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DILEMMAS OF OPENING Power and Vulnerability in the Global Economy

The amazing “rise of China” starting in the late 1970s was above all an economic phenomenon, which saw the country’s GDP shoot up at an average annual rate of 9.6 percent starting in 1978 to reach $6 trillion in 2010. Without this surge in economic power, China would not have had the resources to make itself into a modern military power starting in the 1990s, a subject we discuss in chapter 11. Nor would it have enjoyed the prestige to begin exercising soft power in the ways that we describe in chapter 12. And of course, trade, aid, and investment were themselves direct sources of influence. Yet for China, economic growth was not a one-sided good. From a security standpoint, the boom and the strategic choices that had to be taken to make it happen also entailed great sacrifices. Growth was achieved by means of a deep engagement in the global economy that made China more vulnerable to pressures and influences from the outside world than it had ever been before.

Deng Xiaoping’s policy of “reform and opening”—the revolution (or some said counterrevolution) that made rapid economic growth possible—reversed Mao Zedong’s foreign economic policy of self-reliance described in chapter 3. Usually viewed as an obvious choice and an unalloyed triumph, the embrace of globalization was in fact halting, costly, and deeply ambivalent, embracing a set of dilemmas as troubling as the equal and opposite dilemmas entailed in the previous policy of autarky. In security terms, China continues decades later to benefit from and expand on Deng’s gamble, but it also continues to pay its costs. By moving from autarky to interdependence, China increased not only its power over the destinies of others, but also the power of others over its own destiny.

For both Mao and Deng, to adopt a security strategy toward the outside world was at the same time to adopt an economic strategy. In this sense, “engagement” was not only a strategy utilized by the outside world to change China, but China’s own strategy to find a more advantageous way of relating to the outside world. The attraction of Mao’s policy had been to avoid dependence on foreign capital and markets so that China could keep full control over its own way of life and political system. Its disadvantage was that autarkic development forced the country to accumulate capital for the industrial buildup from domestic resources, which meant that money could not be devoted to improving living standards. It required suppressing people’s aspirations for better lives, which required political discipline, which in turn encouraged the construction of a totalitarian political system, which in its own turn created the suffering that eventually made autarky unsustainable. Evaluated in purely economic terms, Mao’s development model succeeded in constructing an industrial economy, but it did so at the cost of low efficiency and an inability to gain access to advanced technology. Another shortcoming was that autarky gave other states no stake in China’s welfare, making it easier for many of China’s neighbors to treat it as an enemy.

Deng’s development model had the opposite benefits and costs. Global immersion gave China access to the West’s technology, capital, and markets, thus speeding up economic growth, dramatically improving living standards, and allowing the regime to relax political repression. The government gained the budgetary resources it needed to start modernizing the military and the expertise it needed to join and benefit from international regimes. Countries that traded with and invested in China became attentive to China’s interests. On the downside, however, the government had to compromise its control of the economy. China took on commitments to international rules on trade, finance, property rights, product safety, and other subjects. It was penetrated by foreign institutions and by market and cultural forces beyond government control that influenced its people’s thoughts and behavior. China’s prosperity became tied in to other countries’ well-being. If autarky had created a Great Wall that protected China from outside influences at the cost of leaving it weaker than it would otherwise have been, engagement dismantled the wall and gave China new assets at the cost of exposing the country to a deluge of outside influences.

None of these issues was new. In the early nineteenth century, when the global market started its long expansion, English trading ships presented themselves at China’s borders seeking to trade opium for tea. In a series of wars, foreigners forced China to open itself to trade, investment, and the missionary movement. Toward the end of the nineteenth century, Chinese leaders formed a consensus that economic backwardness was the chief cause of their military weakness. Their leading issue became how to modernize for wealth and power while preserving national independence. The Chinese debated whether to integrate with the world economy or seek self-reliance.

But that choice was constrained by the state of the world economy and China’s strategic situation. A post–World War I world trade boom allowed China to develop some foreign trade, although it had little to sell and could not afford to buy much. Global protectionist trends in the 1930s forced the Chinese to think more about self-reliant development. After 1949, China was able to borrow capital and technology for a time from the Soviet Union, but Mao’s decision to break with the Soviets left China in the 1960s with no alternative to autarky.

Mao reopened some minor channels to the West before he died. Meanwhile, however, much of the rest of Asia had created a development miracle based on manufacturing for Western markets. With the takeoff of globalization starting in the 1970s, international trade and investment volumes climbed to historic heights. When Deng Xiaoping came to power in late 1978, two trends therefore converged: China was ready to enter the world, and the global economy was ready to integrate China. Conditions were ripe for China to try a new model of development.

ADMITTING FOREIGN TRADE AND CAPITAL

Deng did not follow a blueprint but, as he put it, “crossed the river by feeling the stones.” His initial idea was to use limited material incentives to revitalize agricultural production in the government-controlled collective farms and to stimulate management initiative in the state-owned industrial enterprises. As a supplement, he was willing to open the economy to limited outside technology and marketing expertise so that a few joint ventures could produce for export. When these first steps worked, Deng faced pressure from his advisers and foreign partners to do more. Each time he agreed to new ideas, he aroused fresh political opposition motivated by worries about the new compromises China was making, as well as fresh pressure from reformers to move another step toward reform, and he had to make new hard decisions.1

The economic opening to the outside world began with two domains, trade and investment. Under Mao, the central planners treated foreign trade as a residual activity, a way to get rid of the leftovers of the domestic economy and acquire those few necessities not yet produced at home.2 China exported just a sufficient amount of agricultural products, minerals, and fuels that happened to be in surplus to cover the costs of machinery, equipment, and steel that had to be imported for the industrialization drive. China’s foreign trade, limited almost completely to the Soviet bloc, passed its high point of $4.38 billion in 1959 and then dropped to a low of $2.66 billion in 1962 before rebounding slightly as China shipped textiles, foodstuffs, and metal ores to the Soviet Union to repay its debts for development help. In 1973, while Mao was still alive, the country made its largest overseas purchases since the period of Soviet aid, importing industrial plants from the U.S and Europe. By 1976, the last year of Mao’s life, foreign trade had risen to $13.4 billion, with Japan and Hong Kong the leading partners.3

Before Mao’s death, Deng, then serving as deputy premier, had advocated a further limited opening in trade policy. He did not break with Mao’s slogan of self-reliance but reinterpreted it by saying, “By self-reliance we mean that a country should mainly rely on the strength and wisdom of its own people, control its own economic lifelines, and make full use of its resources.”4 He called for selective import of advanced foreign technologies, paying for them with increased exports of arts and crafts products, industrial products, and mining products. Deng’s rivals denounced his ideas as currying favor with the capitalist world, promoting old-fashioned arts and crafts in preference to modern industry, and selling off national resources and sovereignty. Their denunciations were one of the factors in Deng’s fall from power in 1975.

When Deng came back to power after Mao’s death, he pushed reform. Foreign trade had been monopolized by about a dozen specialized corporations under the Ministry of Foreign Trade that simply processed the paperwork for imports and exports required by the state plan.
Deng’s government spread the rights to buy and sell foreign commodities among what eventually became thousands of trading companies. These companies belonged to central government ministries, provincial governments, and government-owned enterprises, but they pushed their business energetically because they and their sponsoring agencies were allowed to keep a portion of the profit they earned. Under this stimulus, foreign trade almost quadrupled from 10 percent of GDP in 1978 to 38 percent of GDP in 2001, the year China entered the WTO.5

On the investment side, Deng moved to let in foreign capital. Mao had accepted neither foreign investments nor loans after the break with the Soviet Union. Deng saw foreign investment as a limited tool to accelerate the growth of exports by inserting capital and expertise into the export sector of the state-owned economy. As with trade, he advocated modest changes even before Mao died and was criticized by those who believed that foreign investors would harm China’s sovereignty, exploit its workers, and steal its profits. After Mao’s death, in 1979, China adopted the Joint Venture Law, which limited foreign ownership to less than half the value of any enterprise. Significant but relatively modest amounts of foreign direct investment flowed into China during the first dozen years of the reform period.

Under pressure from foreign investors, the government haltingly eased the limits and improved the conditions for foreign investment during the 1980s. It raised the ceiling on the size of projects, allowed foreign enterprises to purchase land-use rights for up to seventy years, eased foreign exchange restrictions for foreign-invested enterprises, and provided tax holidays on profits. In geographical terms, the government first tried to limit foreign investment to four small Special Economic Zones (of which the most famous was Shenzhen), then in 1984 extended incentives to fourteen coastal cities and the island of Hainan, in 1988 opened the entire coastal region from Liaoning in the north to Guangdong in the south to foreign investment, and in the 1990s removed virtually all remaining geographic restrictions. In sectoral terms, the original focus on foreign investment in high-tech manufacture for export was eased step by step to allow foreign investment in mining, manufacture for the domestic market, low-tech labor-intensive production for export, financial services, and infrastructure projects including freeways, power plants, and telecommunications facilities. By the mid-1990s, almost all sectors of the economy were open to foreign investment except for those related to China’s traditional national industries (such as crafts and Chinese medicines), media, and national security.

Limits were removed as well on forms of investment. The joint-venture model was eased to allow all forms of foreign direct investment including wholly foreign-owned enterprises, plus portfolio investment (stocks and bonds) and commercial lending. Investment inflows rose steadily, accounting for hundreds of millions of dollars a year in the early 1980s, billions of dollars a year in the late 1980s, and tens of billions of dollars a year starting in the early 1990s. Between 1985 and 2005, Hong Kong supplied an estimated 47 percent of the total foreign direct investment (an unknown proportion of it “round-tripped” from investors on the mainland); Taiwan provided 12 percent; and the U.S., Japan,
and the EU provided approximately 8 percent each.6

Foreign capital also entered China in the form of development loans and grants. In 1978, China broke with its tradition of being solely an aid donor (although a small one) to accept assistance from the UN Development Program. In 1980, it rejoined the IMF and the World Bank7 and accepted aid from both, and in 1986 it joined the Asian Development Bank. By 2001, China had received a grand total of almost $40 billion in ODA from a host of multilateral organizations such as the World Bank, the UN Development Program, other UN agencies, and a variety of countries such as Japan and Canada. China continued to receive more than $1 billion of ODA per year in the 2000s.

Opening the door to foreign trade and investment required changes in the regulatory environment and support systems for foreign economic interactions. From 1979 to 2000, China adopted hundreds of laws and regulations to govern foreign economic relations. It established specialized courts and other dispute-resolution mechanisms. Visa restrictions had to be eased to cultivate the nascent tourist industry and to allow foreign businesspersons to visit easily. The flow of foreign visitors increased from 1.8 million in 1979 to 83.4 million in 2000 and kept growing after that. To accommodate them, the number of hotel rooms soared, with a massive shift from Soviet-style hotels to those meeting Western standards. Similar foreigner-friendly changes were made in banking, communications, transportation, and so on. Yet all these shifts only laid the groundwork for even more dramatic changes required at the start of the twenty-first century, when China joined the WTO.

SECURITY GAINS AND LOSSES TO THE TURN OF THE CENTURY

China’s entry into the global economy turned out to have come at a good time. The long historical process of globalization took another leap forward in the mid-1980s. Between 1980 and 2007, global GDP increased by an average of 3.1 percent a year. World trade quintupled during the same period from $4 trillion to $27.5 trillion. Having entered the waters, China was carried along on the current: Chinese trade grew thirtyfold from $25.8 billion in 1984 to $762 billion in 2005. By 2004, 30.8 percent of China’s industrial output was produced by factories with foreign investment. The linkage and demonstration effects of foreign trade and investment on Chinese suppliers, consumers, and competitors led to higher-quality performance across the economy. Through foreign partnerships, Chinese firms gained new technology, learned new management practices, and gained access to world markets. Even though growth was unequal, it was widespread. Every part of the country and every social class had a share. The number of Chinese below the official poverty line dropped from 250 million in 1978 to 25 million by 2005.8

But to gain these benefits Deng had been forced by the logic of world markets to compromise China’s autonomy more than he had
anticipated would be necessary. By the mid-1990s, foreign officials were monitoring Chinese tariffs, import quotas, certification requirements, factory hygiene, financial services, and retail networks. Moody’s as well as Standard and Poor’s passed judgment on the value of China’s sovereign debt. U.S. Customs, Food and Drug Administration, and Commerce Department officials showed up to inspect Chinese factories. Foreign lawyers pointed out enforcement failures and suggested revisions in laws and regulations. China had to introduce unfamiliar institutions such as stock markets, brokerage firms, risk funds, commodities futures markets, and consulting firms. To train the staff needed to create such institutions, China had to send students and officials abroad to be trained. In 1982, China had even found it necessary to amend its Constitution to include a commitment to protect “the lawful rights and interests” of foreign investors.

The key managers of world capitalism, especially the IMF and the World Bank, inserted themselves into Chinese politics by putting their weight behind the reformists in their political struggles against the conservatives.9 To join the Asian Development Bank, China made a concession to Western concerns by agreeing to allow Taiwan to continue as a member under the name “China, Taipei” (chapter 9). After the Tiananmen incident of June 1989, the U.S. used its dominant voting rights in the World Bank and the Asian Development Bank to block most new loans to China for several years, and Japan postponed some of its ODA loans. In 1995, Japan suspended most of its ODA grants (although not loans) to protest China’s underground nuclear testing.

In a more indirect sense, each step toward prosperity made China’s economic health more dependent on the health of foreign markets, especially those in the U.S., which was China’s largest export market until 2007, and the EU, which subsequently became the largest market. China’s prosperity was also tied to the health of the American dollar and the euro, which were the main currencies in which China, like other countries, conducted its foreign trade and kept its foreign exchange reserves.

Most risky from a security standpoint were the deep effects that the opening exerted on society and culture. Between 1978 and 2003, China dispatched more than seven hundred thousand students to study at institutions of higher education abroad, mostly to the U.S., in an effort to rapidly acquire advanced technology. Fewer than 25 percent of these students returned upon graduation, and those who did often carried ideas that undermined China’s official ideology. Western-educated and oriented economists, bankers, lawyers, and traders gained a growing voice in shaping policies. Young people lost faith in old values, and, according to conservative Chinese critics, many now believed that “even the moon is brighter in the West.” Christianity took off and spread among the population, including tens of millions who participated in illegal “house churches” that local officials often tolerated because it would have been too disruptive to try to close them down.

People in southern Guangdong Province began to watch Hong Kong television, drink Hong Kong soft drinks, dress in the Hong Kong style, and even circulate the Hong Kong dollar for some transactions. People in Fujian adopted many elements of Taiwan culture. People in Shanghai
and Beijing adopted American and European styles and tastes. Young people in all the coastal cities went wild for South Korean music and TV shows and Japanese cartoons. Workers from poor regions in the interior migrated to the coast for manufacturing, construction, and housework jobs. State enterprises had to throw their traditional social welfare functions overboard in order to compete for foreign markets and investment. Corruption increased, and many rightly or wrongly attributed the increase to “foreign flies coming in the open window.” By the mid-1980s, just a few years after the reforms started, China had exposed its economy, society, and culture more deeply to foreign influence than at any time since the era of Soviet aid in the 1950s.

These developments alarmed conservatives in the leadership. They worried that China was replacing the socialist revolution they had fought for with a consumer revolution, which they referred to as “spiritual pollution.” In their eyes, the 1989 democracy movement was a devil’s brew of contradictory Western impacts: on the one hand, it was sparked by public opposition to inflation and corruption associated with the open-door policy, and on the other it expressed a pro-Western democratic and individualist ethos and was cheered on and even given some material support by people in Hong Kong and the West.

Even so, Deng’s open-door policy survived and was given new momentum in 1992 when he made a symbolic tour of the southern export zones to reaffirm his commitment to economic growth through globalization. This tour was Deng Xiaoping’s last major political act before his death in 1997, but it had a lasting impact. The combination of Deng’s authority, the death of senior conservatives who harbored doubts about his policies, and the reforms’ continuing economic success put an end to policy battles over the principle of global engagement, although not over concrete decisions concerning how to implement it. The controversy over globalization continues today only at the level of intellectual debate, with thinkers on the left arguing that China has lost its way by abandoning socialist ideals and those on the liberal side arguing that China has to reform even further to solve the contradictions between its economic prosperity and its authoritarian political system.10 Popular ambivalence about the open door is reflected in xenophobic emotions intermittently expressed on the Internet and in public demonstrations. At the policy level, however, the debate is no longer over whether to globalize, but over how to manage the process.

Not only did the open policy confront domestic opposition, but it also engendered a wide range of conflicts with foreign partners. As trade grew, irrationalities flourished at the interface between the half-reformed command economy at home and markets in the outside world.11 Commodities and manufactures with low fixed prices under the plan could be exported for big profits, but doing so meant giving foreigners the benefit of subsidies intended for Chinese consumers. Products with high domestic prices set by the plan could fetch windfall profits for importers because they were available more cheaply abroad, but this process wasted foreign exchange and damaged domestic producers. The government tried to control surges and to patch irrationalities with ad hoc mechanisms such as import licenses, export subsidies, tariffs, tax
rebates, exchange-rate manipulations, administrative controls over foreign exchange expenditures, and shifts in the percentages of profit or foreign exchange that trading firms could retain. These measures in turn embroiled China in conflicts with trading partners, who accused Beijing of protectionism and dumping (exporting products at below cost). The advanced industrial countries pushed China to accept quotas on the exports of textiles and other products and to honor foreign standards of hygiene, packaging, labeling, and the environmental friendliness of goods destined for export. Just as with disarmament and proliferation (chapter 11) and human rights (chapter 12), China found itself under pressure to comply with the preexisting norms of the international system that it was joining.

The pushback came more from the U.S. than from any other foreign partner, for three reasons. First, as the country that had taken the lead in creating institutions to foster global trade and investment since the end of World War II, the U.S. was never shy about criticizing practices that it thought were inconsistent with global norms. Second, starting in 1971, the U.S. ran a trade deficit that with a few exceptions increased year by year. While this was happening, companies producing for the U.S. market—especially those run by Hong Kong, Taiwan, and South Korean entrepreneurs—took advantage of China’s friendly investment environment and low labor costs to shift manufacturing operations to China. Even when a large part of the value of a product was produced elsewhere before it was assembled in China, the entire final value was counted as an export from China. Therefore, other Asian countries’ trade surpluses with the U.S. shifted to the Chinese account, and as America’s aggregate trade deficit grew, it also became more concentrated on China. The U.S. deficit with China overtook that with Japan to become America’s largest bilateral trade deficit in 2000 and continued to grow.12 Third, the concentration of the deficit on a single partner produced a fat political target for constituencies in the U.S. whose interests were hurt by globalization, even if China was not the root cause of their problems. They were able to express their views through Congress and other channels available in the democratically responsive American political system.

Citing provisions of its own law—which requires a U.S. administration to sanction a foreign trading partner that fails to meet certain U.S.-legislated standards of fairness in its trading practices—the U.S. demanded far-reaching changes in China’s trade regime. In 1992, China agreed to a Market Access Agreement giving the U.S. unprecedented access to Chinese markets, thereby exposing the Chinese auto, pharmaceutical, chemical, and other industries to intensified foreign competition. But China was slow to implement its promises. Among other reasons, local governments used the powers they had been granted for promoting trade to find ways to protect local industries. This protection generated continued friction with the U.S.

Washington and Beijing also engaged in a long struggle over intellectual property rights (patents and copyrights in such products as chemicals and pharmaceuticals, computer software, books, recorded music, and movies on videotape and DVD). Under Mao, intellectual
products had been considered common social property that should be popularized rather than protected. In 1985, the Chinese government adopted its first patent law, but Western businesses considered it inadequate. By 1991, when the pirating of American software, music, and movies was estimated to cost U.S. copyright holders hundreds of millions of dollars a year, the U.S. gave China an ultimatum to pay fees or suffer trade sanctions. Similar ultimatums were delivered in 1994 and 1996 as the estimated losses to piracy approached $2 billion a year. In each episode of pressure, China at first threatened countersanctions but then made major concessions. In each case, the U.S. was dissatisfied and demanded more changes and better enforcement. In the course of these negotiations, Beijing agreed both to enact still more laws and regulations with U.S. advice (such as amendments to the Chinese patent law in 1992) and to allow such international standards as the Berne Convention for the Protection of Literary and Artistic Works to prevail over China’s domestic legislation in cases of conflict. As the central government made concession after concession to outside demands, policy on the ground lagged behind due to local protectionism, corruption, and an inadequate legal system.13 China’s failure to fulfill its commitments generated new waves of conflict with other countries.

Part of the solution to such problems was to deepen reform. In the 1980s and 1990s, China struggled especially to carry out price reform and foreign exchange reform, both of which were slow, difficult, and controversial because of the risk of inflation and the many domestic interests affected. Price decontrol proceeded under Deng in fits and starts. Loosening of government control over foreign exchange transactions began in the mid-1980s. In 1994, the government introduced a managed floating exchange-rate system. In the 2000s, Chinese leaders tried to steer their giant economy toward higher wages, greater domestic demand, and lower export dependence and tried to move the Chinese currency in the direction of convertibility—but such changes always unfolded more slowly than foreign partners desired.

GETTING OUT BY GETTING DEEPER IN: THE WTO NEGOTIATIONS

The only path of escape from the dynamic of constant domestic criticism and international friction that beset the open-door policy was fuller engagement in the globalized economic system.14 This in turn could be achieved only by gaining membership in the WTO. The WTO is an intergovernmental organization that sets the rules for international trade. By joining, China would bind the hands of conservative domestic opponents of globalization and put the country’s tempestuous economic relations with the rest of the world on a rule-bound basis that would be relatively insulated from foreign political pressure. But WTO membership could do this only by entrenching China more deeply than ever in interdependence with its trading partners and by binding it more tightly in a complicated system of mutual commitments.

As with the other elements of Deng Xiaoping’s reforms, the Chinese leaders did not conceive WTO membership in such far-reaching terms at the start. Rather, when China began its WTO bid in 1986 (when the organization was still the General Agreement on Tariffs and Trade), it intended merely to reclaim a diplomatic slot that had previously been held by the ROC and as a side benefit to gain lower tariff rates on its exports to other countries. Chinese officials at the time had little expertise in the agreement’s workings, which were in any case a moving target as the organization rewrote its rules, expanded its membership, and restructured itself in 1995 as the WTO.

WTO accession negotiations are inherently demanding. They were even more so for China. The WTO is a club of what are supposed to be market economies, which agree among themselves to a set of rules governing trade, investment, and dispute resolution. States with socialist centrally planned economies or in transition from such economies to market economies have to make special concessions to offset their “nonmarket” status. An applicant for membership has to reach agreement bilaterally with each current member (there were 90 members when China first applied, 142 by the time it finished its talks) and then give the same benefits to all members (“most-favored-nation treatment”). All the concessions are made by the applicant, with each bilateral agreement providing the starting point for more demands by the next negotiating partner.

Negotiators were especially tough on China because it was the biggest nonmarket economy ever to try to join the organization. Chinese leaders were reluctant to abandon protected (and usually inefficient) state industries such as chemicals, pharmaceuticals, automobiles, and electronics to potentially devastating foreign competition without a long adjustment period. China’s negotiators cited poverty and backwardness in asking permission under the concessionary program the WTO allows developing countries to prolong many of the requested reform measures. The U.S. and other Western negotiators retorted that China was too successful a world trader to be eligible for so many exemptions for so long. They feared that once China got minimal terms for entering the organization, it would feel little pressure to open its markets further. Such a big trader had to be brought into the world trading regime somehow, yet no practicable level of concessions would turn it into a true market economy in the foreseeable future.

The core issues therefore became how large a cost the rest of the world would pay to help China plunge more deeply into world markets and how rapidly China would lower its barriers to imports and foreign investments in exchange for enhanced access to WTO members’ markets. The issues were politically toxic in both China and the West, and the negotiations dragged on for fifteen years. The U.S.–China agreement was finally signed in 1999; after cleaning up remaining matters with several other members, China signed an Accession Agreement in November 2001 and entered the WTO in December 2001. The Accession Agreement was more than eight hundred pages long, with thousands of specific commitments covering virtually all aspects
of the economy. Under its provisions, China undertook to make sweeping changes in its economic policies. Among these changes, it had to lower tariffs from an average of 36 percent in 1993 to 8.9 percent on industrial products and 15 percent on agricultural products in 2004 (making its economy one of the most open in the world); remove many nontariff barriers to imports, including import and export licensing and quotas; abolish export subsidies for its producers; give foreign products access to the Chinese market on the same terms as domestic products (“national treatment”); improve legal protection for intellectual property; and allow foreign-invested enterprises into hitherto banned sensitive sectors, including distribution, franchising, transport, telecom value-added services, banking and financial services, insurance, securities, legal and accounting services, construction, and education. The government had to repeal thousands of WTO-inconsistent laws and regulations and reform the courts, legal system, banking system, and relevant administrative agencies.

Merely to negotiate these commitments, not to mention to implement them, China found it necessary to create and restructure numerous government agencies and hire or train thousands of specialized bureaucrats, thus changing the DNA of its own government institutions. Moreover, to satisfy suspicious U.S. negotiators, China had to agree to a Transitional Review Mechanism under which China, alone among WTO members, was to be reviewed annually for eight years for its compliance with the Accession Agreement. In exchange for meeting its commitments to liberalize its economy, China is scheduled to receive “full market economy status” in 2016, which will immunize it from certain kinds of trade disputes. Meanwhile, however, using the WTO Dispute Resolution Mechanism, the U.S. and other trading partners have frequently sued China for dumping and have often won.

THE BEIJING CONSENSUS

But Beijing did not give everything away by joining the WTO. Instead of being forced to make a transition to a fully Western-style economy, Chinese policymakers used the accession process to help create a distinctive state-directed yet marketized and globalized economic model that was to prove more competitive than the market economies, at least for a while. No one outside the Chinese policymaking elite knows how clearly this new Chinese model was conceptualized in advance by the leaders who guided the final stages of the WTO talks (CCP general secretary Jiang Zemin and Premier Zhu Rongji). But what emerged from the changes China made to join the WTO was an economy that drew strength from global trade and investment without compromising the primary role of the domestic market in its economic growth, that benefited from but was not dominated by the surging private and foreign-invested sectors, and, above all, that used market mechanisms to
promote efficiency without undermining the state’s ability to rule the economy’s commanding heights.

Some writers refer to the post-WTO Chinese model as the “Beijing consensus,”15 in distinction to the “Washington consensus,” which is a market-dominated approach long in vogue in Western economies and in the philosophy of the international financial institutions, which the U.S. has dominated. Other countries may not be able to fully emulate the Chinese model, given China’s unique size and distinctive institutions, but leaders elsewhere who for one reason or another wanted to reject advice from Washington found inspiration in the Chinese example for the argument that there is more than one right way to manage an economy in the age of globalization.

To be sure, the post-WTO Chinese economy was in some ways a privatized market economy like those of the West. Private capitalists, including foreigners, could invest in most sectors. Private enterprises grew faster than state enterprises in the 1990s and 2000s. Prices of most goods were set by market mechanisms. Yet the state remained dominant to a far greater degree than in the West. The government continued to own all land, both rural and urban; to manage directly the energy industry, water supply, banking, and railway transportation; and to control those former state enterprises that had nominally been privatized via the party’s assignment of top managers,16 the presence of party committees, and government direction of bank credit. A thousand or so of the largest state-owned enterprises were turned into integrated “national champions” that dominated strategic sectors such as energy, telecom, heavy industry, defense industry, mining, media, banking, and transport.17 By 2010, forty-two Chinese companies were listed in the Fortune Global 500, and a majority of them were more than 50 percent state owned. Direct and indirect policy levers gave the government the major voice in determining the prices of land, labor, housing, energy, and credit. Although agriculture had been privatized, the state continued to influence the prices of agricultural products through land-use controls, subsidies, and barriers to imports, among other measures.

The Chinese currency, the renminbi, was not easily convertible into foreign currencies. For trade purposes, it could be converted by anyone (on the current account), but for investments (the capital account), which are longer term and involve greater quantities of money, the currency could be exchanged only by qualified investors for certain types of investments. The exchange rate floated within a narrow band whose limits were set by the government through its buying and selling of foreign exchange, all of which it held in its own hands. The limit on free conversion of money on the capital account served as a powerful barrier to international speculation in the renminbi, which might otherwise have forced the government to allow its value to go up faster than policymakers wanted it to in light of the impact currency appreciation has on jobs and inflation. In the 1997 Asian financial crisis, when the currencies of several Asian nations collapsed in value and many countries’ growth stagnated, China’s nonconvertible currency remained immune from speculative pressures. China gained gratitude from its neighbors at that time for not devaluing in order to compete for export markets, yet there was no strong temptation for Beijing to do so because China’s exports
remained robust. WTO membership opened the Chinese economy to foreign enterprises but did not enable a foreign takeover. Instead, aided by the economy’s continental size and complexity—and, to be sure, by some cheating on WTO rules and the use of some WTO-inconsistent protectionist measures both formal and informal—domestic companies continued to dominate Chinese domestic markets by number of firms and by sales. And under a “going-out” policy initiated soon after WTO entry, the government used the reciprocal opening of other economies to prod Chinese enterprises to compete successfully in the global marketplace, helping them to do so with credit from state-owned banks.

Nor, finally, did WTO membership make China dependent on foreign trade for its growth. To be sure, China’s foreign trade ratio (foreign trade as a percentage of GDP) was high for a large continental economy, around 51.9 percent in 2008. And the economy benefited from this trade to create jobs and to bring in investment, and enjoyed the demonstration effects and backward linkages that came along with foreign investment. Yet China ranked only nineteenth in foreign trade ratio in 2008, below Indonesia (54.5 percent) and not far above France (51.8 percent). Even at that rate, the China foreign trade ratio is misleadingly high because it is calculated on the basis of dollar values, which, given that the Chinese currency is undervalued, understates the denominator and exaggerates the relative size of foreign trade. The importance of foreign trade as a driver of China’s economic growth is also placed in perspective if one considers that Chinese exports consist mainly of products assembled by Chinese workers from imported components for foreign brand names. Chinese policymakers in the mid-1980s dubbed this strategy “two heads outside” (liangtou zaiwai) because both the source of components and the market for products were outside China. In such a global supply chain, profits attributable to engineering and design, brand value, and marketing are captured by the foreign owner of the brand name; profits attributable to the manufacture of high-value components go to external manufacturers (often elsewhere in Asia); and the yield to the Chinese economy is limited to the cost of labor for assembly. According to one report, China in the mid-2000s earned only thirty-five cents of the value of a $20 doll labeled “made in China.”18

In all, therefore, Chinese growth was less “export driven” than was the case with the so-called Asian tigers in the 1950s through the 1970s; it did not depend on running a consistent trade surplus. Indeed, on a global basis China’s imports and exports were close to balanced for most of the open-door period, generating large surpluses only after 2005. The steadily growing surplus with the U.S. (and smaller surpluses with other rich countries, especially in Europe) was balanced in most years by deficits with China’s sources of components, raw materials, and energy. Although exports helped economic growth, the major drivers of growth were rising productivity, efficiency, and domestic demand generated by a more affluent population. When foreign markets went into recession in 2008, China’s domestic market was sufficiently large to avoid—with aid of a substantial government stimulus package—a corresponding slump in the Chinese rate of growth.

In short, China found a way to throw itself into the surging currents of globalization in a manner that not only did not hand control over its destiny to other countries or to international institutions, but in some ways even strengthened its autonomy. In domestic politics, the push to enter WTO steamrolled domestic constituencies that feared globalization: once the leaders had made up their minds to join and had signed the WTO Accession Agreement, affected ministries and regions had to adapt. Although many noncompetitive firms went out of business, their disappearance improved the economy’s efficiency, and the firms that remained were stronger than before. Instead of globalization fostering domestic instability, as many observers expected, the regime drew strength from prosperity. The government used surging budgetary resources to start building a social welfare net that blunted domestic dissent. And it used its growing international respectability to cultivate the pride of its own people, which also strengthened its hold on power.

In global politics, WTO membership largely freed China from Washington’s hydra-headed trade politics. Trade and investment disputes were now mostly channeled into the WTO Dispute Resolution Mechanism, a long-drawn-out process too technical to command the close attention of Congress and the media and whose decisions both Washington and Beijing accepted as binding. China sometimes won cases here (e.g., a 2002–2003 case that declared U.S. steel tariffs illegal and a 2008–2011 case that ruled against antidumping measures the U.S. had imposed against tires, pipes, and certain other Chinese products) and more often lost (e.g., a 2008 case that invalidated rules compelling Chinese car makers to obtain a certain proportion of their parts from local manufacturers). Either way, WTO rules deprived Washington of the option of threatening trade sanctions to force China to settle economic (and sometimes noneconomic) disputes on its terms. To clear the way for Chinese accession to the WTO, Congress had been obliged to authorize “permanent normal trading relations” in 2000, which meant that tariff rates with China were no longer subject to congressional review. U.S.–China economic negotiations of course continued constantly on a range of topics, but they were less subject to political interference, in part because of China’s rising economic clout, but in the main because the two nations were now mutually constrained by the WTO.

Finally, as a WTO member, China gained an influential voice in shaping future changes in the global trade regime. In the so-called Doha Round of trade talks from 2001 to 2008, China and other large developing countries clashed with the U.S. and Western Europe over measures to safeguard poor Third World farmers against possible surges in imports of agricultural commodities from rich countries. This conflict led to the collapse of this round of trade liberalization talks. Even though the WTO project of setting universal rules for world trade through multilateral negotiations was set back by this collapse—some said that the project could go no further in the foreseeable future—China continued to pursue ways to open up trade further through agreements with single partners (e.g., Chile, Australia, and Thailand) and groups of partners (e.g., ASEAN, whose free-trade agreement with China came into effect in 2010). Such agreements had little measurable impact on
trade volumes, but they sent a message about multipolarity and Third World cooperation that was consistent with overall Chinese diplomatic strategy.

TRADE, AID, AND INVESTMENT: THE CONTINUATION OF POWER POLITICS BY OTHER MEANS

China’s importance as a trade and investment partner altered its strategic situation in a fundamental way.19 By 2010, China ranked as the number two trading country in the world and was an important economic partner in various ways to all the world’s major powers. It was no longer conceivable that the West would unite to isolate China as it did in the era of containment. To be sure, after the Tiananmen incident of 1989, the leading industrialized countries had imposed limited trade and investment sanctions, but these sanctions had little practical impact, and most of them were quickly lifted. (The exception was an embargo on the sale of advanced arms, which the European powers wanted to lift in the 2000s, but the U.S. prevailed upon them to maintain.) They were also the last sanctions to be imposed on China, despite continuing human rights abuses and numerous economic disputes. China had become too important as a customer, supplier, and creditor to be punished by economic means. Constituencies that favored putting pressure on China—the human rights and labor movements, manufacturers crushed by Chinese competition, victims of copyright and patent infringement—found themselves politically checkmated by constituencies having a positive economic stake in relations with China—the financial industry, importers, firms with factories in China, and others. Strong business lobbies emerged in the U.S. and Europe that worked to stabilize relations with Beijing. Trade threats lost their credibility.20

Economic ties smoothed China’s relations around its periphery. In Hong Kong, the business community supported retrocession to Chinese control in 1997, believing that economic ties with the mainland would do more for Hong Kong than political reforms. In Taiwan, cross-strait trade and investment built up an incentive to oppose independence. Trade and investment prospects contributed to South Korea’s shift of diplomatic recognition from Taipei to Beijing in 1992. In the 2000s, Australia put new emphasis on good relations with China as its prosperity became increasingly tied to Chinese ore and energy purchases and mining investments. China’s rise as a manufacturing–assembly center for the more advanced Asian economies created the first period of Asian economic integration in history, supporting China’s assurance strategy in the region.21 China’s need for raw materials made it a key customer and hence a key diplomatic partner of many countries in Africa, Latin America, and the Middle East.

Economic ties opened the way to strategic access. Governments welcomed China to build roads, pipelines, ports, and railways, extending
China’s transport network deep into Vietnam, Burma, Nepal, Sri Lanka, Pakistan, Turkmenistan, Uzbekistan, Kazakhstan, and Mongolia. Such projects not only eased access to energy imports and opened China’s hinterland to cross-border trade but helped tie neighboring economies more closely to China’s and in some cases created logistical facilities with potential military uses.22

Robust development gave China enough money to make a dramatic transition from foreign aid recipient to major donor and lender. China had provided development assistance to selected African states in the 1950s, but not until 1982 was a special foreign aid agency created, the Department of Foreign Aid in the Ministry of Foreign Economic Relations and Trade (later renamed the Ministry of Commerce). In the 1990s, the government created three banks with international responsibilities—the China Development Bank, the China Agricultural Development Bank, and the China Exim Bank, the latter charged to create a program of concessional loans abroad. In 2007, the China Development Bank launched the China–Africa Development Fund.23

Despite this major initiative, China still does not publish official figures on foreign aid. One scholar estimates that its ODA jumped from $500 million in 1996 to more than $3 billion by 2007. Nevertheless, its ODA to Africa in 2007 approximated only about 20 percent of what the World Bank and the U.S. each provided to the continent as well as less than the ODA provided individually by Germany, Japan, the United Kingdom, and France. Moreover, comparing loans from the World Bank and China’s Exim Bank is “like comparing apples and lychees” because most of the former are interest free and repayable over thirty-five to forty years, whereas the latter are interest bearing and repayable in ten to twenty years.24

SHARED VULNERABILITY IN GLOBAL SYSTEMS

On the downside, the deep immersion in globalization has posed a whole new category of security challenges for China. Under conditions of advanced globalization, not only China but its friends and enemies alike are subject to global “system effects”25—forces that they jointly create but cannot control. The risk is not so much that countries can use economic links purposely to hurt each other, but that they can harm each other unintentionally in the course of trying to manage their own economies. The controversy of the 1970s and 1980s in China over the pros and cons of entering a global economic system that other countries controlled has yielded to worries over immersion in a global economic system that no one controls.

By the time China joined the WTO, the globalized economy was larger and more interdependent than anyone—in China and probably
elsewhere—had ever foreseen it would become. International trade as a percentage of world GDP had gone from 38.5 percent in 1980 to 54 percent in 2005; international investment as a percentage of world GDP went from 0.5 percent to 2.3 percent. And both continued to rise thereafter.

Global flows of this magnitude created historically novel pressures on job markets, commodity prices, foreign exchange markets, the environment, and public health, among other domains. And in politics they generated new pressures as well—demands for protectionism in many countries, the antiglobalization movement, and, with respect to China in particular, the fear of a “China threat” to the economic welfare of other economies, both advanced and developing. While producing a new level of mutual vulnerability, intensified globalization made it harder than ever to figure out how to apportion responsibility for solving systemic problems. China faced these challenges with distinctive strengths rooted in its economic and political system, but also with specific weaknesses arising from its position in the world economy.

First, globalization linked job markets across borders. Even though workers could not travel freely to find jobs, many kinds of jobs could be transferred more easily than before to places where they could be done at good quality for low cost. From 1985 through 2004, Chinese township and village enterprises created an estimated 3.5 million new manufacturing jobs per year, filling them mostly with workers who were no longer needed for farm labor as the agricultural economy became more efficient and partly with the 20 million or more new workers entering the job market each year.26 These workers started out in the 1980s producing clothing, toys, shoes, bicycles, lamps, and power tools. They moved up the technological ladder in the 1990s to produce computers, household appliances, specialty steel, automobiles, and ships. Chinese manufacturers then set their sights on higher-tech global markets, including airplanes, electric and luxury cars, electronics, pharmaceuticals, and environmental technologies.

The rise in Chinese jobs manufacturing for export did not automatically mean a decline in jobs elsewhere. For one thing, as the global economy grew, manufacturing was increasing not only in China, but in other countries as well. In addition, the rise of living standards in China generated new jobs in China’s trade partners in agriculture (to supply China with meat, soy beans, apples, and so on), manufacturing (to supply China with parts for assembly), high-tech industry (to sell China airplanes, power stations, precision machine tools, and medical instruments, among other products), intellectual property (movies, music, software, and so on), and services (including legal and financial services). Because of this dynamic, U.S. exports to China increased every year after 2001 even as its trade deficit with China also increased. Third, job markets were changing in other countries through their own internal processes of development independent of whatever was happening in China. In wealthy countries, advances in technology caused productivity to increase, so fewer workers were needed to produce more goods, and workers tended to shift from manufacturing to the service sector. In developing countries, job markets also changed constantly as economies changed.

Yet certain jobs did migrate to China. Most of them had been lost by the West long ago when wage increases made it uneconomical to manufacture low-price products. Such jobs were moving from other Asian economies or countries such as Mexico to take advantage of China’s low wages and increasingly reliable quality, creating pressure on other developing economies to find new competitive advantages against not only China, but other rivals. Direct loss of jobs from the advanced countries to China were statistically small, yet they were politically visible, as when factories were packed up and moved from Ohio or Dortmund, Germany, to new sites in China27 or when communities of Chinese workers moved to Prato, Italy, to take jobs in designer garment factories at wages lower than Italian workers were willing to take.

The impact of the global economy was felt on the Chinese job market as well. Instead of growing, that job market would shrink if overseas markets contracted. Knowing this narrowed policymakers’ freedom of action. For example, it meant that even when the value of the U.S. dollar went down, China could not stop buying U.S. Treasury bonds despite their low or negative rates of real return, out of concern for the effect that doing so might have on one of their largest markets. In effect, buying U.S. Treasury bonds was a way of lending money to American consumers to keep buying Chinese goods so Chinese citizens could keep on working—and continue to subsidize American consumers. It was hard for either side to dismount from this merry-go-round.

Looking over the other shoulder, Chinese policymakers had to worry when new exporters such as Vietnam started producing quality products at competitive prices. To be sure, the Chinese export powerhouse depended on more than inexpensive labor—it also depended on labor’s quality and reliability; the quality of Chinese ports, telecommunications, and financial services; and efficiencies arising from what is known as “industrial clustering.”28 Yet as Chinese manufacturing wages inexorably increased with the general rise in living standards, they put pressure on manufacturers of price-sensitive products. Such dynamics made it hard for the Chinese government to enforce its own labor laws, which were good on paper, for fear of pushing companies out of business. The pressure of competition also made it difficult for China to rapidly raise the exchange value of the renminbi, even though policymakers wanted to do so in order to control inflation and reduce the price of imported investment goods and energy, because a higher renminbi would increase the price of imports and put more pressure on wages.

Despite these complexities, China’s size and rate of growth made it the natural focus of blame for job losses in the West. There were no “made in India” labels on software or “made in Brazil” labels on aircraft for consumers to see, but they saw “made in China” labels on shoes, radios, toys, clothing, and a products that in many cases were not really made but only assembled in China. In the U.S, Europe, and Japan, labor and industry groups demanded more antidumping investigations directed at China than at any other country. Labor rights groups exposed violations in Chinese factories producing for export. The Chinese government tried to manage the political backlash by sourcing imports in a wide range of electoral districts all across the U.S. and Europe and by arguing that its low-priced, good-quality goods enhanced
living standards in the West. In the developing world, China sought to position itself as an economic good neighbor. But none of this stemmed the hostility to globalization in general and to China in particular produced by the worldwide acceleration of job shifts.

Second, the rise of globalization meant increased mutual vulnerability in commodity markets. By 2010, China was one of the world’s top consumers—and in many cases one of the top importers—of many strategic commodities, including oil, food grains, wool, cotton, rubber, copper, lead, zinc, tin, nickel, aluminia, and rare earths.29 As global demand surged with global growth, supply interruptions or demand surges produced bumps in the market, when prices rose and supplies proved harder to get. To avoid short-term inflationary effects, the government subsidized the domestic prices of gasoline, electricity, transportation, and fertilizers, among other items. Not only did the subsidies drain the government’s coffers, but they promoted wasteful use of commodities, leaving a legacy of financial and environmental damage.

For the longer term, Chinese policymakers tried to guard against commodity shortages in several ways. Under the rubric of “grain security,” they tried to keep grain imports at 5 percent of consumption by promulgating policies to preserve arable land, raise per hectare productivity, and use tax relief and subsidies to encourage peasant farmers to produce food grains alongside the more profitable specialty crops. Under the heading of “energy security,” they promoted more efficient use of energy; invested in domestic oil and coal production, hydropower (such as the Three Gorges Dam), as well as nuclear, solar, and wind energy; and sought to lock in “equity oil” abroad so that they could count on supplies even in times of global shortage (chapter 7). They purchased shares in copper, iron, and cobalt mines abroad. They placed restrictions on the export of rare earths to preserve supplies for domestic production of electronic products, batteries, and solar panels.

In the face of rapid growth, however, even long-term policies could only slow, not stop, the erosion of commodity security. Expanding factories, roads, airports, and housing chewed up arable land. Water was too scarce to provide the intensive irrigation that green-revolution strains of rice and wheat needed to supply higher outputs per acre. The population was not only growing in size, but changing its diet. As people used their new wealth to buy more eggs, meat, farmed fish, and beer, it took more grain to meet each person’s needs. New factories, cars, and airplanes required more hydrocarbon energy than Chinese coal mines and oilfields plus Chinese-owned overseas sources could supply.

Dramatic increases in Chinese demand were often seen elsewhere in alarmist terms as the main factor disrupting world market stability. The actual effects varied by commodity. In petroleum, for example, greater Chinese demand contributed to rising prices for crude oil, but, at least during the period 1995–2004, global production also increased, which softened the effect on prices. In 2004, China accounted for only 8 percent of world consumption, whereas the U.S. guzzled 25 percent of the world’s petroleum output. By contrast, the price of a product such as wood pulp (the key input for paper) remained basically constant despite growing Chinese demand during the same ten-year period. In the case of ferrous scrap metal (important in the making of steel), dramatic price increases occurred during the same period, pushed to some extent by
China, but also by rising demand in other steel-producing countries such as South Korea and Turkey.

People worried that China’s demographic size and the speed of its economic growth (along with the rise of India and some other countries), beyond their impact on prices, had finally brought the earth close to the long-discussed limits of its carrying capacity.30 Ideas such as a global “limit to growth” and “peak oil” (the danger of oil supplies running out) threatened Chinese security by giving rise to pressure on Beijing to rein in the rising living standards that were crucial to the regime’s domestic stability.

A third area of interdependent vulnerability in the global economy involved the management of currency and foreign exchange. For domestic firms to buy and sell from foreign firms, they had to use dollars, euros, yen, or a small number of other international reserve currencies. As China’s trade went into a global surplus around 2005, Chinese accounts accumulated large surpluses of these currencies. Because most global trade is conducted in dollars, most of this surplus came in the form of dollars. Only a small fraction of China’s foreign trade was conducted on a “currency swap” basis with the use of the Chinese yuan and another nonreserve currency such as the Brazilian real. In the face of this situation, the government had to make two policy decisions: how to treat the exchange rate between Chinese and foreign currencies and how to deal with the foreign exchange reserve generated by the trade surplus.

The government chose to keep control over both the exchange rate and the management of foreign exchange reserves. The People’s Bank of China set the exchange rates between the Chinese yuan and the global reserve currencies, and the State Administration of Foreign Exchange managed the reserves. The chief reason to sustain government control of these functions was to prevent changes in the value of foreign currencies from causing inflation in the domestic economy and hence affecting Chinese citizens’ welfare and political loyalty. A second reason was to maintain exchange rates at levels favorable to the promotion of Chinese exports. A third was to manage foreign exchange reserves in such a way as to ease political relations with influential officials in Washington and other foreign capitals—for example, by purchasing U.S. Treasury bonds to help the U.S. government manage its fiscal deficits.

But such policies were rife with pitfalls both economic and political. On the economic side, a low yuan-to-dollar (or yen or euro) exchange rate promoted exports at the cost of shifting benefits from Chinese to Western consumers. In effect, by virtue of government-controlled exchange rates, Chinese workers accepted lower wages to subsidize higher living standards for Western consumers. Artificially low yuan values also helped create overinvestment, waste, inflows of speculative capital, stock market and real estate bubbles, and inflationary pressures—all of which required government responses to try to manage and smooth them out.

Likewise, conservative management of foreign exchange reserves saddled the Chinese economy with low (sometimes even negative) returns on huge investments. In 2011, China held the equivalent of $3.2 trillion in foreign exchange reserves—more than any other country. Although
the makeup of these reserves was a secret, most experts estimated that about 70 percent of the money was held in dollar-denominated assets during the 2000s, even though the value of the dollar was declining in relationship to other reserve currencies. In 2007, China set up a sovereign wealth fund, the China Investment Corporation, to invest a fraction of the reserves more aggressively for better returns, but the corporation’s initial investments performed badly. The total amount of the reserves was in any case too large for a large fraction of it to be managed in this way. Nor could China convert large amounts of its dollars to other currencies without driving down the value of its dollar stake even further while also harming the economic health of one of its chief markets and raising the prices of Chinese products in that market. Through its holdings of U.S. dollars, therefore, China’s economic health was to some extent held hostage to the wisdom of financial managers in Washington—a wisdom that China had little faith in after the economic crash that started in the U.S. in 2008.

Exchange-rate controls and foreign exchange reserve management became added counts in the “China threat” discourse centered in but not limited to Washington. Partly in response to pressure from Washington and partly in order to move toward its own long-term goal of making the renminbi an international exchange currency, Beijing in 2005 launched a “managed float” of exchange rates. The yuan rose in value from 8.27 to the dollar in 2005 to 6.36 in 2011, an increase of 23 percent. But the revaluation had no discernible effect on the U.S.–China trade balance, and the slow, irregular pace of the increase failed to mollify critics in Washington, who intermittently threatened trade sanctions if China did not move faster toward a market-determined exchange rate.

MUTUAL VULNERABILITY IN OTHER GLOBAL SYSTEMS

The logic of mutual vulnerability extended beyond the economy to encompass other interconnected spheres of life—most importantly, the environment and public health. Here, too, the new logic applied: even though countries are more likely to hurt one another inadvertently than on purpose, such harms could be serious, and they are increasingly likely because global systems are too complex to control.

Mutual vulnerability in the natural environment is one example of this logic. China is one of the most polluted countries in the world. To a large extent, the pollution is caused by China’s production for consumers abroad. There is also much pollution from dumping of electronic waste that has come back to China after outliving its usefulness in the West. In this way, participation in the global economy imposes heavy economic and health costs on the Chinese people.31

In turn, some of China’s behaviors hurt the environment for people abroad. Poisons dumped by Chinese factories into the Songhua River
have more than once reached downstream populations in the Russian Far East. River and ocean dumping has polluted the waters off the Chinese coast and pushed Chinese fisherman farther into the surrounding seas to compete with boats from other countries. Because of prevailing winds, emissions from Chinese factories have reached Korea and Japan as acid rain and “yellow dust.” Even soot in Los Angeles has occasionally been chemically traced to Chinese factories. If a nuclear accident on the scale of Japan’s 2011 Fukushima reactor disaster were to occur somewhere on the Chinese coast, it might well deliver radiation to more people in Japan, Korea, and Taiwan—depending on which Chinese reactor was involved—than in China itself. Farther away, demand created by China’s economic growth contributes indirectly to forest depletion, water pollution, and habitat destruction in Southeast Asia, Africa, and Latin America.

It is in China’s long-term interest to help solve such environmental problems. They often arise from inefficiencies, the improvement of which will bring benefits to all. As jobs in polluting industries are lost, new jobs can be created in remediation and green industry, but that kind of transition is painful and expensive and can hurt vocal constituencies. As in other countries, in China the enforcement of environmental regulations lags behind commitment, and there is always the question of who bears the cost. Whereas foreign critics claim that China uses backward environmental standards to subsidize exports and compete for jobs unfairly, the Chinese criticize the use of environmental protection standards by developed countries to erect barriers to Chinese imports.

The grand example of mutual vulnerability in the environment is climate change (global warming) because the movements of the earth’s atmosphere mix everyone’s pollution together and bring its baneful effects to bear indiscriminately. Burning 2.6 tons of coal per person per year as of 2009, China has become the number one contributor to the production of carbon dioxide and other greenhouse gases. But coal remains the only way to meet a large fraction of China’s soaring energy needs. A wholesale switch to renewable sources is not an option. China is developing nuclear power, but nuclear plants are expensive and slow, require sophisticated safety equipment, and pose the risk of environmental damage in case of breakdown. Major hydropower projects such as the Three Gorges Dam entail habitat damage and population displacements and have proven internationally controversial. Any increase in oil and gas use makes China more dependent on international sources of supply, and these fuels carry their own environmental problems, which will worsen as Beijing implements its commitment to develop the domestic automobile industry to supply China’s emerging middle class with private cars.

Beijing has shown a willingness to recognize its shared interest in the global commons and to cooperate with evolving world standards. It created the National Environmental Protection Administration (upgraded to a ministry in 2008) as well as local environmental protection agencies and signed a number of international environmental agreements. The government is phasing out the household use of charcoal briquettes for cooking and heating and requires state-owned factories to burn coal more efficiently and install emissions-scrubbing equipment.
But China has drawn the line at slowing its pace of development to ameliorate pollution problems that the Chinese argue were created by the developed world. It took the position at the 2009 Copenhagen climate negotiations that China would not take extra measures to slow emissions unless the developed countries drastically slowed their own emissions and gave major aid to China and other developing countries to help cover the cost of emissions cuts there.32

China and other countries are also mutually vulnerable in the area of public health. HIV/AIDS came into China from outside. Now there are three epidemics, two of which are linked to cross-border transmission—intravenous drug use along the Burma border and sex work along the east coast (the third epidemic is the blood transfusion epidemic in Henan, which is gradually diminishing as the blood purchase stations are banned and the victims die). No disease that originated in China has so far spread to the rest of the world in a major way. But the spread of Severe Acute Respiratory Syndrome (SARS, 2002) and avian flu (2003) from China to neighboring countries put the world on notice that China might produce disease vectors that under modern conditions would travel quickly to the rest of the world. As a result, international health organizations such as the WHO began to pressure the Chinese authorities to share information more quickly and accurately than they had done in the past, thus leading to another loss—however beneficial in the long run—to China’s accustomed autonomy.

A third example of mutual vulnerability lies in the Internet and other forms of new information technology. The Internet took off in China around the mid-1990s and reached some 500 million users in its first decade. Between 2000 and 2009, cell phone subscriptions increased almost sevenfold from seven per one hundred persons to fifty-six, with escalating use of texting and Twitter. The government promoted the use of information technology as a focus of economic growth but also invested major resources in a multilayered control system, the Great Firewall, to prevent information from destabilizing domestic politics. In 2009, the government closed down the Internet for six months in Xinjiang to prevent the spread of antigovernment ideas among the restive population. In 2011, the authorities worked hard to control the spread of information about unrest in the Middle East and the use of the Internet and cell phones to call for a peaceful “Jasmine revolution” in China. The Internet also served as a channel for threats projected outward from China to other users. For example, the Pentagon, Google, and numerous other institutions and individual users outside China reported hacking and phishing attempts and virus attacks emanating from inside China. It was unclear when the hackers were private persons and when they were Chinese government institutions.

Despite all the problems brought by globalization, the policy direction seems irreversible for both China and its foreign partners. A Chinese pullback from global markets would hurt both Chinese and foreign workers and consumers and threaten the stability of both the Chinese and the global economies. Even if foreign powers wanted to stop the economic rise of China, they have no practicable way to do so. The only thing that might decouple China from the global economy would be a global depression or other breakdown that would affect all parties in
unpredictable negative ways.

CHINA’S ENGAGEMENT IN INTERNATIONAL REGIMES

In the face of the kinds of mutual vulnerabilities just described, states have responded by creating more—and more complex—international regimes than ever before. International regimes are systems of norms and institutions that regulate interactions in various domains in the international system. Examples range from the UN, which seeks to maintain international peace and security, to the international financial institutions such as the World Bank and the IMF that regulate global finance, as well as to more narrowly focused regimes such as the WTO and systems governing international air traffic, migration, postal traffic, police cooperation, arms proliferation, human rights, and numerous other fields large and small. International regimes include formal provisions at their cores in the form of treaties, conventions, and other agreements. They often establish regulating bodies such as the UN Security Council or the WTO Secretariat. They sometimes also include a penumbra of informal norms about how states should behave within that regime. Most regimes are “intergovernmental” in nature, with states as their chief actors, even if NGOs and other entities also participate in some form. Some regimes are “nongovernmental,” with countries being represented by formally private organizations, such as national Olympic committees.

China’s entry into the world system caused it to become an active member of virtually all the international regimes in existence—a massive change in posture from the Mao period, when the PRC was a member of almost no international organizations except those that formed part of the socialist camp.33 Until 1971, the China seat in the UN was held by the ROC instead of by the PRC. After the PRC regained that seat, it began to join other international organizations connected to the UN, such as the WHO and the Food and Agriculture Organization. It started to take an active role in UN bodies related to human rights (chapter 12). It regained the China seat in bodies such as the World Bank, the IMF, the WTO, the Asian Development Bank, the International Olympic Committee, and so on (chapter 8).

One of the most dramatic shifts came in China’s participation in the global nonproliferation regime. Under Mao, China rejected all international limits on proliferation of missiles, nuclear weapons, and other weapons of mass destruction, arguing that such restrictions aimed only to consolidate the two superpowers’ hegemony. Starting in the mid-1980s and accelerating during the 1990s, China acceded to a host of treaties—including the Biological Weapons Convention (1984), the NPT (1992), the Chemical Weapons Convention (1993), and the Comprehensive Test Ban Treaty (1996)—and it joined long list of additional agreements, institutions, and committees. Through its diplomatic
activity, China tried to prevent or roll back the nuclear weapons programs of North Korea and Iran. It announced its support for the idea of nuclear-free zones and for treaties that had been proposed to ban the circulation of fissile materials, to ban the first use of nuclear weapons, to ban the development of antiballistic missiles, and to ban an arms race in outer space. Although the motives for joining different parts of the arms control and nonproliferation regime varied, in general the shift reflected Beijing’s judgment that preventing proliferation was good for China’s security (chapter 11).34

Once the PRC joined an international regime, it complied with its rules about as much as any other member. Complying often required a phase-in period, which could be contentious, as in the areas of nonproliferation and protection of intellectual property rights, because the central government had a hard time enforcing compliance with international rules on bureaucratic agencies and local governments that had an interest in avoiding compliance.35 China’s compliance often involved disputes with other members over the meaning of the rules, as when China, using the WTO Dispute Resolution Mechanism, sued the U.S. over the meaning of the term dumping or when China differed with the U.S. over the legitimate ambit of authority for the UN Security Council to intervene in the internal affairs of states such as Serbia or Iraq in pursuit of “international peace and security.” Chinese compliance also did not preclude Chinese efforts to change an organization’s voting rules or other rules. So China was not blindly compliant, and as its power increased—and its diplomats’ sophistication about each regime’s rules grew—it sought to become not only a rule follower, but a rule shaper. But in these respects China’s behavior was no different from that of other powers, all of whom used their seats at various tables to pursue their own interests.36 Even when it came to the international human rights regime, China attended the necessary meetings and filed the necessary reports on time even if its actions at home contravened what international NGOs claimed was the covenants’ real intent (chapter 12).37

For China as for other states, participation in international regimes has been a mixed blessing. It has involved a yielding of autonomy to the shared community of states and sometimes to independent international bureaucrats and to the influence of an ill-defined international public opinion influenced by NGOs and other private actors. Yet to fail to participate would be to forego many of the benefits that globalization offers. Abiding by the rules has not meant giving up the pursuit of national interest, but learning how to pursue that interest under new conditions and in new ways.

LOOKING FORWARD: CHINA AS NUMBER ONE

Once Deng Xiaoping propelled China into engagement with the international economic system, its role in that system has never stopped changing.38 How much more will change if and when China becomes the largest economy in the world, as it is predicted to do by some time in the 2020s if its economic trajectory stays on course? This expectation might be derailed by domestic instability or global economic shocks, but assuming that China becomes number one eventually, what will it mean for China’s place in the world?

China as number one will be different from other economic number ones in history in several ways. First, its lead will not be built on technological preeminence, but on demographic preeminence. To be sure, the Chinese government has invested in research and development as well as in the shortcuts of technical espionage and reverse engineering. Its high-tech and military industries are continuously improving, its export industries are moving up the value chain, and the government has invested in research institutes that are striving to seize the world lead in plant biotechnology, genomics, particle physics, nuclear energy technology, and nanotechnology. But unless the other high-tech nations stop competing, China will not surge ahead of them in a wide range of fields to become the global fountainhead of technology as nineteenth-century England or twentieth-century America did.39 It will be the biggest economy because it has the largest population. On a per capita basis, however, it will still be relatively poor.

Second, even though China as number one will command enormous financial resources and market power—setting the tune for global commerce and finance because it will have the biggest market—its prosperity will still be interdependent with the prosperity of its global rivals such as the U.S. and Japan. It will not prosper like nineteenth-century colonial powers by exploiting and impoverishing other societies. It will not benefit from setting up an exclusive economic bloc the way the U.S. and the USSR each did during the Cold War. Unlike Spain competing with Portugal in the sixteenth century, Holland competing with Spain in the sixteenth and seventeenth centuries, or Britain competing with France in the nineteenth century, China will not get ahead if its rivals do not. Their economic decline or destruction will not help China. This connection has grown even stronger as globalization has intensified interdependence around such issues as climate change and public health.

Third, although China’s economic size will give it an ever-growing appetite for oil and other raw materials, it will not be able to gain commodity security through conquest as the colonial powers did in the eighteenth and nineteenth centuries or through indirect neocolonial control as the U.S. did in the twentieth century. Given the existence of other strong powers competing for resources, neither conquest nor domination is an option. China will have to get hold of commodities through economic means.

Number one status will undoubtedly enhance the influence that China’s way of doing business is already having. More young Westerners will flock to China to learn Chinese and the art of “human relationships” Chinese style. Chinese music and films will gain wider appeal; the
Chinese renminbi will become an international reserve currency, giving Chinese officials the ability to print money with less risk of inflation. Moreover, China will gain a share of the seignorage privilege that the U.S. and other minters of reserve currencies have enjoyed to get free loans by letting other countries accumulate their currencies.

The program that started in the 2000s to make China a “branding superpower” will most likely expand. China will gain a stronger voice in the World Bank and the IMF and in international negotiations over trade, climate, Internet security, and other issues. And with a larger market, it will have a growing ability to set the rules by which transnational corporations have to act—as it began to do, for example, when it adopted an antimonopoly law in 2008, becoming one of only three markets (along with the U.S. and the EU) that can regulate transnational corporations’ ability to merge.

Of course, China itself will change as it rises to number one status in ways we cannot predict. Some say it will democratize. Or perhaps economic success will strengthen its authoritarian system. Either way, whoever is in charge is likely to use the country’s newfound economic power to pursue national interest based on the strategic challenges that they face at the time.