and Brazil, is also shaped by China's growing demand for energy and raw materials to meet its domestic manufacturing needs. Leaders in all three countries have been concerned over the rapidly declining share of manufactured goods in their exports to China. Russian observer Mikhail Vorobyev noted, "What else is Russia capable of delivering to China beside raw materials? If you do not count military equipment... and apart from civil aircraft... and power industry equipment, it seems that Russia has nothing to boast of. Russia is becoming a raw materials tributary not only of the most developed western countries, but also of... China."³⁹ Similarly, the task faced by Brazil is to avoid the pitfalls of commodity dependency. China has become Brazil's second and fastest growing export market, but three-quarters of these exports are concentrated in just five commodities—soybeans, iron ore, steel, soybean oil, and wood. Brazil is not alone in this situation. Argentina sends soybeans to China as its major export to that country, while Chile and Peru depend on copper for the bulk of their exports to China. Primary and resource based products also dominate India's export basket to China.⁴⁰

V. China and the Major Powers

China's current trade and financial relations with the advanced industrial countries of the West are of course often not to these countries' liking—although these countries also would profoundly regret the loss of China as an economic partner. China's

largest export market is always the US, followed by the EU and Japan. In 2003, China replaced Japan as the US's third largest trading partner, and then in 2006 China passed Mexico to become America's second largest trading partner.⁴¹ In 2006, bilateral US-China trade was \$343 billion, and the US' bilateral trade deficit with China hit a record \$232 billion. As the trade volume grows, so do frictions over unfair Chinese trade policies, dumping, patent violations, and product safety. China also has accumulated a large dollar reserve, holding over \$1 trillion in total foreign exchange reserves and \$350 billion in US bonds.⁴² In 2006, Japan held an estimated 31 percent of all foreign-held US Treasury securities, China held 19 percent, the EU held 15 percent, and Middle East oil-exporters about 5 percent.⁴³ China has effectively become a primary source of funding for the US's growing current account deficit. China's holdings have contributed both to the high dollar and low US inflation and interest rates. Of course, China has become so dependent on the US market that it is highly motivated not to shift its reserves to gold or the Euro. The unrealized story is that China's rise and continued US global economic hegemony are complementary. China is playing the game within the rules set by the West.⁴⁴ Another contentious issue in bilateral US-China economic relations is the Chinese yuan's peg to the US dollar. Under continuous pressure from the US, China modestly revalued the yuan in July 2005 but refused to abandon the peg, as demanded by US officials, despite much disagreement among economists as to the appropriate cause and effect relations.⁴⁵ Unlike its rapid trade liberalization, Beijing has been very cautious about financial market and exchange rate policy change, a lesson learned from the 1997 Asian financial crisis.⁴⁶

There are, of course, also domestic structural factors behind China-US bilateral economic relations, including China's enormously high savings and investment rates and the US' low ones.⁴⁷ Chinese analysts point to the cheap goods from which Americans benefit enormously, while US analysts worry over job losses and out-sourcing.⁴⁸ Nonetheless, one trade official admitted that ways of cutting the trade surplus have been identified as the top priority on the 2007 to-do list of the Chinese Ministry of Commerce.⁴⁹ The US, the sole superpower today, is the country that can exert the greatest strategic pressure on China on both economic and non-economic issues, including responses to terrorism, North Korea, Iran, Taiwan, and Asia regionalism. Fortunately, greater cooperation with China is also in the US interest--especially since the attack of September 11, 2001.

Strategic and military strains between the US and China, as well as between China and Japan, are rising, yet so far have been dealt with relatively harmoniously by both parties.⁵⁰ China's defense spending has increased in tandem with its economic growth, doubling in the past six years. In March, China's National People's Congress announced that it would increase the country's military budget to a total of \$45 billion in 2007. Outside sources, taking into account purchasing power parity (PPP), tend to provide higher estimates of between 2.3 and 2.8 percent of GDP, while the US State Department assumes 4.5 percent.⁵¹ The Chinese government has tried to reassure the world that this spending hike was normal and need not worry anyone, "China is committed to taking a path of peaceful development and it pursues a defensive military posture."⁵² Nevertheless the increase of its military has become a regional and global concern.

For the foreseeable future, China will not be a global military competitor with the US, yet will expand its military and political influence in Asia, with significant consequences for all of China's neighbors, including Japan, South Korea, Russia, India-- and of course for Taiwan.⁵³ The key question, explicitly addressed by my colleagues Christopher Rusko and Karthika Sasikumar in this volume, then becomes whether increased cross-border trade and investment ties between China and its neighbors foster peace. By several key measures, Chinese foreign policy is more self-restrained now than in the recent past. In its first 30 years, the People's Republic of China went to war against at least four of its neighbors, including Korea (1950), India (1952 and 1962), Russia (1969), and Vietnam (in both Vietnam's war against the US and the Sino-Vietnam war in 1979).⁵⁴ Thanks to China's gradual integration into the international community and its adoption of multilateralism, Beijing has recently adopted a new foreign policy of omni-directional smiles, labeled a policy of peace and independence. Fighting no wars since 1980, China smoothed relations with Russia, Indonesia, India, South Korea and settled border disputes with Russia and India. Arguably, political and economic relations between China and most of its neighbors are better than ever.

Meanwhile, China has international political priorities that differ from those of the wealthy democracies. For example, Beijing has maintained good relationship with "rogue" countries targeted by the US, including Venezuela, Sudan, Iran, North Korea, Cuba, and Burma. Russia, the other increasingly authoritarian BRICs country, takes very similar stance. Beijing argues that it is in a position to use its good offices to help bring these non-cooperative states into global negotiations and greater cooperation. China's efforts to host and mediate the Six Party Talks with North Korea represent a positive new

policy initiative for China. Yet China's cautious—some would say cynical—stance in countries such as the Sudan, Myanmar and most recently Burma has been widely questioned in the West.⁵⁵

VI. Conclusions: A China Pragmatically Constrained by Globalization?

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

This paper has argued that the market-driven dictates of the globalized economy have been the principal drivers of China's currently very high level of international economic integration. In turn, the pragmatic imperative to continue rapid economic growth and the benefits of globalization has gradually led China to participate more actively and cooperatively in the global governance regimes whose broad outlines were constructed by the Western advanced industrial countries in the wake of devastating experiences of the Second World War. Neither the realist vision of a necessarily militarized and threatening China, nor the liberal institutionalist expectation of a China whose core self-interest has been transformed by learning from the experience of participation in global institutions seems to this author to offer great insight into China's future international choices. Instead it is best to understand China today as both a willing

and a capable partner in the mostly liberal international economic order—so long as China’s leaders continue to see such participation as consistent with China’s national interest.

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Table 1
Comparing WTO Accession Offers: China and Others

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

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

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

Figure 1
China's Top Trading Partners, 2005



Source: Chinese Ministry of Commerce Statistics
