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# China and its New Place in the World

Highlights from the conference  
28-29 September 2009, Ottawa





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# China and its New Place in the World

*A conference of the Canadian Security Intelligence Service  
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## **The conference and its objectives**

On 28-29 September 2009 and in partnership with the International Development Research Centre, the Canadian Security Intelligence Service (CSIS) hosted a two-day conference on China. The event, conducted under Chatham House rules, pursued three objectives: to continue to foster a community of interest on China in Ottawa, to improve the participants' understanding of the country's influence in the world, and to explore some of the future courses the People's Republic of China (PRC) may take in the next five years.

The expert panels were organised around six thematic modules. The first two modules concentrated on the domestic realities shaping today's Chinese political agenda. The third one reviewed China's likely economic posture after the 2008-09 global financial crisis and explored the potential for China's rising global economic influence. The fourth module looked at the implications for Canada of China's current global standing. The fifth and sixth modules situated China within a broader regional context, through a review of its most enduring foreign policy dilemmas.

The conference sought to make explicit the drivers of Chinese influence in the world. The conference welcomed a diversity of participants and relied on experts from Canada, China, Europe, India and the United States. The list of issues considered during the conference could not cover all important aspects of contemporary China. Rather, the event addressed a selection of key themes and set the background for a continuing dialogue on salient ones. This conference report provides a summary of the main ideas presented by experts and discussed with participants during the course of the event. It should be noted that the views, ideas and concepts reflected in this report are not that of CSIS and are offered as a means of supporting an ongoing discussion of China's new place in the world.

## Executive summary

Since China initiated its economic reforms during the late 1970s, the world has watched with considerable interest and has contemplated in sophisticated ways how the international community might effectively engage a rising China, a potentially new global power. China's economic reforms were more than just economic in scope; they marked a significant shift in China's dealings with the rest of the world, a measured retreat from Mao Zedong's earlier anti-imperialist nationalism, which saw China being closed-off from the international community. China's scale – its sheer size in every meaningful measure – has warranted much analysis amongst experts and policymakers, and has fuelled debates in popular media and everyday conversations. Indeed, the seemingly irreversible “rise” of China and its integration into the global community have prompted much expert speculation about the nature of this rise and its implications. The rise of China has been understood by many to be tantamount to an emerging China threat, a reflection of realist power transition theories. As such, foreign policies regarding China have tended to vacillate between strategic ambiguity and strategic engagement. At their core, however, such policies underscore a general uncertainty about China's rise and what it means.

The current global economic crisis has, in some ways, brought greater clarity to the China question and the impact of its rise. Contending views about China's ability to maintain its extraordinary growth trajectory in the wake of the crisis notwithstanding, the current global economic crisis has revealed a weakened U.S. economy, a comparatively robust Chinese economy embedded in a fast-recovery Asia region as well as an imperative for greater Chinese leadership in global affairs, including governance leadership in the environment, global finance, trade, security and diplomacy. Talks of a G2 cannot easily be dismissed. The crisis has therefore proven an important moment in global affairs, an analytical exclamation point to China's longer developmental rise. It provides a clearer sense of (i) what is *known* about China, but also (ii) what remains *unknown* about China's emergence and (iii) why the latter and its implications remain clouded in uncertainty.



## What is known

Observers and commentators know for certain that China has “arrived”. Its rise has been facilitated by extraordinary aggregate economic growth and a projected growth rate over the medium term which will outpace much of the industrial world. China’s rise, as alluded to above, entails more than just economic growth, however. Based on expert discussions at the CSIS conference, it is possible to identify with greater certainty three additional characteristics of China’s trajectory.

First, China’s rapid and sustained economic growth over the past several decades has afforded it a greater stock of economic power in the global system. Its scale is a tremendous comparative advantage: cheaper though increasingly skilled labour, financial capacity and the promise of an enormous domestic market. China’s fiscal capacity and foreign exchange reserves are also a tremendous source of leverage in global money governance, even if Chinese leaders see excessive holdings in U.S. dollars to be a constraint and that the lack of RMB convertibility restrains a more aggressive Chinese global financial position. Nonetheless, the arrival of China, at least economically, means that the country enjoys greater autonomy in the international economy and a broader array of economic policy instruments available to Chinese policy-makers.

Second, China’s engagement with the international system is truly global. China’s geostrategic management of relations with the U.S., the EU, India, the rest of the global South and its neighbours in Asia has become more complex, requiring greater diplomatic sophistication. China’s foreign relations complexities are rooted in how it engages various parts of the world differently, be it managing China’s energy dependency through “oil diplomacy” with Russia, Latin America and Eurasia, strategically engaging aid diplomacy with parts of the less developed world, or challenging the status quo inside international organisations such as United Nations institutions which govern global security, trade and the environment. Despite having to manage its global geostrategic relations in varied and complex ways, depending on the region or country, China consistently and invariably maintains a principled commitment to sovereignty and territorial integrity. China thinks of Taiwan, Tibet, Xinjiang, Hong Kong and Macao in not dissimilar ways; they are, or ought to be, a territorial part of a sovereign China. Furthermore, China’s military capability is growing, though still well short of the military capabilities of the U.S. One also knows that, save concerted efforts in global public diplomacy, China still poorly projects soft power in the West and even amongst its Asian neighbours.

Third, it is very unlikely that China will democratise any time soon. It is well known now that with China's rapid economic growth and political development, protest movements have emerged in its countryside and cities. The targets of such protests are varied, as is the impact of such movements on politics and the economy. The state's response to protest movements are also varied. In other words, civil society in China remains inchoate and organisationally disparate, weakening what some might expect to be the seeds of democratic change. Nonetheless, though liberal democracy may not arrive any time soon in China, observers now have a much better sense of the social, economic and political pluralism within China. The Chinese Communist Party (CCP) and the state apparatus are not monolithic entities. Policy-making involves significant consultation, particularly with expert communities and non-governmental organisations (NGOs). The state takes seriously societal input, if only to ensure the regime's non-democratic legitimacy. And elites inside the CCP are hardly unified amongst themselves, with discernible factions contesting, bargaining, accommodating and compromising with one another quite openly.

## What remains unknown

While it is certain that China has emerged as a significant player in global affairs – politically, economically and diplomatically – it remains unclear where exactly China is heading. This uncertainty is exemplified in prevailing expert analysis about China's post-economic crisis recovery. On the one hand, there are those who believe that Chinese policy-makers have implemented sound economic policies to ensure the country's continued long-term growth. Macro-economic balance, a strategic approach to privatisation, good fiscal and money management, and policy efforts to allow firms to capture a broader spectrum of economic value-added including new high-technology industry activities all bode well for China's post-crisis growth trajectory. Increased social policy spending, notably in health care, will also bolster China's domestic consumer economy as people will have more disposable income to spend. Yet, on the other hand, equally compelling though more critical arguments point to a much gloomier scenario for China's longer-term economic development. Critics of the country's economic reforms question the accuracy and reliability of economic data. Furthermore, they contend that severe socio-economic bottlenecks loom on China's horizon, notably growing levels of inequality, regional imbalances, a migrant labour crisis, increasing wages, extraordinary environmental degradation, local corruption and the absence of institutional checks and balances.

It remains uncertain exactly what kind of role an emboldened China will play in the international community. Though many can imagine it playing a more critical role in global affairs, many remain sceptical about its readiness and willingness to be a global leader. When it comes to climate change and international financial governance, for instance, China appears cautious. In these policy areas, China remains more of a policy “taker” than an international policy leader. Yet, China’s military build-up, and especially its efforts to develop its own blue-water navy, is seen as a challenge to the U.S. in terms of regional security dominance, if not a more ambitious plan towards global security leadership. The uncertainty surrounding China’s “grand strategy” in global affairs is particularly significant in shaping its relations with the U.S.

Indeed, much uncertainty remains as to the kind of world order China envisions for the future. The China threat thesis, for example, clearly sees the rise of China as the basis of power transition: the transition from a global order dominated by one unipolar power (the U.S.) to a new global order wherein a challenging state (China) dissatisfied with the prevailing international system becomes the new unipolar hegemon. China’s hard-line position on some international issues – for instance, territorial claims, its military build-up or its resistance to adopt a more comprehensive human rights regime – is evidence of this realist point of view. And if the power transition is not yet complete, many see China’s rise and the challenge to the U.S. to be evidence of an emerging bipolar international system. Yet, China’s relations with ASEAN, increased regional and global economic integration, China’s greater involvement in international organisations, especially the UN system, and its critical leadership in brokering negotiations with North Korea point to a more multilateral commitment to managing global affairs. In short, China’s behaviour in international politics, economy and diplomacy has provided mixed evidence of how it imagines the future of the international system.

What is *known* and what remains *unknown* about China’s new place in the world has implications for Canada. Though Canada is a relatively minor economic and political power on the global stage, Canada’s foreign relations with China have nonetheless enjoyed a long and relatively positive history. Canada’s Norman Bethune, once lionised by Mao to be a great revolutionary and admirer of communist China, continues to resonate with Chinese and China’s leaders. But that was the past; the future for Canada-China relations looks to be relatively uncertain.

Canada's economy is very much tied to the American economy, and thus to the extent that China's relationship with the U.S. is uncertain, so, too, is the relationship between Canada and China. Canada possesses some comparative economic advantages in that its capacities for commodities extraction and production (energy, minerals) are appealing to an energy import-dependent China. In addition, Canada's Arctic passages might provide logistics appeal for Chinese shippers and the transport of freight to and from China. However, China's rise has also illuminated Canada's vulnerabilities. China's scale and global purchasing power, for instance, can affect commodities prices, which can just easily harm Canadian producers as it could benefit them. Moreover, in recent years, the government of Canada has taken a more critical position on China's human rights record and its slow democratic development, a position which has been noted in Beijing and which has potentially harmed Canada's relations with China. In sum, while it is unlikely that Canada figures centrally in China's grand strategy in global affairs, China's growing influence nonetheless impacts Sino-Canadian relations in significant, if indirect, ways.

## Why uncertainty

The CSIS conference covered in this report provided empirical evidence of some of what is known and what is not known about China. Expert analysis also illuminates why there remains, in many ways, great uncertainty surrounding China's rise, its place in the world, and implications for global affairs. Uncertainty is compounded by the interaction of China's evolving domestic political economic agendas, on the one hand, with dynamic international imperatives and others' objectives that come with an increasingly integrated international community, on the other.

First, much of what is unknown about the implications of China's new power rests in the uncertainty surrounding the future role of the U.S. in geopolitics. The American market has effectively functioned as the global consumer of last resort for much of the post-war era, anchoring the export-oriented economies of the developing world. The American security umbrella, a reflection of its preponderant military power, has also provided stability in Asia. American hegemony has not been disputed since the end of the Cold War. Will the U.S. continue to play these roles? Can the U.S. continue to be the global security and economic anchor? Much of China's rise and the implications of its will depend on the relative position of the U.S. and its objectives in the international system.

Second, China's growing footprint in global affairs reflects current domestic debates about Chinese nationalism. Chinese nationalism is hotly contested, a potentially combustible mix of an ethnically charged national identity, a deep-seated historical victimisation narrative as well as despair over the lost decade of the Cultural Revolution. At times, Chinese nationalism can appear aggressive and prideful of China's extraordinary rise. Yet at other times, Chinese pundits are suspicious of foreign motives and of conspiracy, reverting back to a Maoist, anti-foreign nationalism. While at other times, Chinese nationalists lament China's weakness. The point is that these different sources of national identity shape differently China's engagement with the international system.

Third, it remains unclear what citizens and Chinese leaders specifically see to be China's position in the international system. On the one hand, analysts occasionally see Chinese foreign policy behaviour which reflects real global leadership, such as with the case of North Korea and to some extent in global finance. China understands that it is economically powerful and it is not reticent in using its muscle, for instance in oil diplomacy, to ensure its foreign policy objectives are met. Yet, Chinese leaders also vehemently assert that China is still a developing country, and that it ought to be afforded certain concessions, most notably in trade negotiations and in efforts to combat global climate change. In other words, China's rise means that it is both one of the world's largest economies yet still a developing economy. How China perceives itself as either a global economic power or a developing country matters in how it manages its increasing influence and the latter's implications on global affairs.

Finally, while observers' understanding of policy debates inside China and the emergence of a more pluralist process has improved considerably, still little is known about how precisely policies are made. Absent the sort of institutional transparency typical of democracy, the policy process in China remains opaque. Expert analysis shows, for instance, that a strong central party-state apparatus notwithstanding, policy-making and policy implementation involve complex interactions both horizontally (amongst state units) and vertically (centre-local relations). Analysis also illuminates extraordinarily complicated bureaucratic processes of decision-making, animated by varied incentive structures and institutional opportunities and constraints. In other words, while it is understood that policy processes in China have become increasingly complex, determining how such complexities translate into actual policies remains uncertain.



## **Highlights from the experts' presentations**





## Highlights from the experts' presentations

### Chinese National Politics

#### Nationalism and its impacts on Chinese policy-making

A useful temporal perspective helps one to understand China's relation with its own past. Indeed, separating Chinese historical experience into the categories of the *millennia*, the *century* and the *decade*, is a useful strategy for one to approach feelings of Chinese national identity from inside China's own imaginary structures.

The *millennia* can be understood as the pride in five millennia of Chinese civilisation. This instrumentalisation process is deeply rooted in the Chinese population today; it conjures up a romantic and idealistic image of imperial China, on which several peoples and polities depended on as tributaries in history. But this historical pride in a Sino-Centric Asian order goes even further today. Some see a revisionist hint emerging in Chinese discourse, as China rejoins with elements of its past, including renewed emphasis on its Confucian values and respect for the existing order. China is slowly leaving the position of a status quo power and gradually being more forthright in at least proposing elements of a new kind of system for international relations today.

The *century* category can be understood as a period of humiliation. The century started with the Opium Wars (1839-42 and 1856-60) and ended with the Korean War (1950-53). The Chinese psyche relates to this century of humiliation with sustained anger today. Narratives of victimisation and humiliation at the hands of foreign imperialist powers are enmeshed with narratives of heroism and victory over imperialist forces under Mao during the Second World War.

The category of the *decade* is more precisely understood by the sentiment of a "lost decade" and expressed through memories of extreme radicalism that still echo today. The period in question is the 1966-76 decade of the Cultural Revolution, which saw the country descend into chaos and overtaken by the radicalism of the Red Guards. Strikingly, this radical style is alive today, as evidenced by some citizens' furious reactions, conveyed on the Internet, to symbolic events threatening China's image internationally. This effective, cyber-based, Cultural Revolution mentality and mobilisation mechanism have policy consequences that are both domestic and international in nature.

Domestically, the regime's legitimacy will increasingly rely on a shared vision of patriotism. It will increasingly be used as a vehicle for voicing discontent amongst citizens, as it was in the aftermath of the Sichuan earthquake in May 2008. Also to be observed are the national discourse on the Internet and in the press developing distinct undertones of Han-centric, chauvinist nationalism. Yet such nationalism does not challenge the system in which it takes place; nationalistic ardour has become an integral part of the political system itself.

*"It appears that the Chinese government may be more beholden to nationalist fervours than would a democratic government,..."*

At the international level, assumptions that authoritarian structures are at an advantage because they are not constrained by public opinion, as democracies are, are not supported by evidence. It appears that the Chinese government may be more beholden to nationalist fervours than would a democratic government which for example limits considerably the Chinese leadership's latitude in terms of foreign policy. Indeed, there has been a noticeable transition from a more defensive nationalism to a more assertive one on the international stage. Illustrating the popular sentiment that could weigh on China's political leaders, surveys have shown that the fear of humiliation is seen to have more weight in Chinese students' perceptions than U.S. military threat.

## **Leadership: Competing ideas to manage China**

There is much continuity within Chinese leadership and governance structures today. For instance, there is no sign of the emergence of a multi-party system in China, no checks and balances amongst the three branches of the government, and the Chinese Communist Party (CCP) continues to control strictly the army, the bureaucracy, the media, as well as the legal and the judiciary system. There are, however, signs of an emerging Chinese model of pluralism within the existing political structures.

An expert on factional politics presented the model of "one party, two coalitions" to the participants, as a useful formula to grapple with the growing differentiation of backgrounds and policy priorities within the Chinese leadership: the populist and the elitist coalitions.

The populist coalition is labelled the Youth League faction, or *Tuanpai*. *Tuanpai* officials are mostly from relatively modest origins or rural areas, especially from inland regions. They have often risen through the ranks of provincial party leadership structures or the Youth League (President Hu Jintao was one of them), and have mostly gained expertise in cultural, agricultural, propaganda and party affairs. The interests of the *Tuanpai* generally focus on social cohesion, paying greater attention to the migrants, peasants and urban poor. High party officials within this coalition have voiced their policy preferences for increased employment, health care, affordable housing and sustainable development for instance.

On the other hand, the elitist coalition is formed mostly of *princelings*, i.e. sons and daughters of former high-ranking officials. They come from affluent backgrounds, often from coastal and big urban areas, and concentrate their expertise mostly in the finance, trade and banking industries, as well as in the private sector and public security areas. In terms of policy priorities, they tend to favour increased market liberalisation, high growth, continued integration in the global economy and the assurance of Shanghai remaining the centre of Chinese economic and financial activities.

This system has created its own set of balancing forces, as the two coalitions are complementary to each other in terms of expertise and leadership skills. They both have vested interests in the stability of the political system, and are thus willing to cooperate on certain issues. They are also both part of the “lost generation”, who were sent to work in the country side during the Cultural Revolution and this gives them a set of shared experiences. As both coalitions are equally powerful, this has resulted in a careful distribution of their respective members at the top of the leadership.

Amongst the rising stars of the fifth generation of Chinese leaders (Hu Jintao is part of the fourth generation), each coalition has placed three of its most prominent members in strategic positions. Most significantly, for the first time in the Chinese Communist Party's history, Hu Jintao has identified not one but two successors, one from each coalition. What is understood at this time is that Xi Jinping, the country's vice president and a prominent member of the elitist coalition, has been designated as the next president of the People's Republic, while Li Keqiang, the country's executive vice-premier and

a member of the populist coalition, has apparently been selected as the future premier, eventually replacing Wen Jiabao. This will mean, amongst other things, that Shanghai is likely to become a top policy priority again if Xi Jinping reaches the top as planned.

This double nomination is intended as a balancing act. If the two factions are strong, their leaders are weak compared to Mao Zedong and Deng Xiaoping, who wielded extremely concentrated power in the past. This results in a policy process that is today much more complicated and less nimble, which could hamper timely and adequate responses in times of crisis. This has led some politicians to reach out to the general public for support and has the potential to encourage nationalist responses to foreign policy crises for example.

The presence of policy divergences along relatively clear lines of membership to the two coalitions can potentially form the base for an emerging form of pluralisation within the existing party structures in China. This system has the potential to evolve into a more institutionalised pluralisation process in the coming years, and signs have been given that a number of party leaders are open to the idea.

The emergence of the fifth generation of leaders in China require a different approach on the part of foreign governments. Visiting officials should keep in mind the need to devote equal time to members of the two coalitions when meeting with Chinese leaders, and not to privilege ostensibly one over the other.

## **Beijing's relations with the provinces**

If there ever was a time when Chinese politics could be understood without ever leaving the capital, this time has long passed. Increasingly, centre-local relations are a crucial piece of the puzzle. In fact, Chinese politics, going back as far as 1957, can be better understood as a series of experiments in decentralisation.

The latest decentralisation trend began in 1979, when the supporters of the reform process delegated economic and political decision-making powers to local governments. This decentralisation process has been described as a continual, reactive dynamic where the centre establishes its preferred policies and where the localities implement their counter-measures. However, it can be argued that there are a number of more predictable dynamics that can help observers make sense of these decentralisation movements and of what may appear at first to be “irreducibly complex”.

The “matrix muddle” of the Chinese centre-local relations has been described by Kenneth Lieberthal and Michel Oksenberg<sup>1</sup>. In their conceptualisation, every government unit in China has a number of relationships, both vertical and horizontal, with bureaucratic and party units. Certain relations are binding leadership relationships – the ones through which allocation of personnel and resources are made – while others are professionally non-binding relationships. This dizzying array of linkages is not represented on official organisational charts and presents a challenge for casual observers wanting to understand the power relations at play in the Chinese system today.

Identifying the direction of leadership relations for instance is crucial in understanding the functioning mechanisms of important bureaucracies. Few of them, like the General Administration of Customs, are centralised. Most of them are decentralised, like the agricultural bureaux spread across the country, which do not share leadership relations with the Ministry of Agriculture in Beijing, but rather with the provincial governments. This decentralised structure, endemic throughout the system, favours an “implementation bias” favouring local interests over national policy. This decentralisation trend seems to be strengthening over time, increasing the complexity of relations between units.

There have been recentralisation attempts by Beijing, which have mostly failed, due to the gradual loss of leverage Beijing has over the command economy. The centralisation attempts that have been successful have stopped short of extending the leadership relationships back up to the centre. In many cases, the centralisation extends only up to the provincial level. This has created a concentration of power at the provincial level, while the centre maintains discipline via the party apparatus, through the choice of top appointments for instance.

This overwrought system which governs enforcement mechanisms in China has at least three consequences for policy-making patterns in China today. First, at any given time, China has a maximum of two to three high-priority policies, which require a tremendous amount of resources over a sustained period of time. Second, these policy areas are often those upon which cadres’ performance is assessed

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<sup>1</sup> The fragmented authoritarianism model, from which the concept of matrix muddle is derived, first appeared in this book: Lieberthal, Kenneth and Michel Oksenberg. 1986. *Bureaucratic Politics and Chinese Energy Development* (with Michel Oksenberg). Washington: Government Printing Office, 400 pp. Kenneth Lieberthal is director of the John L. Thornton Center and senior fellow at the Brookings Institution. Michel Oksenberg was last a professor of political science at Stanford University.

for promotion. State capacity is so significantly absorbed by those measures that there are most often no resources left for lesser priority issues, like enforcing copyright. Third, in today's political and economic environment, any policy that seeks to maintain or reassert political or social stability is likely to trump anything that lies in its path.

In certain cases however, innovative actors from the non-governmental as well as commercial sectors have targeted certain policy areas with success and have pushed local governments to become more consistent with central policies which were previously not implemented locally. Such actors serve as mediators between what segments of the population want and what government wants.

## Discussion

Conference participants and speakers discussed the difficulty for the Chinese system to take decisions and implement policies in a consistent way, and attempted to identify the most salient issues currently monopolising Beijing's resources. A speaker answered that three clusters of policies are given very high priority at the moment, i.e. to:

- develop the western part of the territory;
- respond to the challenges created by the global financial crisis while fostering economic development generally; and
- elaborate a comprehensive and effective resources acquisition and management strategy.

A second set of questions sought to clarify the extent to which the two coalitions are nascent political parties or the beginnings of durable internal rivalry. Are the differences stark enough that they can envisage a pluralisation process in the near future, and how would they manage this transition? What precise set of policies do the two coalitions agree on? A speaker indicated that this is a very combustible set of issues. He reiterated that the two coalitions are willing to compromise to preserve China's stability and continued development. He also stated that when dealing with minorities, the leaders are leaning considerably towards a harder-line policy. There is an emerging consensus that the centre has been "too kind" in the past and that a nationalistic approach might unite leaders over this question. There is very little sympathy left for a more liberal approach towards Xinjiang and Tibet, supported by Premier Wen Jiabao. The speaker emphasised that the two-coalition model is dynamic, and

will not stay as such forever. In ten to 15 years, the party may split, hopefully peacefully, along those lines. Even politburo members now say that 20 years is a long time.

A participant then asked whether the nationalist movements which followed the torch relays in Europe in 2008 were spontaneous or were manipulated to some extent by the Chinese party-state, pointing to the fact that popular protests seem to peak and dissipate in a matter of minutes. A first speaker indicated that the state indeed can use movements to its advantage at times, as do certain people who use opportunities to enhance their individual interests. But there has also been a very spontaneous, bottom-up component to nationalist protests in recent years. In fact, the Internet allows for less leadership-driven nationalism and the expression of deeply felt identities to flourish.

## China's Soft Power Abroad

Commentators have often asked how the external world influences China and considered it as a dependent variable. Increasingly now they are turning this logic around and are pondering how China impacts the rest of the world. This leads us to the interesting challenge of evaluating China's soft power abroad. Measuring soft power has always been a difficult task. One of the first steps in attempting to do so would be to go back to Joseph Nye's original definition of soft power, as there is some confusion surrounding the concept in the literature and media today<sup>2</sup>. Nye proposed that *soft power is the capacity of a society to attract others to want what it wants*. Interpreted in this way, it is not public diplomacy, nor is it the capacity of the government to persuade others. In fact, soft power has little to do with government and much to do with society.

There are multiple angles with which to approach and evaluate a country's soft power: bilateral, multilateral, cultural, military and commercial. The presenter focussed on the cultural dimension. China's messages abroad are born as domestic propaganda. They are not developed specifically for overseas audiences, but rather as the external reflection of internal messages. Consequently, one must become familiar with the internal propaganda if one wants to

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<sup>2</sup> Joseph Nye first developed the idea of soft power in this book: Nye, Joseph. 1990. *Bound to Lead: The Changing Nature of American Power*, New York: Basic Books. He is a University Distinguished Service Professor at the Harvard Kennedy School of Government.

understand China's external narratives. Amongst some of the messages transmitted abroad are myths, which have been reinforced domestically over 60 years of propaganda and constitute, in fact, a large part of Chinese self-identity and self-perception.

Amongst such myths populating the Chinese psyche, one finds the following:

- China's current development as the "sixth rise" in China's history;
- China as a developing country;
- the Communists fought against the Japanese during WWII, while the Nationalists did not;
- China as a historical global power;
- China as a historically peaceful country;
- China does not interfere with other countries' internal affairs;
- the "one country, two systems" model is working well in Hong Kong and thus will in Taiwan, too;
- China's militarisation poses no threat for the rest of the world; and
- China has suffered aggression, and will therefore not do the same to others.

Generally speaking, there is great acceptance in the Chinese population, of these various myths.

It was argued by the speaker that there is no Chinese soft power as defined in the way Joseph Nye defines it. In other words, China is not a magnet; others do not want to emulate it and there is no such thing as a Chinese model replicable overseas.

There are three possible lines of argument that would support the proposition that there is substance to China's soft power.

- 1) the core of Chinese soft power is culture (Confucianism, Daoism, Buddhism);
- 2) the core of Chinese soft power is economic (hybrid nature of the economy);
- 3) the core of Chinese soft power is political (stability and one-party rule).

But what do others think about it? A survey<sup>3</sup> conducted by the Chicago Council on Global Affairs in 2008 examined soft power in East Asia. In it, China scored relatively high on the themes of traditional culture and

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<sup>3</sup> [www.thechicagocouncil.org](http://www.thechicagocouncil.org)



economic power. However, on whether it could be a potential leader of Asia, whether it had positive diplomatic influence on the region, its negotiating style, its commercial brands, its literature, its television shows, its legal system, its political system, and other aspects, China scored very low.

Indeed, China's soft power appeal is not as strong as it would wish. The People's Republic has invested huge resources in the past years to improve its image abroad. Its propaganda efforts are sustained: it invites more and more foreign students to study in China; it distributes substantial amounts of official development assistance; it has opened more than 270 Confucius institutes around the world; it has invested in humanitarian aid and peacekeeping missions abroad and more. But these initiatives are instruments of the state's public diplomacy; they do not constitute soft power.

China lacks the intrinsic social, normative values of soft power, said the speaker. International image management and soft power are not the same thing. If Chinese society itself has no attractive power, it is impossible for it to sell messages effectively. There is a continued discrepancy between the image China develops internally and externally. It is difficult to reconcile China's 60<sup>th</sup> anniversary of the founding of the People's Republic in October 2009, which showcased its military might, and Beijing's insistence on the concept of peaceful rise for instance. The two sides are not in resonance and seem contradictory to the observer. There is a high level of uncertainty, both in the Chinese academic community and in the propaganda apparatus about how to position the message to its own citizens.

## Discussion

One participant asked whether the limits to Chinese soft power are endemic to Chinese culture and civilisation or specific to the current regime. Another participant asked how might its political system evolve so that China can develop greater soft power. The speaker answered that the limits are specific to the current state and system. For instance, a competitive multiparty system, potentially empowering the eight existing parties, at least at the local level, and even if the Chinese Communist Party always won at the national level (a system that would look more like Singapore's), would yield more external appeal in East Asia and the rest of the world, as would a Hong Kong-style model (one third appointed, one third functional constituencies, one third directly elected). As it is now, the Chinese political system does not resonate on a global basis.

A second participant asked whether regional variation or geography come into play when considering receptivity to the Chinese model. The speaker answered that a potential Chinese model would be more transferable to the Middle East and to Africa, but that Latin America does not look at China as a model, but rather as a market. Another striking fact that emerged from the survey conducted by the Chicago Council on Global Affairs is that no Asian country wields soft power in Asia. In contrast, the soft power of the United States scored much higher than expected. In other words, if a genuine paradigm shift is taking place and researchers increasingly study China's external impact, this does not imply that China has meaningful soft power. Even China's military projection is extremely limited internationally, save its cyber warfare capacity. In commerce, China has more influence, though it is still limited.

A third participant asked whether the Chinese citizens were reacting differently to the run-up to the 60<sup>th</sup> anniversary of the founding of the Republic (1 October, 2009), than they had to the Olympics in 2008. The speaker replied that the difference was stark. Whereas the population expressed national pride and joy in 2008, this year the general feeling in Beijing was one of apathy and boredom with the preparations.

One is left wondering which mechanisms would allow for Chinese society to generate meaningful soft power and then to project it, considering the present political situation in the country.

## **Chinese Domestic Realities**

### **Tibet, Xinjiang and minorities**

China's population is ethnically quasi-homogenous. It is estimated that 92% of its population is Han Chinese. While there may be linguistic, cultural and regional diversity within this group, it clearly dominates the political and economic scene in China.

Of the 55 minority nationalities in China, representing 8% of the total population, two of those minorities have been garnering more attention in recent years: the Tibetans and the Uyghurs. Tibet and Xinjiang, where one finds the highest concentration of, respectively, Tibetans and Uyghurs, offer differing cases. For instance, whereas Uyghurs are a minority within their Autonomous Region, Tibetans constitute the vast majority of the population in Tibet, while the majority of Tibetans in China live outside the boundaries of their

Autonomous Region (in neighbouring provinces). The situation in Xinjiang – characterised by an extremely complex distribution of ethnic groups – complicates the task for foreign governments looking to influence minority rights in the province.

There are also similarities in the situation of both minorities. Beijing's bilingualism policy has marginalised the Uyghur language and has threatened the Tibetan one. Tensions have risen in Xinjiang as Uyghurs are also marginalised in the labour market, and competition for jobs between Hans and Uyghurs is as acute just outside of the Autonomous Region. In Tibet, the urban economy of Lhasa has attracted spontaneous Han migration. The Han are now a majority in Lhasa, and the best positions are given to Mandarin speakers.

The Chinese government could take action to help assuage tensions by allocating the post of party secretary to a member of an ethnic minority from the Autonomous Region. Both posts of Chairman of the Autonomous Region are already filled in this way.

Beijing's concerns with the two autonomous regions can be divided into two categories. The first concern relates to Beijing's general preoccupation with political and social stability. The central government fears the consequences of ethnic unrest and political fragmentation. The second concern is grounded in the reality that these minorities live in two of the most strategic parts of the country. Xinjiang is central to the geopolitics of oil in the region, while Tibet is central to the geopolitics of water.

Beijing and foreign powers, including Canada, have vested interests in the stabilisation of the situation in Xinjiang. The latter is a central route to bring energy to China's markets; its stability is a pillar of energy security in the region and worldwide. The refusal to meet Uyghurs' demands could raise the possibility of political violence, which would affect all concerned negatively.

The Tibetan plateau is the source of many of the world's greatest river systems and is at the centre of vital resources for the global commons. The impacts of climate change on the river systems could have consequences for over two billion people who live downstream.

## Social movements in contemporary China

Methodological considerations can impede observers' understanding of social movements in contemporary China. Figures indicate a steady increase in the number of incidents in China in the past years; however, more precise information about the nature of the movements, their demands, or the sequence of events, is very scarce.

Bias and pre-conceived ideas can impede an observer's reading of social protest in China. The Chinese media mostly attempt to limit the impact of the protests and use the events for political purposes. Western media, on the other hand, tend to depict protests in the sole light of pressures for regime change; they tend to see behind every protest a unifying political aim to install democracy. Additionally, the Western media mostly depict protests as a struggle between two radically opposing sides, with the central government described as reacting to civil society. Very few foreign journalists have investigated the possibility, for example, of different groups of protesters fighting one another.

There is a need to go beyond this media lens and refrain from viewing protest actions automatically as efforts to overthrow the regime. In present-day China, researchers cannot separate "power" and "society". In fact, the Chinese party-state has no uniform position regarding protest movements. The differences between protest movements are also striking: rural and urban dwellers protesting against pollution, urban dwellers protesting against property-related infringements, home-owners protesting against migrant workers, state workers protesting against privatisation, farmers protesting against confiscation of land, etc. There is, at present, no convincing reason to see a convergence in protest movements. There are more reasons to see them as opposed to one another in many respects.

The gradual implementation of the rule of law does not prevent particular groups from vying for the adoption of specific policies. For instance, home-owners are generally more successful than migrant workers in achieving change at the municipal level.

The line between power and society is blurred and changing in China. Most protesters' demands are congruent with existing regulations and are formulated as part of the official discourse and policy. The split left open is thus not between power and society, but between the local and central bureaucracies.

There are different views in the Chinese Communist Party regarding protests. Some say protests should be suppressed outright, while others maintain that they should be standardised into more acceptable forms. This reflects a balance between officials defending protest rights and others rejecting them. Roles also often conflate: increasingly we see members of the middle class playing a mediating role between protesters and the CCP; we see party members going in and out of the system, as they manipulate and are manipulated in turn by the party.

In sum there are no two sides – power and civil society – fighting against one another. One sees rather an entire battlefield of social tensions being managed and the continual friction between the proponents of two conceptions of a stable society: those who aspire to a society marked by the total absence of conflict, and those who view an ideal society where conflict is harmonised.

*“The prospect for democracy and a popular electoral system are perceived by the very people participating in protests as a factor of disorder.”*

If there is one consensus amongst protesters, however, it is to not change the current regime, to create and protect room for protest, and to establish recourse mechanisms anchored in laws and regulations. The prospect for democracy and a popular electoral system are perceived by the very people participating in protests as a factor of disorder.

## **Responses to environmental challenges**

Looking at recent government initiatives on environment management in China, including its recognition of the shortcomings of the current model of development, one would be tempted to believe that the country is taking appropriated steps in dealing with the environmental crisis it faces. While this might be partly true, one has to remember the scale of the environmental crisis in China at present to understand the magnitude of the issues it faces. For instance, China loses 8%-15% of its gross domestic product (GDP) annually to pollution (based on 2006 estimates), excluding health expenses; 60% of its river waters and 71% of its lake waters are not potable; one third of China's urban residents breathe unhealthy air.

China's response has been devised mainly through the traditional command-and-control system, and includes extensive regulatory efforts. However, the implementation phase has not been effective and this for many reasons. First, the newly created Ministry of Environmental Protection is not a strong ministry and suffers from lack of funding. This means that local environmental protection bureaux (EPBs) are responsible for funding their environmental initiatives, which the central government may supplement, although rarely, in support of specific projects. This lack of direct economic funding is also related to the fact that environmental protection is not explicitly part of the "harmonious society" goals enunciated by Hu Jintao, which focus on economic development with greater social equity. If local governments listen to pressures coming from "below", the clamour focusses on meeting basic economic needs. If they pay attention to pressures from "above", directives emphasise development and social stability, not environmental concerns. This causes the environmental concerns to be de-emphasised, despite regulatory efforts.

The environmental Kuznets curve<sup>4</sup> predicts that a country's environmental situation improves as levels of wealth increase beyond a certain threshold. If this is correct, China could focus solely on increasing GDP per capita. However, the challenge with China is that a potential development strategy that would not factor environmental issues would simply destroy the earth along the way.

Despite these challenges, there is growing recognition among the central leadership and civil society organisations that they share an interest in addressing the environmental crisis facing China. Both the central government and citizens seem to have a common objective in this respect.

*"International support of ENGOs can take the form of funding, technology transfers and training."*

A constructive role can be envisaged for China's environmental non-governmental organisations (ENGOs). In part because the Chinese central government knows that the international community is more likely to fund Chinese NGOs than government agencies are, which to some extent can operate as local anger release mechanisms to some extent, ENGOs would be a good point of entry for the global

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<sup>4</sup> Simon Kuznets was last a professor of economics at Harvard University and the 1971 Nobel prize laureate in economics.

community to have a positive impact on the environmental situation in China. As long as ENGOs took a cooperative stance toward the Chinese state, this approach could help to achieve the state's environmental objectives. At present, ENGOs remain heavily controlled by the state and their capacity is limited. But as China's environment continues to deteriorate, the incentive structure has to be rethought. International support of ENGOs can take the form of funding, technology transfers and training. Chinese ENGOs would also gain from exposure in the international media as well, as it would afford them a level of legitimacy and recognition that would make it difficult for the Chinese government to ignore them.

## Discussion

A participant asked whether the dynamic of government response to the Xinjiang and Tibet crises can have implications that are systemic for the whole country. In other words, could there be a possibility of contagion? Could grievances aired by different groups become a trigger for ethnic Han Chinese to unite around their own grievances? A speaker replied that there is a definite lack of empathy from Han towards Uyghurs and Tibetans. Furthermore, Tibet and Xinjiang can hardly be lumped together. The affective relationship towards Tibet, linked to a favourable view of Buddhism in wider society, does not exist with regards to Xinjiang for instance.

Asked whether he views the private sector as a significant player in the Chinese ENGOs' struggle for environmental change, a speaker answered that the business sector is engaged on certain levels, but that the country is suffering from extensive problems at the local level that demand more support. Exposing ENGOs to the international community is crucial; it would place them in the spotlight and thus make them harder to suppress. The support of pilot projects would also be useful: factories will want to engage in projects that come with technology incentives. This would be more efficient than simply providing capital. It is costlier for environmentally conscious governments to "clean up" the last 5% of a polluting Western factory (such as an industrial plant in Canada) than it is to "clean up" the first 95% of the pollution being produced by a similar plant in China. This is because the technologies available to address the initial 95% are more cost effective. Therefore if there is a global will to reduce pollution generally, investing in the elimination of that first 95% provides greater value for investment world-wide.

A participant proposed that in certain instances, more exposure could be counterproductive for Chinese ENGOs. The speaker replied that each ENGO's situation needs to be assessed separately; if one speaks with their representatives, the latter would make clear how they wish to be portrayed in the international media. Another speaker added that in the European Union, the environmental situation began to improve when NGOs started to collaborate with the state. The final stage was those NGOs' integration, so to speak, in the formal structures of European governance. More comparisons between Chinese cases and cases in others the industrialised world would indeed be helpful.

## **China's Economic Debates and its Future Impact on the Global Order**

### **Economic policy-making in China**

Western experts have tended to portray Chinese policy-making as a case of fragmented authoritarianism (vertical and horizontal fragmentation) and pragmatic authoritarianism (rational process of policy-making). The Chinese narrative is different, with experts and scholars playing an important role in presenting ideas to China's leaders. This vision has been instrumental in creating the current CCP concept of "scientific and democratic policy-making" (a consultative way to reach political decisions through a review of "expert" opinions). The reality is probably a compromise between the two views. When, as it does in China, policy-making shifts from an incremental, disjointed process to a more decisive and empirical one, ideas become central.

Ideas have become more central to policy-making in China, since a process of institutionalisation and normalisation has taken place in the past two decades. When Deng Xiaoping took power in 1978, he introduced measures to professionalise the party-state structure and younger, better educated individuals were promoted to replace party ideologues. A similar process was applied to the military, which has had a stabilising effect. A clearer functional differentiation between the party, the state and the state-owned enterprises (SOEs) has ensued. The fourth generation of party leaders, headed by the Hu Jintao-Wen Jiabao team, has emphasised the "institutionalisation, formalisation and procedural routinisation of socialist democracy", as well as increased intra-party democracy.

One can see in China the emergence of a consultative system built on existing institutions. For instance, the National People's Congress (NPC) is now seen as a place where policy differences are



mediated, as opposed to validated, as it was the case in the past. Think-tanks are involved in the decision-making process; they collect data, package it and send it to government, and try to influence the policy-making process. Furthermore, there are multiple connections emerging between outsiders with special expertise and the Chinese government, including NGOs. There is an ongoing roll of conferences, and experts connect with leaders on select issues. Therefore, observers can hardly assume the ways in which the Chinese government views its own problems.

China is also facing daunting challenges, including a potential decrease in the CCP's legitimacy, labour issues, worsening environmental pollution, growing disparities and corruption. Two intellectual currents in China have been trying to tackle those issues. The gist of the debate rests on the disagreement as to whether the pace of reforms must slow down or reverse, or increase. Those two opposing views are often described as that of the New Left and the neoliberals, although the reality includes many shades of grey.

In fact, multiple balances have been created (between populists and pro-growth, between technocrats and politicians, etc.) and this has led to policy approaches that are more centrist. A wide variety of currents of thoughts are embodied in the new policy orientations (the "scientific development" and "harmonious society" concepts), trying to strike a balance between economic and social development.

Reform and the associated process have continued in spite of the economic downturn caused by the 2008 financial crisis. The idea of a "New Deal" has been put forward by Hu Jintao and Wen Jiabao, involving more attention to the countryside and social services, as well as more environmentally sustainable development. The 2008 stimulus package displays this balanced and comprehensive approach, as the investments have been spread between infrastructure and social spending. Indeed, some rules have been implemented since the crisis to make sure that state investments are directed towards domestic demand and improved social services.

There are concrete implications of this new, more balanced approach. The informal Chinese expert networks are accessible to international experts, and it is possible to influence the debates held in China today.

## China's lending diplomacy

In the wake of the 2008 global financial crisis, China has opted to provide multi-billion dollar loans to troubled international energy producers in exchange for access to their energy resources. This is not the first time that China has provided such loans, but the difference in 2009 is the size, number and frequency of these loans in a relatively short amount of time. It has become a clear strategy.

Two factors deserve attention with regards to the deals that have been signed to date between China and borrowers across the world. First, the China Development Bank (CDB) is the financier of most of those deals; second, most loans have been made to national oil companies. The total amount of loans granted in 2009 exceeds US\$50 billion dollars and involve several countries, including Brazil, Russia, Kazakhstan and Turkmenistan. Of these, the Russian loan is probably the most significant.

The collapse of the price of oil in the latter half of 2008, combined with dried up global capital flows, have left many energy producers short of capital. They need to sustain investment programs, repay debt or cope with their domestic banking crisis. However, a lot of these countries also want to keep national control over their national oil companies, and consequently are reluctant to involve global private oil companies. In this way, the global financial crisis has provided opportunities for China.

Understanding who is Chen Yuan, the governor of the CDB, is crucial in understanding the organisation's role in China's loans-for-oil policies. One might describe the CDB's aim as *profitably to advance state interests*, an objective made increasingly clear after the arrival of Chen Yuan at the head of the bank. His relationship to former premier Zhu Rongji, who appointed him with a mandate to reduce the non-profitable loans (NPL) ratio, and the fact that Mr. Chen is the son of Chen Yun, one of China's prominent leaders of the first generation, gave him the stature necessary to turn the bank into a more commercial entity. Indeed, since his arrival in 1998, the bank's NPL ratio has declined markedly. The CDB has been the main financier for major domestic infrastructure projects, and in recent years it has also been increasingly focussed on enhancing China's energy and natural resource security. Thus, the CDB has financed many large overseas energy and mining projects. For instance, it was the main financier behind Chinalco's initial acquisition of a 9% stake in the mining company Rio Tinto in 2008.

China's demand for oil has been rising considerably and is expected to continue to do so in the future (e.g., the International Energy Agency projects that, by 2030, China oil imports will constitute 75% of its total consumption). China views these deals as part of its long-term energy security framework. Most oil deals in the world usually have short agreement periods, but China has been signing 10 and 20-year agreements. China signed a 20-year deal with Russia for 300,000 barrels of oil per day (bpd) and a 10-year deal with Brazil for 150,000 to 200,000 bpd. Another significant deal concluded is the agreement to finance a pipeline linking the East Siberia Pacific Oil pipeline to China. China had been working patiently on this deal, which it sees as a victory in its attempt to diversify its oil supply. These deals also help build good relationships with major energy producers, potentially leading to future deals for China's national oil companies.

Another important factor in understanding the recent loans-for-oil spur is the financial losses suffered by various Chinese state investment bodies in the wake of the financial crisis (e.g., the China Investment Corporation's loss in Morgan Stanley or the CDB's in Barclays). This might have convinced the CDB to concentrate on physical investments the Chinese economy needs, like energy and minerals. This is also part of a broader strategy to diversify away from U.S. debt instruments.

The geopolitical implications of these deals are multiple, but perhaps the most important implications relate to the Russian and Turkmenistan deals. The Russian loans (US\$15 billion to Rosneft and US\$10 billion to Transneft) are the most important in China's view. This is because China had been frustrated over the past years at the slow pace of advancement of energy relations between the two countries. The building of a cross-border pipeline does not necessarily guarantee productive trade relations, however. Price disputes, mutual mistrust and misunderstanding, Russia's fear of becoming a mere resource appendage to China and unpredictable changes in the oil market compound uncertainties.

The Turkmenistan deal is probably the most geopolitically important of all (US\$4 billion to Turkmenneft). This loan will help the China National Petroleum Corporation to consolidate its dominant position in Turkmenistan and put the company in an advantageous position soon to help develop the South Yolotan field, likely the world's fourth largest gas field. Additionally, the planned Central Asian Natural Gas Pipeline which will link Central Asian producers to China (the first line is scheduled to become operable in 2010 and benefits from CDB capital)

has given the producers leverage to demand higher prices for the oil and gas it sells to Russia. This is likely to bind these Central Asian countries closer to China, at the expense of Russia's economic and political influence in the region.

## **China's footprint on global governance**

An important aspect of China's new global role is its approach to international responsibilities, especially in economic matters. From a Chinese point of view, it is difficult to distinguish between economic, geopolitical and even domestic policies. Economic security and regime legitimacy are both driving China's decisions yet tensions will likely heighten in the future around China's international economic policies, regardless of its will to side with developing countries or to learn the ways of international institutions (and sometimes adapt them successfully to its advantage).

China is facing two basic economic contradictions. The first concerns China's status in the World Trade Organisation (WTO) as a developing country with a number of privileges, including the right to protect its growing industries or to maintain capital controls (these will expire in 2028). But market protection in developed economies and related quota agreements for Chinese imports into those economies will expire completely by 2015, i.e. much earlier. Projections of when Chinese GDP will surpass that of the U.S. range from the years 2017 to 2030, which will create an untenable situation in which the world's leading country is also considered "developing". Therefore, China's exceptional window of opportunity for shielded development could be shorter than initially thought; its ability to use it optimally depends on the success of its domestic policy and its ability to take advantage of the (developed) market protections expiring in 2015.

The second economic contradiction concerns the potential rise of the Chinese currency at the expense of the U.S. dollar. The renminbi (RMB) is an opaque currency and 60% of its currency flows go through offshore markets; it is hard to conceive of it playing a leading monetary role internationally in the foreseeable future. All the while, China has been trying to diversify its investments from U.S. treasury bonds and financial investments (which financiers in China have bundled) towards resources.

The popular expectation in the West that China's shift to a market economy would dissolve the authoritarian political system has not materialised. One witnesses for the first time in history the emergence

of a Leninist state that is both strong *and* rich, perhaps not as coherent as some admirers would wish, but certainly able to maintain continuity.

Western expectations of a market-induced collapse of the regime was based on the assumption that China had a strategic plan and a coherent foreign policy. This might have been accurate regarding the “near abroad” relations (e.g. Taiwan), but not internationally. If China has been trying to shift its attention from a strict domestic focus to include a better articulated foreign policy, one must still consider domestic circumstances to understand it. From the perspective of its officials, China is indeed expanding outwards and for its own, mainly economic, needs. As an example, observers may misconstrue China’s policy turn-around about its involvement in Sudan, unless they understand that this period coincided with an increasing number of security threats against Chinese workers in Sudan. A similar argument can be made about the Chinese naval presence in the Persian Gulf. The fact that they are not communicating at all with other powers in the area does not sit very well with the optimistic U.S. view of Chinese engagement in the region. In fact, it is could perhaps be an attempt to show the Chinese flag and legitimise the deployment of Chinese high-value assets far away from their usual comfort zone. The prospects of China’s engagement in Afghanistan and Pakistan are still uncertain and dependent on its relevance to China’s energy security and long term development plans.

In a number of international areas, China is actually behaving as the partner which aims for the lowest common denominator, certainly not considering taking on major responsibilities. This is true about climate change negotiations, the Doha round of trade negotiations, the UN Security Council enlargement, and nuclear disarmament.

China is the only country which has been effective in retaining its independence on domestic and international issues. This does not make China an aggressive power *per se*; but one should not dismiss naively all the new strategic possibilities that are open to China, especially given the relative decline of the U.S.

## Discussion

A first participant underscored the current Chinese investments in developing countries, and wondered whether a similar penetration of the EU and the U.S. markets could be envisaged in the near future. The speaker answered that China has learned from the Japanese experience and its investments have been made discretely.

It conducts complex deals, involving more than one actor or bank, often in conjunction with foreign economic actors, so that investments not be labelled as strategic purchases.

Another participant inquired about the percentage of the expected loans-for-oil deals closed this year relative to China's total future imports of oil and gas, bearing in mind that its trade with Central Asia amounts to roughly 1% of China's foreign trade. The speaker stressed that by 2030 China will be importing around 16 million bpd, which will represent the equivalent of 70% of China's consumption. Around 1.4 million bpd of those imports will be coming through pipelines, which it is not as significant as expected. China will continue to value such deals for their potential to build relationships internationally.

Another participant asked whether the Chinese state-owned enterprises (SOEs) genuinely compete amongst themselves or carve out the world when conducting business. In other words, are they behaving more like private companies or more like extensions of the state? The speaker answered that Chinese SOEs do compete against each other, contrary to the view of many Chinese commentators who would like the government to coordinate increasingly their operations. The National Development and Reform Commission (NDRC) will attempt to convince one company to withdraw when two companies plan to bid for the same opportunity.

## **China's Rising Financial and Monetary Influence**

There has been a paradigm shift in the way international observers look at China in recent years. One sees a growing trend in Chinese activity internationally, in terms of foreign direct investment (FDI), bank loans, state investments, etc. But a question remains open: to what extent is China emerging as a major power in the international financial and monetary system? How do analysts gauge China's power and projection capability in the light of its economic statecraft, the persistence of the U.S. dollar system and the enduring supremacy of institutions born out of the Second World War?

Some say that China's behaviour in the wake of the 2008 financial crisis has exposed it to considerable risks, but it is also necessary to recognise that the U.S. continues to have number of strategic advantages. In order to investigate China's potential as an international creditor and investor, observers need to assess China's domestic capacity.

As to China's power, one observes an emerging sense of policy autonomy and an ability to resist pressure. This is illustrated by the capacity to resist U.S. demands for revaluating its currency. What is less clear is whether China has the capacity to influence other countries' policies. For example, can its sovereign wealth funds influence the United States? It appears not. The U.S. has a lot of options and remains the systemic power in the international financial and monetary system. The situation is less straightforward for developing countries, however. Chinese influence varies across countries.

*“...can its sovereign wealth funds influence  
the United States?”*

There are clear limits to China's creditor power. For instance, much of the Chinese overseas lending are denominated in U.S. dollar. China's financial power is not fully adjusted to its monetary influence. It remains in China's interest to support the U.S. dollar, considering the quantity of China's reserves held in U.S.-denominated debt instruments. To what degree have China's interests been transformed because of the resulting interdependency with the United States? That type of link is precarious for China in the long term, and its leaders realise it. The country is giving serious thought to currency diversification, something which can only be achieved by influencing the existing system of currencies. There is real concern in Beijing about the future direction of U.S. monetary policies.

Chinese officials say that it is too early to speak about the internationalisation of the RMB. This reveals internal leadership struggles. Shanghai and Hong Kong have been piloting diversification in financial structures. The country has many stock markets; this situation can allow the leadership to satisfy the Shanghai constituency while continuing experimentations in Hong Kong. It is possible to envisage Shanghai emerging as a shipping hub with related trade settlement accounts and financial operations, whereas Hong Kong would be a centre for trading bonds, stocks and other financial instruments. In this case, the “one country, two systems” formula could prove a comparative advantage. In fact, Hong Kong and Shanghai might be well positioned for the G-20 discussions pertaining to the reregulation of financial institutions. Such trials are in line with former president Deng Xiaoping's strategy of gradual experimentation.

China has been building the confidence of international investors and has signed multiple currency-swap agreements with regional and international partners. However, the RMB remains low on the scale of influence, as is its potential for becoming a reserve currency. Several reasons explain this. The first is China's capital controls (even if Beijing is leaning towards increased convertibility). Second, the country does not yet have a trustworthy legal system. If China is an emerging industrial power, it has not yet become a monetary one.

There are also a few reasons for China to be optimistic as to the role of its currency. There is some confidence in the value of the RMB (due to large foreign currency reserves, current account surpluses, etc.); China holds large gold reserves, displays great trade competitiveness and has enormous growth potential. Moreover, the store of value of the Chinese currency is high because China did not enter into multi-party agreements to influence the value of its or other currencies deliberately, contrary to Japan so-called Plaza Accords in the second part of the twentieth century.

In sum, the internationalisation process of the RMB has to some degree already started. However, China does not have a perfectly clear strategy yet. Chen Yuan, the governor of the CDB indicated that the world is not ready for China yet and that the latter must proceed slowly over 10 to 15 years. This message was echoed by Xi Jinping (China's vice-president), when he emphasised signals from Beijing to Hong Kong: "don't think of doing anything overnight".

## Discussion

A first participant asked whether the existing lack of trust between Asian countries and China could have an impact on China's capacity to project monetary power. The speaker reminded the audience that the 1997 Asian financial crisis has had a lasting effect, leading countries not only to build reserves but also fostering Asian determination never to resort to the International Monetary Fund (IMF) again in the thrust of a crisis. Since 1997, Asian economies have had other options, including the Chiang Mai currency-swap agreements. It is difficult to measure the level of confidence in the latter because those agreements have never been used. If the U.S. still has a distinctive normative advantage, the validity of the Anglo-American model of regulation as a guiding set of principles for all economies is being questioned. For this reason, emerging countries are going to demand more that the U.S. and UK increasingly make longer-term investments.



Another participant asked to what extent China might move from a defensive to a truly global role. To what extent is China ready for taking responsibility? The speaker answered that China recognises the challenges of large international macro imbalances and it is committed to dealing with them. However, one must remember that convincing China to spend more domestically does not necessarily mean more trade with the U.S.; it may simply mean more trade internally. In many ways China has been a responsible actor during the 2008-09 economic crisis. Analysts will need to pay close attention to negotiations in the next years, and the most pressing question will be whether China and the U.S. will be willing to submit themselves to peer-reviews.

## **Looking to 2015: What Should Canada Pay Attention to?**

### **China's grand strategy: Implications for Canada**

As highlighted previously, the Western paradigm used to study China is shifting considerably. The elements of myth which characterised Canada-China relations, in which Canada was informing China, shaping the architecture of the relation, have very much evaporated in the past few years.

A shift is apparent in a review of Canadian public opinion (2008 survey conducted by the Asia Pacific Foundation<sup>5</sup>) which surveyed general reaction to the rise of China. The survey yielded mixed reactions to the China "threat" or "opportunity" questions, but certainly conveyed a sense that Canadians are aware of the growing importance of China in their everyday lives. For instance, Canadians see China's rising military power as a threat to the region, but they also see China as having an important role to play in Canada's future prosperity.

So how does China view its own position, its own "grand strategy"? Two driving forces are apparent. First, China gives precedence to its domestic priorities, which means that it is still developing its international relations and its foreign policy as a direct extension of its domestic requirements. Second, for the Chinese leadership a constant overarching concern in both domestic and external policy remains the maintenance in power of the CCP in power. Bearing those concerns in mind, China has articulated its grand strategy along three dimensions:

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<sup>5</sup> [www.asiapacific.ca](http://www.asiapacific.ca)

sustained economic growth and development; national unity and territorial integrity; and China as a responsible great power, assuming a global role.

These three dimensions are articulated alongside the continual development of China's military strategy. The Chinese military has seen a substantial increase in its power projection capacities and the selective modernisation of its forces. The People's Liberation Navy (PLN) is framing its development under the notion of "access denial" in its periphery, as well as increased power projection; the country has clearly understood that it is evolving in an era of "information-intensive conflict", which has led to the expansion of its cyber warfare and exploitation of space capabilities.

The implications for Canada of China's sustained commitment to development and economic growth are multiple. Beijing is developing a presence in regions where it has not been historically (e.g. Africa, Latin America), which will have consequences on Canadian foreign policy in these regions. Perhaps more directly, China has an impact on world commodity prices, which will influence Canada's position whether Canada becomes an important source of commodity exports to China or not. China's economic development will also have a direct impact on Canada's periphery, if Arctic routes become a passage of choice for Chinese ships. Canadian's access to safe food products and pharmaceuticals is also bound to become a central issue in Canada-China relations, as production and distribution chains continue to increase in complexity.

The implications of China's commitment to sovereignty, territorial integrity and the principle of non-interference will also have direct impacts on Canada. For instance, sensitivities will remain with regards to Tibet, Xinjiang and Taiwan, and this will continue to bring a set of consular issues to the attention of both Chinese and Canadian officials. These issues entail the potential monitoring by Chinese officials of specific members of the Chinese diaspora in Canada for example.

More generally, China's resistance to rules-based institutionalisation in the Asia-Pacific and to "interference" or intervention in other states at the UN Security Council has wide ranging repercussions on potential international cooperation regarding human security.

The concept of China as a responsible global and regional power also has direct implications for Canada. Amongst others, as China's global and regional influence grows, the relevance of Canada for China

decline in relative terms. Increasingly, the China-U.S. relationship and dual “bargains” will have spill-over effects for Canada, which risks turning Canada into a *policy-taker* with regards to the two global giants.

Regarding its capacity to influence global governance systems, Canada will need to redouble efforts to sustain meaningful influence, especially within the G8. Much of Canada’s future voice will depend on efforts in sustaining an environment that is responsive to its needs. This can be done by fostering an informed relationship with China regarding the development of important global regimes, addressing for example the control of disease, trade, the environment, pharmaceutical products, and new technologies. However, with regards to security, China’s position will ultimately shape the agenda, be it with regards to non-proliferation issues (North Korea, Iran, Burma), small arms and light weapons (fuelling intrastate conflicts), or space security issues. This will be notable in the case of China’s control of the Internet, as it moves away from its domestic focus to a more proactive role in managing of the global flow of information on the web.

Canadians have a vested interest in seeing China control its domestic issues well, as the peaceful management of its internal tensions will increase the chances for a peaceful emergence of China on the geopolitical scene. It is important to keep in mind that China’s role in regional and global contexts is increasingly substantial, while the relative influence of Canada is in decline. This means that China’s decisions regarding global governance regimes will influence Canada, as will its inactions on key issues. In the end, Canada-China relations will continue to be rooted in the constant flow of resources, trade and people between the two countries.

### **Canada-China: an increasingly complex relationship**

On 13 October 2010, Canada will be celebrating 40 years of diplomatic relations with China. The history of the Canada-China relations has to be interpreted in different lights. When the relationship was established in 1970, Canada had a higher GDP than China; the situation is the opposite today, with China often holding a strong hand of cards in dealing with Canada. While the relationship has been dotted with agreements with lasting effect in the minds of our Chinese counterparts – the Canadian wheat sales to China during the 1960s being a revealing example – our relationship was also characterised by lasting benign myths. This includes, for instance, the late

Dr. Norman Bethune, who joined the Communists in China during the Sino-Japanese war and performed emergency battlefield surgeries. Dr. Bethune was the subject of a famous article by former Chairman Mao Zedong which an entire generation had to learn by heart.

Until 1978, for their part, Canadian citizens had a much romanticised notion of China, unburdened by any direct experience or knowledge. Between 1978 and 1989, the opening of China generated a wave of Canadian corporate and government interests in China. There were an increased number of high-level visits; the business community was starting to become involved and Chinese immigration to Canada began to gather momentum. The interest for all things Chinese was abruptly brought to an end on 4 June 1989. The Tiananmen incidents had a lasting effect on Canadians' perceptions, shattering the simplified view they had had of China and destroying the hope amongst some of them that the Chinese political system would democratise. The Canadian diplomatic response was sharp but measured and the Chinese government's image remains tainted with the symbolism of Tiananmen.

From 1993 until 2006, we saw a period of active growth in the relationship, with multiple official visits to China and the engagement of the business community. This period was also complicated by the rise of consular issues, which are high-profile targets for the media and have sustained an image of China in the Canadian media that is perhaps more negative than warranted by reality. The growing proportion of Canadian-Chinese dual nationals and increased connectivity between the two countries can generate irritants, which require careful management to avoid serious misunderstandings.

Trying to reconcile those diverging views in the Canadian population (the media and the business community generally embody two of them) into a coherent foreign policy has been a challenge. It should not be impossible to have both strong diplomatic contacts and a public concerned by human rights in China.

*“Even if China does not buy directly from  
Canada, its influence on world prices should  
benefit the latter.”*

On the trade side of things, the natural resources component of the relationship will continue to be an important one. Even if China does not buy directly from Canada, its influence on world prices should benefit the latter. Chinese investments in Canadian natural resources

are increasing, but at a very slow pace. The Chinese early experience of investment in Canada was not very successful. The investments in Alberta's oil sands, for example, have not been as simple as expected. This is partly due to the fact that the Chinese have a preference for taking actual delivery of the oil barrels they invest in, which can complicate things. The strategic value of such a practice is most probably overrated, however. Worthy of attention, China's SOE's main concerns with regards to prospective investment in Albertan oil revolve around the reaction of the U.S. In the end however, China's policy of diversity of supply will encourage it to consider Canada as a preferred destination for investment.

The period 2006-08 saw a cooling of the Canada-China relationship. Whereas the last years of the previous government in Ottawa saw Canada's relationships heightened to a level of "strategic partnership", the current government was more sceptical of that notion. Reluctance may have been justified, given that the "strategic" label was given by China to a very eclectic group of countries. A thorny set of consular issues continued to affect the relationship as well. The relationship, however, is improving. It is managed with much aplomb: more high-level visits are planned, and a prime ministerial visit is being considered. Naturally, this is in the interest of both countries. China will derive no benefit from a relationship that is damaged permanently by a set of consular or human-right issues. At the same time, Canada must understand that the physics of its rapport with Beijing has been transformed beyond recognition since the 1970s.

## **China and the geopolitics of the environment**

Environmental degradation has drawn increased political attention globally for close to twenty years but the severity of its consequences appears now to be causing genuine alarm to the point of possible concerted political action. This situation, said a presenting expert during the conference, will require the elaboration of a global strategy. China is no exception and has been faced with particularly thorny environmental problems triggered by its rapid economic development. Climate change and environmental transformation, he indicated, are most effectively understood and dealt with when seen as human security issues, in China and anywhere else.

Comparatively, Canada and China have probably taken a more coherent look at sustainable development than the U.S. This may sound surprising, but China leads when it comes to linking post-2008

financial crisis stimulus packages to environmental policies. China's notable efforts towards the millennium development goals (which are mostly driven by China) are illustrative, too.

The international community has attempted to make sustainable development an integral part of the geopolitics of development. In this regard, Beijing knows it enjoys a favourable negotiating position which will allow it to extract many benefits from any participation in global cooperation mechanisms. China is very sensitive to the principle that "polluters should pay" and to the notion of "common but differentiated responsibility", two concepts which are central to the development of international environmental agreements. In other words, it has continued to take the approach of a developing country<sup>6</sup>, knowing that its national emissions will likely increase, but that the biggest polluters in per capita and aggregate terms (i.e., the long-industrialised countries of the western world and Japan) need to cut theirs immediately. Chinese decision-makers know their country's energy efficiency must improve considerably, but they want low-cost access to foreign technologies to do so.

There are three main reasons why China would wish to be part of global environmental efforts. First, China very much sees its own security threatened by the worsening climate change. Second, it sees tangible opportunities for growth in the emerging low-carbon, "green" economy, just as it sees real financial opportunities resulting from having signed international environmental agreements like the Montreal Protocol. Third, it sees a potential role for itself as a responsible global citizen.

The reality is that Beijing is more interested in energy efficiency and industry-related environmental measures to improve its export capacity than in climate change per se. This means that one should not expect China to take a clear leadership role in global environment affairs. The Chinese leadership will continue to lead by action, when it does so, not by rhetoric.

Analysts can expect to see direct actions taken by the Chinese on climate change issues, even if it is not the country's first priority currently and that it continues to be driven by self-interest, as for many other countries. For example, China is likely to set intensity-based

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<sup>6</sup> The per capita emissions figures for China are thought to be seriously skewed by the rural population's relatively low energy consumption. Measurement of urban emissions alone would yield a much different picture.

targets in the near future, as well as to consider some form of carbon tax (as it relates to its exports). In this context, the prospects for a “G2” between the U.S. and China are decisive.

The implications for Canadians are multiple. Canada’s stewardship of water, land and other natural resources and China’s behaviour towards those, are watched closely by the international community. It is valuable for both countries to learn from one another when addressing these issues, as well as to identify the best circumstances in which to seek compensation from other countries or bring attention to them (e.g., the thawing Arctic for Canada).

With regards to inter-continental pollution, a serious dialogue is required to discuss pollution crossing the Pacific Ocean. The Chinese are also keenly interested in how Canada manages its cities sustainably. When it comes to overseas investments and corporate acquisition, Chinese companies are rather ill-prepared to comply with environmental safeguards and regulations; this is an area in which Canadian companies have a lot of experience.

A solid rapport should link Canada to the U.S. and China to address climate change. Canadian involvement in this exchange would bring it extensive business opportunities, considering the strength of its sustainable technology sector. All environmental issues will not be dealt with fully at the December 2009 United Nations climate conference in Copenhagen. The intense period of geopolitical negotiations will continue for several years and will focus on innovation as well as international regulatory regimes.

## Discussion

A first participant wondered how China’s military rise can be interpreted by Canada, given that China’s rise is said to be peaceful. A speaker replied that not all countries are concerned about the same aspects of Chinese militarisation. U.S. and Canadian concerns are very different. For instance: the U.S. is more concerned by strategic nuclear issues and an enhanced Chinese military presence in the Asia-Pacific, which do not affect Canadian interest. Canada’s questions pertain to the possibility of its armed forces having possibly to function abroad in the presence of Chinese forces; cyber and space security policies are also more directly relevant for it than China’s militarisation. It seems reasonable to assume that China has a fundamental interest in fostering a peaceful and stable environment.

A second participant asked whether considering China as a unitary actor complicates analysis of the country's position with regards to international environmental agreements, especially since the environment is not one of the key priorities of the central government. A speaker replied that currently none of the agreements are performing truly well anyway (perhaps with the exception of the Montreal Protocol). It appears that China is thinking its way through climate change rather carefully, and Chinese involvement in global environmental discussions is certainly increasing. The question is really how to turn initial involvement into productive leadership. This is critical because, unless China perceives itself as a responsible power, its actions will not amount to anything meaningful globally. Canada, he said, can play a role in improving international capacity in developing multilateral agreements. Much improvement is also to be expected from measures taken by the private sector in China. One principle remains true: countries that have implemented effective approaches to environmental protection have done so with strong public participation. On this point, public participation in discussions of the environment, which have multiplied, has increased compared to 15 years ago, although much remains to be done.

A third participant pointed out that after Team Canada visited China, Canadian trade with China continued to decrease. According to a speaker, two or three major investments could change the entire dynamics of the trading relations; the two economies are remarkably compatible, but the challenge for Canada is to find ways to add value to the products it exports to China. It remains clear, however, that Canada will not become again a major trading partner for China.

Another member of the audience asked to what extent the Chinese leadership believes in its own rhetoric about non-interference. A speaker answered that China is willing to make concessions leading to economic "encroachments" to its sovereignty, but that it is uncompromising about the integrity of its territory. Another speaker added that, when the Chinese government invokes the notion of non-interference with regards to Taiwan, it does indeed strongly believe in the concept: this is one in a handful of issues about which it is probably ready to fight.

A fifth participant questioned whether Canadian influence is in fact declining alarmingly. After all, every country is losing relative influence following China's rise? The speaker clarified his position by indicating that China will find itself in positions of influence in regional context, and which in turn will have implications for Canadians.



If other countries' relative influence is indeed decreasing, many are using a more proactive strategy than Canada to boost their relations with China. In the past, Canada could rely on definite positions on international issues (e.g., on non-proliferation) but no clear position is emerging now in Canada, in contrast with recent Australian efforts. Another speaker underscored that most aspects of the Canada-China bilateral relationship today have to be seen through the lens of the China-U.S. relationship.

## **Expert Debate: China After the Global Financial Crisis**

The task of understanding the future of the People's Republic of China, even only five years hence, is immensely challenging and oftentimes provokes the most polarised of debates. On one side, some analysts think that China has dealt with the aftermath of the global financial crisis in an expert and constructive way. On the other, commentators believe that China has been irremediably weakened by the crisis and are pessimistic as to its potential to emerge as a solid economic superpower.

### **Optimist outlook**

The first group, as a presenting expert illustrated it, maintains that China has a very strong recovery underway and that it will be the first global economy to reach again its long-term growth potential. The Chinese government started to implement expansionary policy in September 2008 while occupying a rather advantageous position. China had accumulated enormous financial resources following years of current-account surpluses, and the Chinese central bank had much space to manoeuvre.

If in Western economies consumer credit is still shrinking, in response to the need for banks to comply with capital adequacy ratios, debt level in China remains very low. Whereas in the U.S. banks are *de-leveraging*, the opposite is occurring in China, where households are taking on more debt. The Chinese government also has little debt, in sharp contrast to the U.S. The Chinese fiscal sustainability potential is very high, with a government deficit of just 3% or 4%. The U.S. government will sooner or later have to raise taxes or cut expenditures, which will have an impact its growth potential, but generally China is in a much stronger position.

Some criticism of the Chinese recovery package is that the investment has been skewed towards industry and that China is effectively trying to resume an export-led growth strategy and not necessarily boost domestic demand. This claim is not corroborated by facts, however. The Chinese government has increased social expenditures exponentially. It had doubled its fiscal outlays on health in 2008, compared to 2006, and has increased them by another 45% since the beginning of 2009. The government's objective is to have 90% of its population enjoy health care coverage by 2011. Furthermore, when considering medium- to long-term financing, one does not see the government pumping tonnes of money into the manufacturing sector. Figures indicate that this sector is weak and that profitability is down, which confirms that investments are not increasing. The current account surplus has decreased from 5%- 6% to around 4% by the end 2009; this means that China will not revert to the same export-led growth model it enjoyed until the crisis.

Other criticisms point to the fact that the recovery package ultimately returns to the government. This is true in the sense that large infrastructure projects are often government endeavours, but the package also targets other sectors, like housing. The Chinese recovery is not a "bubble". One can expect growth to reach 8%-9% in the coming years.

Looking ahead, China might be the only country that has gained from the financial crisis, in a narrowly-defined sense. It may face slower GDP growth but its confidence has grown considerably. The situation will also bring more symmetry to China-U.S. relations, likely a positive development. China has responded to the crisis entirely within the World Trade Organisation (WTO) framework: it is playing by the rules.

On the subject of domestic economic reform, potentially the most important area to keep in mind, the ownership structure is slowly being transformed. The state has kept substantial controls on resources, has maintained an undervalued currency for at least five years, and has consistently underpriced energy, water and natural resources. However, this will continue to change in the near future and the recent reform influencing the price of oil is illustrative of the trend. One should also expect interest rate reforms, which are back on agenda, and further currency appreciation.

By 2015, said the speaker, China will be a significantly more market-oriented economy and play a much more constructive global engagement role economically.

## Sceptical outlook

On the other side of the debate, there are proponents who believe that the economic conditions which led to spectacular growth in China no longer exist. This view, explained another expert, maintains that from the end of the Cold War until the 2008 financial crisis, Deng Xiaoping's policies of "reform and opening up" were sufficient to generate growth in China because the world as a whole was enjoying a period of almost unprecedented growth and trade barriers were removed. But the Chinese economic model, he said, is ill-suited to current global economic conditions: China's economy is highly dependent on exports. There is no defensible reason to believe that China's return to a position of economic might is inevitable.

Global demand is still slumping; the world economy will shrink this year for the first time since World War II and global trade will decline by the highest margins in 80 years. The U.S. and China are continuing to *de-link*, and trade conflicts risk becoming worse as U.S. president Barack Obama attempts to boost American exports; countries with high current-account surpluses tend to suffer the most in crises. Chinese exports, which have dropped every month since November 2008, will continue slowing, and global consumer demand will not rescue the Chinese economy as it did after the 1997 Asian financial crisis. China may in fact come to deserve another kind of superlative, said the speaker: the world's fastest slowing economy.

A significant challenge in analysing the Chinese economy has been the reliability of statistics. Indeed, in the last quarter of 2008 growth was in all likelihood flat or negative at -1% or -2%; that is certainly much lower than the 6.8% claimed by the Chinese government. In the second quarter of 2009, growth was more likely around 3% or 4%, not the 7.9% announced by Beijing. For the first half of 2009, the Chinese government has claimed 7.1% of GDP growth. This is hard to believe if one considers other figures; during the same period exports were down 21.8%, perhaps more significantly imports were down 25.4%, foreign direct investment (FDI) had decreased by 17.9%, tax receipts were down 6%, and power production had slumped by 1.7%. Also reduced were air pollutants and government revenue. The indices pointing upwards were credit card defaults and unemployment. Chinese officials have been saying that they cannot end their stimulus program yet. The evidence, underscored that presenter, points to the fact that the Chinese claim of 7.9% growth is not credible.

The state's stimulus package has favoured big SOEs, with funds channelled through state banks, and funding state-sponsored infrastructure projects. Privatisation had been the source of China's growth in past decades, but Beijing is now re-nationalising the economy. The surge of credit has been immense. Government-mandated lending has created unneeded funds, which have in turn fuelled artificial rises in stock markets and in Macao's gambling industry. Such forced lending will undoubtedly lead to a wave of increased corruption, bad loans, and little economic viability for funded projects. No economy flooded with too much liquidity can escape serious problems.

The only hope would be that China could manage to steer its economy away from exports to domestic consumption. However, the stimulus package was not directed towards private consumption; most plans instead focussed on infrastructure and industrial capacity. This will make consumption an even smaller part of the Chinese economy. Consumption has actually been sliding from an historical Chinese average of 60% to about 20% in 2007. This is the lowest rate in the world. It is continuing to decrease as the government boosts industrial production and exports. Beijing's decision in 2008 to tightly peg again the RMB to the U.S. dollar is a reversal of previous currency reforms and will further undermine domestic consumption. Beijing announced that in August 2009 retail sales had increased by 15.4 percent, consumer prices declined by 1.2 percent, and M2<sup>7</sup> had gone up by 28.5 percent. How can China have an increased monetary base, increased retail sales and deflation at the same time? Something is fundamentally wrong with the Chinese economy, stressed the speaker.

China may be able to obtain one or two years of growth, but observers should expect the Chinese economy to contract by the middle of 2010. The growth of recent years has masked dislocations in the economy, including environmental and demographic ones. In the end, the nature of the Chinese political system remains the most significant impediment to the promotion of structural reforms; it inhibits adaptation.

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<sup>7</sup> An economic indicator used to measure the money supply in a given economy. It consists of funds readily available for spending (excluding the central bank's reserves), as well as savings deposits, term deposits and money market deposits for individuals.

Since 1992, the legitimacy of the CCP has been based on continual growth. As the Chinese economy falters, the leadership will be gradually inclined to rely on nationalism, close its economy and rely on mercantilism. Experts are saying that China is becoming more stable, but one sees that social protests are becoming more frequent, larger and more violent. China is now at high tide, but in late 2010 its fortune may have changed quite dramatically.

## Discussion

One participant pondered whether the crisis would be used as an opportunity by the Chinese leadership to make significant changes, as opposed to resorting only to a short-term solution with potential long-term, negative effects. One speaker explained that China's leaders' divergence in perspectives mirrors their views on the global economy: some believe that globalisation is on pause, not reversing. The signals of trade protectionism do not reflect long-term trends, he argued; one will likely see a recovery in capital flow and trade in coming years. If this does not materialise, the prospects for China will naturally be much worse than expected.

China needs a recovery in global trade. Because it does not expect the U.S. consumers to return to their pre-crisis consumption habits, the Chinese government's efforts to rebalance its economy deserves some credit. As the Chinese currency is pegged to it, the dollar's recent appreciation has meant a simultaneous appreciation of the RMB. In the end, China will emerge from the downturn with a more sustainable growth rate, not the spectacular 13% growth of 2007 or the equally impressive performance of previous years. Another speaker retorted that the last year's economic growth in China has been based solely on government credit. The government reacted quickly to the 2008 crisis, but some of the measures it adopted were inappropriate. Beijing has injected the equivalent of two trillion U.S. dollars since November 2008 and exiting what may come to be an artificial credit bubble will not be easy. Meanwhile, other Asian economies are increasing their holdings of U.S. dollars in order to depreciate their currencies to become more competitive towards China, the sign of a potential regional trade war. One should expect anti-dumping moves by China in the future, as tariffs are applied to U.S. products, which will lead to a general decline in trade between the two countries.

Another participant asked to what extent China's economic stimulus package focussed on social expenditures. One speaker answered that health expenditures are indeed increasing across the board.

Another speaker replied that, once a social safety net is created by the state, people's consumption patterns do not change immediately. Chinese leaders know this but their decision-making capacity is so slow, underscored the expert, that they cannot make structural changes when necessary. Instead, they can only take short-term measures. The second speaker indicated that it is not clear whether social outlays have increased substantially. The government has placed its bets on a rapidly recovering global demand, as illustrated by their purchase of commodities in large quantities. However, if such demand does not recover fast, China will not be able to base its prosperity on exports as it did following the Southeast Asian financial crisis of 1997.

## China's Neighbourhood

### India and China: rivalry or complementarity?

The relationship between India and China is built around three concentric themes: 1) core bilateral issues (boundary problems, Tibet and the Tibetan diaspora living in India); 2) China's relations with India's neighbours (Sri Lanka, Pakistan and Burma especially); and 3) China and India's influence on the international stage, in particular vis-à-vis the U.S.

The bilateral issues in great part stem from boundary issues, for which details are very important. There are two main areas of contention, referred to respectively as the "western sector" and the "eastern sector". With regards to the eastern sector, in 1914 Britain, Tibet and Republican China signed a treaty delineating the border, known as the McMahon line, between what is today India and China. The People's Republic of China never recognised the McMahon<sup>8</sup> line for at least two reasons. First, the 1914 treaty was seen by the PRC as an "unequal" treaty, signed between an enfeebled China and an imperial power. Second, China does not acknowledge the fact that Tibet was a signatory of the treaty, on par with China, which would be an implicit recognition of the fact that Tibet had enjoyed a period of independence during the early twentieth century. India maintains claims to the territory up to the McMahon line, which is the highest mountain line between India and Tibet.

With regards to the western sector (the disputed area touches on China's Xinjiang and India's Kashmir), the British empire made unfruitful attempts to reach an agreement with China; the border

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<sup>8</sup> Sir Henry McMahon was the British foreign secretary at the time.

remains unmarked. After the 1962 war between China and India, China retained control of the western area, whereas India kept control of the eastern part.

An additional core bilateral issue in the Sino-Indian relationship is the Tibetan question. In 1959, the Dalai Lama crossed the border from Tibet into India, following a Tibetan uprising that had been repressed earlier in the same year. Since then, India has been host to the Tibetan government-in-exile. This situation has consistently been resented by China, even if since 1954 India has publicly acknowledged that Tibet is a part of China. The Chinese often see India as using the Dalai Lama to advance its territorial interests. The situation is expected to change considerably after the Dalai Lama passes away, but a transition also implies a lot of uncertainty. On this front, there is no potential for the normalisation of the India-China relation in the short- to mid-term.

With regards to its relations with India's neighbours, China has been gradually moving away from a staunch pro-Pakistan position. It has ceased to take a complete Pakistan line on certain issues and overall relations with India have improved accordingly.

Finally, the most important element in the Sino-Indian relationship is both countries' relations with the U.S. If the Chinese are worried that the U.S. may use India as a hedge against China, a deeper understanding of India's interests and global strategy points to the recognition that India will not be treated in this way. The free rider in this area is India.

Considering the relationship from a broader point of view, one needs to assess the efficiency of each country's development model. Only time will tell if the Chinese economic and political system can be replicated successfully. If so, it will generate more soft power for China; if not, it will signal looming problems. Reversely, if Indian economic growth continues in the 7% range in the coming years, and the Chinese government is presumably weary of such a success, the potential appeal of the Indian democratic system will increase.

The two countries could see security tensions emerge between them if they do not thread the line between deterrence and provocation carefully. Ultimately, however, the rationale and the potential for both countries to manage their relations cautiously seem peaceful.

## China's stakes in Southeast Asia

China has long wished to be recognised as Southeast Asia's most important power but its efforts at achieving prominence generates discomfort in the region, especially in Indonesia, but also in the United States. China has successfully displaced Taiwan in the area, for instance. It has also grown more influential vis-à-vis poor authoritarian countries such as Laos, Cambodia and Burma.

However, the U.S. has continued to maintain its strategic maritime interests in Southeast Asia mainly through the control of the Strait of Malacca and the use of investment and aid. One may ponder whether China's rise has actually altered at all the balance of power and influence in Southeast Asia. Evidence points to the fact that it has, but not radically. One reason is that Southeast Asian states are rather nationalistic, but also that China has not been able to project a credible confrontational image towards the U.S. China has had success in replacing Japan as the country with the most influence in Southeast Asia, but this displacement has been modest, too, in part because Southeast Asian countries have pursued a policy of simultaneous engagement with all large powers in the area: China, Japan, the U.S. and India.

China is seen as playing a larger regional role when dealing with the global financial crisis. However, because the much-touted financial swap agreements have not yet needed to be invoked, it is still unclear how Chinese influence will evolve in the long run.

Will China continue to accommodate Southeast Asian powers in the future? The question remains open. Recently, China indicated to major oil companies that their continued business in Vietnam might result in their being unwelcome in China (Vietnam and China have conflicting territorial claims in the South China Sea). China's active courting of Southeast Asia has clearly slowed in recent years.

As to the South China Sea, China's position has more to do with strategy rather than potential energy supply. It is unclear how much oil or gas there is in the South China Sea, but the major shipping lanes all transit through the area.

An interesting question would be whether western understanding of China's strategy in the South China Sea can be extended to its approach in the Indian Ocean. China's growing presence in the Indian Ocean is viewed with alarm in New Delhi, but the real projection power of China's naval capacity is uncertain. China has been building



anti-access capacity at its immediate periphery to increase the cost of potential U.S. naval interventions on China's coast. But the presenting expert indicated that China's power projection capabilities, when developed, will first be deployed in the South China Sea rather than the Indian Ocean.

More realistically, China's goal in the Indian Ocean will probably mirror its objectives in the South China Sea: to build a web of economic ties which will serve its commercial interests.

## China and Taiwan

Since the election of Ma Ying-jeou in Taiwan, there is a tendency amongst observers to assume that the tensions around Taiwan's status are about to be resolved. This collective sigh of relief might be premature. Generally speaking there appears to be détente across the Taiwan Strait. Taiwanese independence is not a possibility in the short to medium term, bar some unforeseeable turn of event. However, it is also becoming clear that the Chinese concept of "special autonomous regions" will be hard to sell to the Taiwanese population. The most likely situation in 2020 is a continuation of the status quo.

Will Beijing continue to tolerate *de facto* sovereignty for Taiwan in the next few years? There has been increasing economic integration across the strait and the PRC has made concessions to the Ma Ying-jeou government. As an example, China allowed Taiwan to enjoy observer status at the World Health Assembly. The prospect of a framework for economic cooperation, however, is also generating some wariness on behalf of the Taiwanese business community, which sees it as a potential for hollowing out Taiwanese industry. Despite such reluctance, cross-strait relations appear to have improved overall.

It is worth remembering the early 2009 speech given by President Hu Jintao to commemorate the 30<sup>th</sup> anniversary of the Communist Party's declaration to the compatriots in Taiwan. The president reiterated the "one China" principle, the importance of strengthening economic ties and of promoting personnel exchanges. He also stressed the common cultural links across the strait. Interestingly, he voiced the importance of allowing Taiwan to participate meaningfully in international organisations. Most significantly perhaps, Hu Jintao expressed the will to negotiate a peace agreement with Taiwan. This would open the door to the recognition of Taiwanese authorities even if the recognition of a Taiwanese government *per se* is not yet foreseeable. Additionally, for the first time, China's president considered the existence of

the Democratic Progressive Party (DPP, which promotes Taiwan's independence), recognising its legitimacy under the condition that it rejects independence. This is a considerable change in tone.

With regards to military capabilities, the Chinese have clearly achieved military superiority in recent years relative to Taiwan. A military operation, however, is not seen as a realistic option at the moment for China. Such a measure could create an intractable insurgency, absorbing China's attention for years.

Despite the opening of the PRC, several constants characterise Taiwan's situation. The current Taiwanese government agrees on the one China principle, so long as it does not imply Taiwan being part of the PRC. The DPP is even further from an understanding with Beijing in that it refuses plainly the one China principle. The Guomintang, the current Taiwanese governing party, is therefore unlikely to "hand over" Taiwan to China. The articulation of the China policy is much more straightforward in the PRC than in Taiwan. This stems from Taiwan's political system, in which party politics and electoral dynamics will continue to inform the government. If the Guomintang is in a strong position now, it would be unrealistic to discount the potential for the DPP to return to power, for example in coalition with other small parties.

The prospect for a continuation of the status quo in Taiwan appears unchanged by the election of Ma Ying-jeou. The latter's government will find it hard to convince the island's population about the potential for a reunification with the PRC. Surveys indicate that there has been an increase in the number of Taiwanese supporting the status quo indefinitely since the election. Simultaneously there has been a decrease in the number of citizens supporting unification. All else remaining equal, there is no serious prospect of Taiwan's absorption into China anytime soon. What is clear is that the use of threats by Beijing to resolve the situation could backfire. Consequently, foreign governments should view Taiwan as a *de facto* sovereign state and avoid being too deferential to the PRC leadership.

## Discussion

The panel discussant indicated that the significance of border issues between China and India will decrease in the future relative to other forms of competition. The dynamic between the two countries has thus far been one of mutually controlled provocations but their

economic relations are now beginning to deepen despite the fact that they see each other as fierce competitors. However, China has opened itself to Indian investments while India continues to restrict Chinese investments on its territory.

In geostrategic terms, one can argue that China appears to have an advantage, for the moment, over India. While the Indian government and free press allows for the expression of a wide range of views, the Chinese have a highly controlled system and can choose to suppress certain potentially contentious perspectives.

China will offer a much more qualified support to Pakistan than it has in the past. It is worried about the contagion effect from Pakistan towards its own Muslim communities, across the border in Xinjiang.

There remain fears in India of encirclement by China. India is increasingly anxious about China's naval ambitions (with potential bases in Burma, Bangladesh and maybe Sri Lanka) and its growing appetite for resources in Africa.

The Chinese capacity to engage with the rest of the world has increased dramatically in the last five to seven years. India no longer enjoys the "skill advantage" over the Chinese in international diplomacy. Patronising the Chinese would be exceptionally unwise in those circumstances.

On the whole, stressed the discussant, India has shown great prudence and reticence in dealing with its immediate neighbourhood, including China. The Indian government has been absorbed mainly by domestic affairs, not unlike its counterpart in Beijing. Indeed, the last thing that the two countries would want is a large-scale war and the likelihood of conflict between India and China is very low, unless there are serious simultaneous miscalculations on both sides. Domestic growth remains the overwhelming preoccupation for both countries.

As part of the question period following the panel, a first participant asked whether public opinion polls in Taiwan are reliable. The speaker replied that they are indeed reliable because of the environment in which they are conducted. There is fierce competition between media agencies in Taiwan, and if a survey is not representative, competitors strike back quickly. The results also represent what has been observed through other methods. It remains that the ruling party cannot hope for election (or re-election) with a political platform advocating unification with the PRC.

Another participant asked the speaker to elaborate on the overall Indian military strategy. The speaker replied that it is difficult to see a consensus on what militarisation exactly mean for India at present. The Indian government has been following with keen interest the development of Chinese capability in Tibet. This, said a presenter, means that Indian military planning will have to be revamped. With regards to the navy, New Delhi is particularly interested in expanding its naval capabilities but such ambitions have not yet produced a coherent strategy. Another speaker replied that the Chinese “string of pearls” approach is more myth than fact. The potential for China to expand what are today commercial port projects into fully operational military bases is only an assumption and the Chinese navy’s capacities are generally overrated by foreign observers.

A participant wondered whether China would be inclined to adopt unilateral measures of control or diversion of water resources in the Tibetan water basin, which is the source of major Indian rivers. The speaker replied that Beijing might be more amenable to cooperative measures with regards to water management.

Finally, a member of the audience asked what the Dalai Lama’s succession might change in the Sino-Indian relationship. The speaker replied that New Delhi would certainly not clamp down on the Tibetan diaspora in India. The succession does create unease amongst China’s leaders but the possible prospect of a successor with much less legitimacy and public standing in the West might satisfy Beijing.

## China’s Geopolitics

### The nature and future of the relations between Beijing and Washington

In the past few years, many analysts in the U.S. have suggested that “China is rising” or that “China is going to be a global player”. However, they have now realised that the country has indeed *arrived* on the international stage. Reactions in the U.S. to this transformation are evolving too, and there is much uncertainty about the emerging relations between China and the United States. Should China be seen as a partner, a competitor, or a rival? Some argue that China will probably become all three at the same time, creating an even more complex relationship.

China projects a sometimes contradictory image of itself when it comes to its relationship with Washington and the rest of the world. Whether Chinese leaders see their country as a great power or as

a developing one influences their behaviour internationally. China's relations with the world are in large part driven by its domestic requirements. One could say that Chinese foreign policy is resource-driven. China also knows that its future is linked to the existing international system. Some in China view the U.S. as a threat, that is, as a country trying to contain China's rise, and thus think that the international system is hostile to China because it was built by the U.S. Others see the U.S. as a potential friend. However, generally, China realises that the current international security conditions are in its favour, leading former president Jiang Zemin in 2002 to declare that the country is facing a period of strategic opportunity.

*“Should China be seen as a partner, a competitor, or a rival?”*

China also believes that there is global momentum towards enhanced multipolarity and welcomes the relative decline of the U.S. China's military modernisation continues with the focus on Taiwan, but it has also started to look beyond its backyard. Overall, since Deng Xiaoping and Jiang Zemin, Chinese policy vis-à-vis the U.S. has been to develop a cooperative approach and to avoid confrontation. This policy has not changed since President Hu Jintao took power.

U.S. policy-makers are at the moment intently focussed on domestic issues, such as American health care and the economic crisis. Internationally, Washington's eyes are fixed on Afghanistan, Pakistan, Iraq, and international terrorism. Since the election of President Barack Obama, the country's international agenda has broadened to include climate change, the economic downturn, non-proliferation, Iran, and North Korea. Washington's approach is now based on mutual respect and mutual interest, a significant change from the previous administration. This attitude forms much of the American approach to China at present. The Obama administration has also made a point of reasserting U.S. commitment to the Asia Pacific region.

The presenting expert underscored the continuity of American policy towards China over time. Since the era of former president Nixon, the idea that a stable, prosperous and integrated China is in the United States' interest has dominated, in the hopes that China will indeed contribute to the success of the international system. It remains a “bet” and the success of the new era of multipolarity is not a given. It should

also be pointed out that there has been a shift in the American attitude towards China, as the administration in Washington moves away from the concept of “responsible stakeholder” towards that of “strategic reassurance”. This shift highlights the United States’ dilemma today and puts the onus on China to reassure not only the U.S. but the international community about its future direction.

In terms of prospects for cooperation or of “linked fates”, there is an underlying logic to this approach. Both sides seek stability, as well as access to natural resources and international markets.

According to one view, China will become a status quo power in the long term. This view is substantiated by the wealth of agreements negotiated by China regarding climate change, the enforcement of sanctions against North Korea, the filing of trade disputes with the WTO, and, more generally, participation in the international system. There are a number of transnational issues that the international community will not be able to solve without China, despite mutual suspicion, different approaches, and different priorities. The U.S. and China recognise that suspicion and fear can lead to unwanted confrontation.

The most pressing global issues facing the U.S. and China include climate change, security issues associated with the war on terrorism, energy security, economic recovery efforts, relations with Iran, and non-proliferation. The U.S. and China need to address most of these issues, while acknowledging that both sides need to play a role. The two countries, however, have different approaches to solving some of these issues. A case in point is the U.S. idea of the global commons. The global commons concept could potentially include maritime space and cyberspace. The Chinese approach is radically different, as China is developing anti-access and area-denial strategies, even in international waters. These different approaches will remain a challenge.

The most important regional issues facing both countries are North Korea, Afghanistan, Pakistan, the South China Sea, China’s military rise, regional reactions to China’s rise, competing regionalisms, and the role of norms. The different approaches of the two countries are most apparent in this area. China, for example, prefers to participate in groups and organisations where the U.S. is not present.

Bilateral issues such as Taiwan, nuclear proliferation, human rights, and strategic and economic dialogue are usually the most sensitive issues and cannot be talked about yet in broader forums.

In terms of unilateral issues (that is, how the U.S. prepares for China's continuing rise), the key issues are how the perceptions about China are changing (it is interesting to note that China was not a big issue during the presidential election campaign in 2008), how to fund various military resources to fight current wars, how to win future wars or to deter or reassure allies, and how to "cool down" the G2 talk. The U.S. has allies all over the world and needs to make sure that U.S.-China relations are kept in perspective. While clearly both countries have shared interests and goals, the prospects at present for cooperation are rather limited.

### **A look at Sino-Russian relations**

Geopolitical relations between Russia and China may be in decline. It is true that the relationship has been described officially as a relationship between two globally, important rising powers, which have broad interests in common and global outlooks, but this may be an overstatement. Recent highlights in the relationship include the agreement on the Sino-Russian border and China's agreement in February 2009 to lend \$25 billion dollars to Russian oil and pipeline companies in exchange for oil deliveries over a 20-year period. But is the relationship based on shared, strategic interests?

There has been a certain degree of distrust between China and Russia, and the two states pay much more attention to the West than to each other. China's key partner is the U.S., while Russia's key partner is the EU. It should also be pointed out that China is better placed to take practical advantage of its relationship with Russia than is Moscow. Russia tends to overstate its relationship with China, probably in the hopes of lending more credibility to its theory that American hegemony is ending and that Russia is a central player in the emerging multipolar world.

Russia has had some concerns regarding its relationship with Beijing. It has an ingrained sense of superiority, but, at the same time, it realises that China is taking over in terms of modernisation and global power. Russia is very much afraid of becoming China's resource provider and is increasingly pessimistic in the face of this reality.

*“There has been a certain degree  
of distrust between China and Russia, and the  
two states pay much more attention to the West  
than to each other.”*

China's potential threat to Russia's national security in the long term is especially felt in the Russian Far East, in the military, and amongst ordinary people. The fear is basically that an increasingly weak Moscow would be unable to stand up to Beijing, particularly in terms of Chinese expansion into the Far East and competition for resources. Militarily, there is evidence showing that the Chinese military does not plan for any confrontation with Russia, but does want to resolve the problem of Taiwan. Anti-Chinese sentiment in the Russian military and elite is not as deep as anti-American sentiments, whereas popular sentiments in Russia are more prejudiced against the Chinese.

Strategic interests are at the heart of the relationship between the two countries. Clearly, commercial ties do not form the basis of the relationship, as trade with Russia amounts to around 2% of Chinese foreign trade and trade with China amounts to 6% of Russian overall foreign trade. Most experts furthermore dismiss the possibility of a strategic relationship between China, Russia and the U.S. or of growing cooperation between Russia and China. Russia opposes any international order that does not allow it to influence strategic decisions, whereas China seeks to maintain a relatively low profile and does not want to challenge the U.S. in all instances as Russia does. As to the future, Moscow still thinks more in terms of a tripolar world, where Russia acts as a bridge between the West and the East, whereas China is more inclined to think of a bipolar world with the U.S.

There are six possible geopolitical directions for future Sino-Russian relations.

- 1) *Authoritarian coalition.* Sino-Russian relations will determine how the world will be divided based on political systems. This direction is unlikely as both countries' outlooks are too different.



- 2) *Sino-Russian alliance*. This direction is also unlikely, as China opposes this kind of inflexible commitment.
- 3) *Sino-Russian convergence*. This rather simplistic view is based on the industrial strategy, social structures, and development models of both countries. One cannot assume a linear development for both countries and ignore the growing gap in capabilities.
- 4) *Sino-Russian regional cooperation*. This direction is not entirely ruled out, but would only be possible if the U.S. and the EU were unable to maintain a presence in Afghanistan. It is rather unlikely as competition between the two countries in the region is intense.
- 5) *Sino-Russian estrangement and confrontation*. This direction is not likely, but is not inconceivable either. A security threat in the Far East and a growing perception of vulnerability on the part of Russia would be the trigger.
- 6) *China eclipses Russia under the aegis of partnership*. In this direction, China would eclipse Russia in international decision-making bodies. Russia could promote itself as an independent strategic partner, but would have a weaker gravitational pull. If Russia's power declines further, Moscow could seek closer ties to the EU and a more stable relationship with the U.S. in order to join a Western coalition of states. Russia could then try to manage its relationship with China through this framework, which it has adopted periodically.

## Insights into the China-Europe Relations

There is a crisis of confidence in Europe regarding its relations with China. Europe has shifted from optimism to a sort of measured realism or even pessimism regarding this relationship. This change can be explained by recent setbacks in China-EU relations, including the failure to lift the arms embargo, mostly because of the EU's internal disagreements. Economic relations between the EU and China do matter greatly to both sides. In fact, the EU-China trade relationship is the largest in the world followed by the U.S.-China relationship. It is also interesting to note that the EU-China trade relationship surpassed that of the U.S.-China in terms of its trade deficit in 2007.

This situation was unexpected in Europe and is part of a more general crisis involving expectations in Europe. Europe was overly optimistic about the possible benefits of this relationship and about its ability to help China to develop. The Chinese, on the other hand, were under the impression that the EU was moving towards them and that the

relationship would be easy to manage. The Chinese have a sort of shopping list that they bring to the negotiation table with the EU. This list which has not changed much over the years includes lifting of the arms embargo, recognition of the “market economic status”, non-interference in domestic politics, and a commitment to refuse to receive the President of Taiwan, the Dalai Lama, or other political opponents.

In 2008, the relationship faced an even more serious crisis following public demonstrations against the Olympic torch relay. This situation led to the postponement of the EU-China summit that year. It was the first time that China had postponed such a major bilateral summit, with the exception of the China-USSR summit in the 1960s. However, it is not the first time that China suspends bilateral relations as a means of exerting leverage. The EU-China relations have not completely recovered politically, and neither side is satisfied with status quo at present.

There are reasons for the problems in EU-China relations, however. Major differences amongst member states have made relations difficult, as each member state deals differently with China at the individual level. Consequently, the EU uses the smallest common denominator approach and tends to adopt policies similar to that between the U.S. and China, without any real strategy. Another factor in this problematic relationship is the fact that the EU has been very open in terms of trade and agreements and feels that it has already conceded enough to China. The EU feels that the imbalance in the relationship is more and more apparent, for example the lack of access to each other's markets.

*“...the EU uses the smallest common denominator approach and tends to adopt policies similar to that between the U.S. and China, without any real strategy.”*

The reality is that, unlike the U.S. and Japanese strategies, the EU's strategy of managing its relationship with China by sharing its expertise in terms of aid and governance is not working. The EU needs to restructure its relationship with China and to move away from the strategy of “helping a developing economy”. The EU has to realise that China's move towards a market economy will not result in the political change expected. It also has to understand that the EU-China relationship does not have a mutual economic deterrence component

like the U.S.-China relationship. EU savings rates are high, and the EU has no bond market; however, it has not capitalised on China's need to export capital.

The largest member states have become disillusioned by their inability to directly affect the EU-China relationship and have recognised the need to build a consensus of opinion amongst EU members. A general consensus, albeit difficult, is emerging. EU members understand that they must first deal with the problem of multiple summits with constantly revolving presidents. Some have suggested for instance that the countries with the most pressing interest in one specific issue take part in the relevant discussions with China.

The EU also needs to reconsider its industrial policy, specifically its intellectual property rights protection. But, more generally, it is time for the EU to move towards a framework of reciprocity, similar to that of the new American policy toward China. This framework goes beyond assessing relationships as better or worse and instead aims to seek cooperation and to build a strategy on a case-by-case basis. The EU's move towards a more realist stance is worrisome, given that the U.S. is working towards greater cooperation. The recent economic difficulties in the U.S. could, however, lead to an approach which could be closer to that of the EU.

## **Discussion**

One participant asked how Japan might fit in the picture, as it remains one of the major powers in the region and has not been discussed directly during the module. The speaker replied that the Japan issue is an interesting one, particularly how Russia chooses to approach it. There remain some territorial issues between the two countries, but a rapprochement would indeed help to counterbalance the China-Russia relationship in the Far East.

Another participant asked how the Shanghai Cooperation Organisation (SCO) fits in the picture. The speaker answered that this organisation is very much China-driven as opposed to Russia-driven. China is having problems finding a purpose for the SCO at the moment, except perhaps to help manage rising Chinese trade and political presence in Central Asia. The organisation has encountered a stumbling block, as distrust between its members and Russia has grown, particularly since the Georgian war, when China led opposition to approval of Russian actions. While the SCO might have been seen

as a potential vehicle for conservative, sovereignty-based principles, Russia's actions in Georgia, especially recognition of South Ossetia and Abkhazia, have probably eliminated that possibility for the time being.

Another participant asked whether the global commons is a useful way of thinking about shared responsibilities. Would pollution issues be considered part of the global commons thinking? Would the Arctic be part of the global commons? According to a speaker, the concept of global commons is indeed useful when thinking about air, cyberspace, international shipping, or digital communications, that is, when thinking about the interconnective tissue of the international system.

Another participant asked whether the U.S. views about the Taiwan question have changed. A speaker stated that U.S. politicians have had a change of heart, as they recognise the importance of China (both McCain and Obama did for instance) and the soundness of Bush's China policy. The *Taiwan Security Act*, for example, sent a clear message to Cheng Shuibian in 2006 and 2008 that no blank check was being handed over. It was understood that, if he went too far, he was not going to get support. U.S. arms sales to Taiwan are pending at the moment, which could create a difficult situation if they do not get approved soon. Currently, the deal includes F16s, but, if too much time passes, they may be considered obsolete, and F35s may have to be discussed, complicating matters even more.

Another participant said that, while it is true that U.S. has to bring China into the international fold, the U.S. also has to invest in the international system and to help build global institutions. Does the U.S. have the courage at present to fund the rebuilding of the international system? Would the EU have an advantage over the U.S. because it is not indebted to the same degree? According to the speaker, the U.S. will have to work to rebuild these institutions; however, only so much can be done in a day. The process will be a slow one, but the U.S. remains committed to it.

## **Annexes**



## Annex A

### Conference agenda

*A conference jointly sponsored by the Canadian Security Intelligence Service and the International Development Research Centre*

#### 28 September 2009

- 9.00 – 9.15 Welcome, structure and objectives of conference
- 9.15 – 9.30 Beyond the Dragon's Clichés: Opening remarks
- 9.30 – 10.45 MODULE 1 – CHINESE NATIONAL POLITICS
- What are key issues in Chinese domestic politics?  
Where does power reside, how are decisions taken,  
and how has governance evolved since 1989?

#### Expert presentations

*From one ideology to the next? Nationalism and its impact on Chinese policy-making, political life and public perceptions*

*Leadership: Competing ideas to manage China*

*Managing from the Centre: Beijing's relations with the provinces*

- 10.45 – 11.15 Break
- 11.15 – 12.15 *Keynote address and discussion: China's Soft Power Abroad: Messages, Methods, and Impact*
- 12.15 – 13.15 Lunch
- 13.15 – 14.45 MODULE 2 – CHINESE DOMESTIC REALITIES TODAY
- An overview of some of China's most pressing or consequential internal issues

#### Expert presentations

*Tibet, Xinjiang and Minorities: Ethnicity, Chinese identity and political tensions*

*Taming Discontent: Social unrest and the global economic crisis*

*State and society responses to environmental challenges in China*

14.45 – 15.00 Break

15.00 – 16.30 MODULE 3 – CHINA'S ECONOMIC DEBATES AND ITS  
FUTURE IMPACT ON THE GLOBAL ORDER

An overview of the national and global impact of  
China's economic development and challenges

Expert presentations

*The government's approach: "Leftists", the "Old  
Left", the Right and growth at all cost?*

*Oil, resources and China's lending diplomacy*

*Re-defining global governance: the Middle Empire's  
footprint on global governance*

16.30 – 17.15 Keynote address: China's rising financial and  
monetary influence

## 29 September 2009

9.00 – 9.15 Review of first day

9.15 – 10.45 MODULE 4 – LOOKING TO 2015: WHAT SHOULD CANADA PAY  
ATTENTION TO?

An assessment of emerging stakes in Canada's  
relations with China

*China's Grand Strategy: implications for Canada*

*Canada-China: an increasingly complex relationship*

*Uncharted Waters: China and the geopolitics of  
the environment*

10.45 – 11.15 Break

11.15 – 12.15 ON THE SPOT

AN EXPERT DEBATE – AFTER THE CRISIS:  
WHAT WILL CHINA BE LIKE IN 2015?

*Whether the current global economic downturn ends  
in a rapid rebound, relapses after the emergence  
of encouraging signals, or leads to slow recovery,  
China will retain a prominent role in economic  
affairs. What futures might it therefore be facing as a  
leading power?*



12.15 – 13.15 Lunch

13.15 – 14.15 MODULE 5 – CHINA'S NEIGHBOURHOOD

An assessment of some of China's key relations and challenges within its geographic zone of immediate influence

Expert presentations

*India and China: rivalry or complementarity?*

*China's stakes in Southeast Asia*

*A "Strait" conundrum: China and Taiwan*

14.15 – 14.30 Break

14.30 – 16.00 MODULE 6 – CHINA'S GEOPOLITICS

Analysing the current state and prospects of Beijing's relations with big powers

Expert presentations

*Linked Fates: the nature and future of the relations between Beijing and Washington*

*Convenience or Commonality? A look at Sino-Russian relations and how western observers have tended to consider them*

*Old and New Worlds: insights into the China-Europe relations*

16.30 – 16.45 Wrapping up: China's New Place in the World?

16.45 – 17.00 Concluding remarks

## **Annex B**

### **Academic Outreach at CSIS**

#### **Intelligence in a shifting world**

It has become a truism to say that the world today is changing at an ever faster pace. Analysts, commentators, researchers and citizens from all backgrounds—in and outside government—may well recognise the value of this cliché, but most are only beginning to appreciate the very tangible implications of what otherwise remains an abstract statement.

The global security environment, which refers to the various threats to geopolitical, regional and national stability and prosperity, has changed profoundly since the fall of Communism, marking the end of a bipolar world organised around the ambitions of, and military tensions between, the United States and the former USSR. Quickly dispelling the tempting end of history theory of the 1990s, the 2001 terrorist attacks on the United States, as well as subsequent events of a related nature in different countries, have since further affected our understanding of security.

Globalisation, the rapid development of technology and the associated sophistication of information and communications have influenced the work and nature of governments, including intelligence services. In addition to traditional state-to-state conflict, there now exist a wide array of security challenges that cross national boundaries, involve non-state actors and sometimes even non-human factors. Those range from terrorism, illicit networks and global diseases to energy security, international competition for resources, and the security consequences of a deteriorating natural environment globally. The elements of national and global security have therefore grown more complex and increasingly interdependent.

#### **What we do**

It is to understand those current and emerging issues that CSIS launched, in September 2008, its academic outreach program. By drawing regularly on knowledge from experts and taking a multidisciplinary, collaborative approach in doing so, the Service plays an active role in fostering a contextual understanding of security issues for the benefit of its own experts, as well as the researchers and specialists we engage.

Our activities aim to shed light on current security issues, to develop a long-term view of various security trends and problems, to challenge our own assumptions and cultural bias, as well as to sharpen our research and analytical capacities.

To do so, we aim to:

- tap into networks of experts from various disciplines and sectors, including government, think-tanks, research institutes, universities, private business and non-governmental organisations (NGOs) in Canada and abroad. Where those networks do not exist, we may create them in partnership with various organisations;
- stimulate the study of issues related to Canadian security and the country's security and intelligence apparatus, while contributing to an informed public discussion about the history, function and future of intelligence in Canada.

The Service's academic outreach program resorts to a number of vehicles. It supports, designs, plans and/or hosts several activities, including conferences, seminars, presentations and round-table discussions. It also contributes actively to the development of the Global Futures Forum, a multinational security and intelligence community which it has supported since 2005.

While the academic outreach program does not take positions on particular issues, the results of some of its activities are released on the CSIS web site ([www.csis-scrs.gc.ca](http://www.csis-scrs.gc.ca)). By publicising the ideas emerging from its activities, the program seeks to stimulate debate and encourage the flow of views and perspectives between the Service, organisations and individual thinkers.

