

CHINA'S GROWING ROLE IN REGIONAL INSTITUTIONS

Application of institutional realism to the Shanghai Cooperation Organization (SCO)

Aylin Aksu

Abstract China's ever growing importance in world affairs and politics has not gone by unnoticed. However, conventional IR theories fail to explain how the emerging superpower has been expanding its role in regional institutions. The rather novel theory of scholar Kai He of institutional realism will be applied to China's involvement in the formation of the Shanghai Cooperation Organisation (SCO). His theory combines traditional neorealism with elements of the neo-liberal interdependence theory in an attempt to provide a holistic approach to the PRC's foreign policy decisions.

I Introduction

'We should step up multilateral cooperation. Multilateral cooperation of various forms should become the principal vehicles in the handling of international affairs.'

– Li Zhaoxing, UN General Assembly, 2003.

China's growing importance as a major player in the international community has not gone by unnoticed. Neither has its increasing influence on and participation in regional and international multilateral institutions in the 21st century

(Wu & Lansdowne, 2008). As illustrated by this, the rising giant has been moving away from its decade-old hesitant and reserved attitude towards an active approach of involvement in international institutions (Xie, 2011). This resulted in increased pro-activeness and involvement in multilateral institutions, such as the WTO, SCO, APEC, IMF and the AIIB. A growing body of academic research within the field of International Relations has aimed at understanding the Chinese Communist Party's (CCP) growing inclination for integration (He, 2008). However, conventional IR theories only offer a limited explanation for this behavioural shift.

Professor Kai He developed a novel theory, namely institutional realism, to explain states' behaviour within institutions (He, 2007). This framework borrows from both neorealist and neoliberal theory to explain the strategy of 'institutional balancing' to secure one's position in the international system (He, 2008). How can China's role in the Shanghai Cooperation Organisation be explained using institutional realism? This question is answered with a three-tiered analysis: a historical overview of China's evolved role, an explanation of institutional realism and lastly the application of this theory to the Shanghai Cooperation Organization (SCO).

2 Background

China's role in regional and international institutions has evolved over time since it has shown a growing interest in the benefits of institutionalizing politics. China's foreign policy can be categorised into two four distinct stages, with a significant turning point at the end of the Cold War (He, 2007). From the establishment of the People's Republic of China (PRC) in 1949 to 1971, the country was characterized by non-alignment, mistrust and isolation from the international community and its institutions, such as the United Nations (Xie, 2011). The CCP viewed these organizations with a high level of suspicion due to the Western nature of these establishments, leaving little room for decision-making power amongst developing countries (Kulma, 2005).

During the second stage, from 1971 to 1978, China continued its passive stance towards participation but experienced a shift in attitude. It became less suspicious, which resulted in cooperation in mostly non-political organizations such as the International Olympics Committee (IOC) and UNESCO (Xie, 2011).

The third stage was characterized by significantly increased participation in international institutions, under the leadership of Deng Xiaoping. 1978 is marked as the starting point for structured economic reform throughout the country,

which was accompanied by a strengthened interaction with the outside world. In accordance with China's Five Principles of Peaceful Coexistence as well as the nation's primary goal of economic development (CCP, 1978), the number of organizations the country became involved in rose significantly (Wu & Lansdowne, 2008).

The end of the Cold War is seen as the turning point as well as the last stage in China's process from resistance towards the embracement of institutions. This period, up until now, has been characterized by both a deepened engagement in a variety of established institutions, such as its WTO membership in 2001, as well as playing a leading role in the establishment of new organizations, such as the SCO and the AIIB (Xie, 2011). With the collapse of the USSR, the global power shift from bipolarity to unipolarity, moved China towards a policy of engagement in international organizations (Kulma, 2005). Nowadays, China's interests are represented in almost all significantly important international and regional institutions in which it continues to increase its influence. The following section provides a model aimed at understanding these trends.

3 Theoretical framework: Institutional Realism

Kai He's dissertation, *Institutionalizing security: Institutional realism and multilateral institutions in Southeast Asia* (2007) introduced a novel theory to explain China's increased participation in (the establishment of) multilateral institutions. He recognised the merits and limitations of both neoliberal and neorealist theory to explain the increasing importance of institutions in power politics. By borrowing from both theories institutional realism combines the neorealist power-balance theory with the neoliberal interdependence theory. This results in a new strategy named institutional balancing, employable by states as an alternative to traditional hard balancing. The idea behind this often 'overlooked' form of balancing is to '[counter] pressures (...) through initiating, utilizing and dominating multilateral institutions, (...) to pursue security under anarchy.' (He, 2008, p. 492). It is based on two main assumptions: (1) Due to a high level of economic interdependence states prefer the strategy of institutional balancing over traditional military balancing to cope with external threats. (2) The regional distribution of capabilities determines which type of institutional balancing states will employ: an inclusive or an exclusive one (He, 2008). This model consists of one dependent variable, state behaviour, which is determined by two independent variables: the degree of economic interdependence and the distribution of power (see figure 1 below).

The first independent variable, the degree of economic interdependence, constrains state behaviour from choosing traditional military balancing as a viable option. Institutional realism acknowledges the neorealist notion of self-help in an anarchic system as the most rational behaviour of states. However, neorealism limits the subsequent balancing strategies to traditional external balancing via the formation of alliances, or internal balancing, by increasing one's domestic military capabilities (Baylis, 2013). According to He's novel theory, traditional balancing can be counter-productive since economic development, and subsequent national security, can be severely damaged by employing this form of balancing in the context of economically interdependent states. The measurement of such interdependence is based on two indicators: foreign direct investment [FDI] and international trade flows, which will be applied to the case study below.

Secondly, the distribution of power, being the second independent variable in the model is based on the perception of a country's decision-makers of how capabilities are distributed amongst the actors. Apart from the measurable indicator of military power it is also determined by the expectations of the government on future changes in the power structure. Reliable sources for obtaining relevant information are a state's white papers and public statements.

The last, dependent variable is state behaviour, which is demonstrated in the international system by a state's foreign policy decisions. Within the framework of institutional realism this behaviour can be categorized into four distinct strategies: traditional internal or external power balancing as well as inclusive or exclusive constitutional balancing. Table 1 below shows the predicted balancing strategies which are most favourable and effective in different scenarios. In a scenario of strong economic interdependence the type of institutional balancing depends on the distribution of power in the global system (He, 2007).

As shown in table 1, exclusive balancing is employed in a unipolar system as well as between the two blocs in a bipolar system. This refers to the act of keeping the target state(s) out of the institutions. The rationale behind such a policy is the belief that a hegemon has the capability of influencing the agenda of such institutions to its own advantage. The power gap between this hegemon and other states is too large to constrain the former's actions within institutions, which makes inclusive balancing counterproductive. Inclusive balancing, on the other hand, is employed in a multipolar world and within the blocs of a bipolar world. This strategy tries to bind the target states to institutions as a means to control the behaviour of these hegemonic powers.

	Independent variable 1: Economic interdependence		
Independent variable 2: Distribution of power		WEAK	STRONG
	UNIPOLAR	Power balancing – possibility of hegemonic wars	Institutional balancing – exclusively → hegemon vs. rest
	BIPOLAR	Power balancing – between blocs, war relatively unlikely	Institutional balancing – exclusively between the blocs – inclusively within the blocs
	MULTIPOLAR	Power balancing – high possibility of war	Institutional balancing – inclusively → binding powers to institutions

Table 1: Institutional realism

4 Case study: Shanghai Cooperation Organization

China is part of the Shanghai Five¹, the founding members of this regional institution. After the addition of Uzbekistan in 2001 it changed its name into Shanghai Cooperation Organisation, whose name already illustrates China's leading role in its formation. The SCO's enlargement in July 2015 has officially incorporated new partners India and Pakistan into the organization, as well as a growing number of observer states² and dialogue partners³ (SCO, 2015). The main purpose of the organization is to ensure stability and security in the region via the strengthening of 'good-neighbourly' relations amongst the member states and other participants. And even though the SCO currently focuses on deepening the economic and political relationships within the organisation, this still indirectly impacts upon the degree of regional influence exercisable by the US. Not only is certain strategic information inaccessible to the hegemon, it is also losing its dominant influence in (the oil sectors of) SCO members Kazakhstan, Tajikistan and Kyrgyzstan to Russia and China (Ismi, 2014).

¹ Shanghai Five: China, Kazakhstan, Kyrgyzstan, Russia and Tajikistan.

² Observer states: Afghanistan, Belarus, Iran and Mongolia.

³ Dialogue partners: Armenia, Azerbaijan, Cambodia, Nepal, Sri Lanka and Turkey.

The ambitions of the SCO reach further than merely securing the status-quo. According to its website it strives for ‘the establishment of a new, democratic, just and rational political and economic international order.’ (SCO, 2015). Clearly, the SCO does not just aim to maintain the current power distribution, but wishes to challenge and reshape it via the formation of a strong regional partnership. The decision to leave the US out of its organisational structure shows an envisioned new world order in which the current hegemon does not occupy a prominent role. This is in line with the general trend among the BRIC(S)⁴ countries, who have been pursuing a world of multipolarity as a result of their increased political and economic powers (Papa, 2014).

From both its words and actions it has become clear that it aims to become the most important international organization in the Asian region (Hansen, 2008). China has played a formative role in the establishment and development of this non-western Asian-centred organization, which is in line with its overall positive attitude towards institutions in the 21st century. This paper will explain why and how China’s role in multilateral institutions has increased significantly since the end of the Cold War.

5 China and the US: Economic interdependence

Following Kai He’s (2007) theoretical framework, the first independent variable of economic interdependence must be identified. Whether this factor is weak or strong depends on the level of trade flows and foreign direct investment [FDI]. During the Cold War China’s economy slowly opened-up to the world. The trade in goods as a percentage of China’s GDP fluctuated between 30% and 45% until 2000. But this trade dependency sky-rocketed after its accession to the WTO in 2001 and is currently around 60% (World Bank, 2015). Not only does this indicate its full incorporation into the world economy, it also makes the country’s economy more vulnerable to external factors (He, 2007). China’s FDI figures (Gray, 2012) show a similar pattern, as it became, and remains, the largest receiver of FDI globally since 2002, when it topped the United States.

With regards to its economic relationship with the US, an asymmetrical economic relationship between the two emerged at the end of the Cold War. Firstly, the US is one of China’s largest export markets, which increased from 8.45% in 1985 to 17% in 2015, whereas China only accounted for respectively 1.33%

⁴ Brazil, Russia, India, China, (South-Africa)

(1985) and 7% (2015) of US exports (Trading Economics, 2015). Secondly, a large proportion of China's FDI, which its rapid economic development is largely based on, originates from the United States (Worldbank, 2015). This increased economic dependency on the hegemon coupled with the belief that economic development is the main legitimization tool of the CCP makes traditional military balancing no longer a cost-effective or desirable policy option (Ferguson, 2012).

6 Distribution of capabilities in the world system

The dissolution of the USSR and the subsequent ending of the Cold War had an all-compassing impact on the distribution of power in the international community (Hogan, 1992). China's perception of the polarity of the system shifted from the bipolar US-USSR world system towards a new world of multipolarity. Among Chinese leaders, this worldview gained great support, as they perceived the US as a power in (relative) decline due to rising developing powers, including China itself. This common vision of the future power distribution was expressed by Jiang Zemin in 1992: 'The current world is undergoing dramatic historical changes. The bipolar structure has ended, (...), and the world has been moving towards a multi-polar direction.' (Zemin, 1992, p. 34). This public statement was mainly based on the shared belief that the U.S. economy was headed towards stagnation and was declining in material power, such as the loss of military bases in the Philippines (Sanger, 1991).

However, this perception was reassessed as a result of the 1998 Kosovo war, which illustrated the US's unprecedented strength. For the sake of 'humanitarian intervention' it was able to bypass UN authorization and experienced little resistance from other states (Gibbs, 2009). This growing power gap between the US and all other states became even more evident with the US Belgrade bombing of the Chinese embassy during this war (Johnson, 1999). The PRC realized its capabilities were too limited to stand up against this hegemon. Subsequently, the White Paper on National Defence acknowledged this power gap and adopted a unipolar world view (Johnston, 2004).

7 Foreign policy decisions

The combination of high interdependence and China's perception of a unipolar distribution of capabilities, within the framework of institutional balancing, points towards a foreign-policy of exclusive institutional balancing (table 1).

Therefore, China altered its attitude of scepticism towards institutions after the Cold War, leading to, amongst others, the establishment of the SCO (He, 2007). Even though the SCO is primarily focused on regional security, China has repeatedly pushed for deepened economic and strategic cooperation amongst the SCO members (Tiezzi, 2014). Such an expanded SCO would serve China's interest of becoming the regional power, creating the possibility of taking over the position of the US. The United States was deliberately kept out of the organization and the Chinese newspaper People's Daily confirmed this intention by stating that 'The Declaration points out that the SCO member countries have the ability and responsibility to safeguard the security of the Central Asian region, and calls on Western countries to leave Central Asia.' (Rozoff, 2009).

This illustrates how China and the other SCO members are trying to move towards a new regional order in which the US has limited leverage to impose its preferences on them, which it is certainly capable of in the current unipolar world (Song, 2013). The purpose of this isolation policy is to ultimately drive the hegemon out of the region to create more room for China's (regional) rise (Lukin, 2015). And to conclude with the words of Foreign Policy in Focus columnist Conn Hallinan:

'The expansion [of the SCO] is a big deal, The U.S. has been trying to isolate Iran and Russia. After this expansion I think it is relevant to ask who is looking more isolated these days?'

(Ismi, 2014,)

8 Conclusion

Taking all of the above into account, it can be concluded that China's role in the Shanghai Cooperation Organisation is based on the strategy of institutional balancing. The power distribution during the Cold War was bipolar, but due to the fall of the USSR the Chinese government had to acknowledge the hegemonic power of the United States in a post-Cold War unipolar world. Additionally, the economic interdependence of the PRC's economy with the world economy and the United States in particular, increased significantly after the Cold War. Foreign Direct Investment and trade dependency in China have seen an unprecedented growth from the 1990s onwards. Within the framework of institutional realism, these two factors, high economic interdependence and a unipolar power distribution, logically lead to a policy of exclusive institutional balancing. China has employed this strategy with the creation of the Shanghai Cooperation

Organization, in which it purposefully left the US out of its structure. The practise of institutional balancing is becoming an increasingly important diplomatic tool of the PRC, since it can be employed without undermining its economic relations with foreign powers. In order to determine whether exclusive institutional balancing will become the main foreign-policy strategy of the PRC towards the US, further research in this field needs to be conducted.

References

- Baylis, J. (2013). *The globalization of world politics: An introduction to international relations* (6th ed.). Oxford: Oxford University Press.
- CCP. (1978). Communiqué of the third plenary session of the 11th central committee of the communist party of China. Retrieved December 11, 2015 from: <http://cpc.people.com.cn/GB/64162/64168/64563/65371/4441902.html>
- Ferguson, T. (2012). China's communist party and lost legitimacy. Retrieved December 12, 2015 from: <http://www.forbes.com/sites/timferguson/2012/06/29/chinas-communist-party-and-lost-legitimacy/>
- Gibbs, D. (2009). *First do no harm: Humanitarian intervention & the destruction of Yugoslavia*. Nashville, TN: Vanderbilt University Press
- Gray, D. (2012). China tops U.S. as investment target in 1st half 2012: Retrieved December 12, 2015 from: <http://www.reuters.com/article/us-china-us-investment/idUSBRE89N0EZ20121024>
- Hansen, F. S. (2008). The shanghai co-operation organisation. *Asian Affairs*, 39(2), 217-235.
- He, K. (2008). Institutional balancing and international relations theory: Economic interdependence and balance of power strategies in Southeast Asia. *European Journal of International Relations*, 14(3), 489-518.
- He, K. (2007). *Institutionalizing security: Institutional realism and multilateral institutions in Southeast Asia* (Doctoral dissertation). Arizona State University, AZ.
- Hogan, M. (1992). *The end of the Cold War: Its meaning and implications*. Cambridge, England : Cambridge University Press.
- Ismi. A. (2014). BRICS and the SCO challenge U.S. global dominance. Retrieved December 12, 2015 from: <https://www.policyalternatives.ca/publications/monitor/brics-and-sco-challenge-us-global-dominance>
- Johnson, I. (1999, May 12). China to resume pursuit of WTO entry --- Beijing sends signal to U.S. despite wave of anger over Belgrade bombing. *Wall Street Journal*, p. A17.
- Johnston, I. (2004). *Beijing's security behavior in the Asian-Pacific: Is China a dissatisfied power?* In *rethinking security in East Asia: Identity, power and efficiency*. Stanford University Press, p. 53.
- Kulma, M. (2005). *China and multilateral institutions: The decision to join*. (Doctoral dissertation). City University of New York, NY.

- Lukin, A. (2015). Shanghai cooperation organization: Looking for a new role. Retrieved December 14, 2015 from: <http://eng.globalaffairs.ru/valday/Shanghai-Cooperation-Organization-Looking-for-a-New-Role-17576>
- Papa, M. (2014). BRICS' pursuit of multipolarity: Response in the United States. *Fudan Journal of the Humanities and Social Sciences*, 7(3), 363-380
- Rozoff, R. (2009). The Shanghai cooperation organization: Prospects for a multipolar world. Retrieved December 14, 2015 from: <http://www.globalresearch.ca/the-shanghai-cooperation-organization-prospects-for-a-multipolar-world/13707>
- Sanger, D. (1991). Philippines orders U.S. to leave strategic navy base at Subic Bay. Retrieved December 11, 2015 from: <http://www.nytimes.com/1991/12/28/world/philippines-orders-us-to-leave-strategic-navy-base-at-subic-bay.html?pagewanted=all>
- SCO. (2015). Brief introduction to the Shanghai cooperation organisation. Retrieved December 11, 2015 from: <http://www.sectsco.org/EN123/brief.asp>
- Song, W. (2013). Feeling safe, being strong: China's strategy of soft balancing through the Shanghai cooperation organization. *International Politics*, 50(5), 664-685.
- Tiezzi, S. (2014). The new improved Shanghai cooperation organization. Retrieved December 14, 2015 from: <http://thediplomat.com/2014/09/the-new-improved-shanghai-cooperation-organization/>
- Trading Economics. (2015). China exports. Retrieved December 13, 2015 from: <http://www.tradingeconomics.com/china/exports>
- World Bank. (2015). Data: China. Retrieved December 12, 2015 from: http://data.worldbank.org/country/china#cp_wdi
- Wu, G., & Lansdowne, H. (2008). *China turns to multilateralism: Foreign policy and regional security*. London: Routledge.
- Xie, Z. (2011). The rise of China and its growing role in international organizations. *Journal of Modern Chinese Studies*, 4(1), 85-96.
- Zemin, J. (1992). Accelerating the pace of reform, opening up and modernization and achieving great success of socialism with Chinese characteristics. Beijing: People Press, 34.
- Zhaoxing, L. (2003). Statement at the general debate of the 58th session of the UN general assembly. Retrieved December 8, 2015 from: <http://www.china-un.org/eng/lhghyywj/ldhy/previousga/58/t28516.htm>