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## The Rise of China and Its Impact on the Existing Capitalist World System - WORKSHOP VOLUME

Li, Xing; Li, Xing; Østergaard, Clemens Stubbe; Muchie, Mammo; Beukel, Erik; Zank, Wolfgang; Møller, Bjørn; Hersh, Jacques; Duedahl, Poul; Lundvall, Bengt-Åke; Liu, Ju; Nødskov, Kim

*Publication date:*  
2008

*Document Version*  
Også kaldet Forlagets PDF

[Link to publication from Aalborg University](#)

### *Citation for published version (APA):*

Li, X. (red.), Li, X., Østergaard, C. S., Muchie, M., Beukel, E., Zank, W., ... Nødskov, K. (2008). The Rise of China and Its Impact on the Existing Capitalist World System - WORKSHOP VOLUME. Aalborg: Department of History, International and Social Studies, Aalborg University.

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**DIIPER**

Development, Innovation and  
International Political  
Economy Research

Aalborg University  
Fibigerstraede 2-8a  
DK-9220 Aalborg East

Phone: +45 9940 9813  
Fax: +45 9635 0044

Mail: [diiper@lists.ihis.aau.dk](mailto:diiper@lists.ihis.aau.dk)

## **Workshop Volume**

**The Rise of China and Its  
Impact on The Existing  
Capitalist World System**

**Introduction and Edited  
by Li Xing**

**DIIPER RESEARCH SERIES**

**WORKING PAPER NO. 8**



ISSN: 1902-8679

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**Workshop Volume – The Rise of China and Its Impact on the Existing  
Capitalist World System**  
Development, Innovation and International Political Economy Research (DIIPER)  
Aalborg University  
Denmark  
DIIPER Research Series  
Working Paper No. 8

ISSN 1902-8679

*Published by*  
DIIPER & Department of History, International and Social Studies  
Aalborg University

*Distribution*  
Download as PDF on  
<http://www.diiper.ihis.dk/>

*Lay-out and word processing*  
Cirkeline Kappel

*The Secretariat*  
Development, Innovation and International Political Economy Research  
Fibigerstraede 2, room 99  
Aalborg University  
DK-9220 Aalborg East  
Denmark  
Tel. + 45 9940 8310  
Fax. + 45 9635 0044

E-mail: [diiper@lists.ihis.aau.dk](mailto:diiper@lists.ihis.aau.dk)  
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# **Introduction: China's Long-march Towards a Restoration of Global Power**

Li Xing

*“Quand la Chine s'éveillera, le monde trembera”*

(China is a sleeping giant. Let her lie and sleep, for when she awakens she will shake the world.)

Napoleon Bonaparte (1816)

## **China's century-long struggles**

The long and dramatic transformations taking place in China in the 20<sup>th</sup> century makes it an ideal “case study” for scientific research of political and economic development and social changes. Very few societies like China had been so radically transformed in such a short time within one century. Politically, the Chinese state and society transformed from a long imperial system to a short-lived republic, and then from a fragile and predatory warlordism to a revolutionary centralized socialist state. Economically, the country underwent a state-led socialist industrialization project based on “politics in command”, planned economy and collective egalitarianism, and then moved to an all-round economic reform based on “economics in command” and market mechanisms. Ideologically, the Chinese value systems went through many “great leaps forward” from Confucianism to Marxism, from imperialism to republicanism, from feudalism to socialism and from collectivism to individualism. The Chinese political and economic landscape had experienced repeated shifts from crisis and failure to very rapid growth and achievement as well as from an order- and hierarchy-based society to mass mobilization movements and to mass pursuit of wealth.

In China's contemporary history, the search to ensure its existence as a prosperous strong nation and a united political entity has been a key concern for generations of Chinese in their struggles to find a solution for restoring its great power status. A series of modernization “attempts” including the socialist project suffered a series of setbacks due to the challenges and the constraints from internal and external factors. Depending on how one assesses its successes and failures, China was remembered as conducting historically unique experiment to skip over the stage of capitalism and to bring about a socialist transformation in terms of both social structures and consciousness of the people.

The market reform program initiated by the post-Mao elites since the end of 1970s has been hailed as one of the most important events in modern world history. While the reform programs in Russia and much of Eastern Europe sank into depression, China's market reform has turned it into the fastest growing economy in the world for three decades. The Chinese self-claimed model - "market economy with Chinese characteristics" or "market socialism" - is increasingly seen, however, debatably, as the third alternative model challenging the existing mainstream political and ideological establishment.

Although in terms of cultural and political values, China is still labeled by the West as a regime of authoritarianism and human rights abuses, its success in tripling gross domestic product within a short period has made China attractive to many developing countries in terms of how to manage state-market-society relations and political economy in international relations. In the past half century China has indicated its capability of responding to external and internal challenges while retaining China's essential features of socio-political organization and mode of functioning. Some call it a "Chinese model of development", whereas others simply name it "Beijing Consensus", a notion coined with distinct attitudes to politics, development and the global balance of power.

The post-Mao China dramatically readjusted its course of international relations and diplomacy. Various multilateral arrangements at cross purposes were signed with various international organization as well as many of its neighbors. Its membership in the World Trade Organization along with other international involvements, such as contributing troops for the United Nations peacekeeping operations, assisting nonproliferation issues (including hosting the six-party talks on North Korea), settling territorial disputes with its neighbors, and participating in a variety of regional and global organizations. This new style of diplomacy, coupled with its official slogan of "China's peaceful rise", helps to alleviate fears and reduce the likelihood of other countries allying to balance a rising power.

### **Placement of discussion: China-West relations**

The difficult relations between China and the West have a long historical background, partly inherited from China's memory of the humiliations it suffered including a profound sense of national frustration, exploitation and loss, derived from its harsh experiences with the West since 19th century. Beginning from the Sino-British Opium War of more than 150 years ago Western colonialists started several wars against China plundering its wealth, carving its territory and demanding their respective concessions and extra-territorial "rights" from the Chinese. Ever since then China's nationalism is historically

shaped by its pride in its civilization as well as its century of humiliation at the hands of the West and Japan.

In historical retrospect, the development of China-West relations in the context of China's own historical evolution can be divided into three major stages according to Zheng Yongnian<sup>1</sup>: 1) the cultural China; 2) the economic China; and 3) the political China, where the development of Western knowledge and understanding on China can be identified.

### *The "cultural China"*

The "cultural China" refers to the long period of "historical China", an old civilization whose philosophy and classics inspired many European intellectuals. The Western knowledge of the "classic China" was largely influenced by the studies of its history, literature and cultural philosophy, and the vestige of such an influence is still traceable now. China, an image of "orientalism" represented in Western thought a civilizational superiority of non-European pre-capitalist advancement. It must not be forgotten that leading figures of the age of European Enlightenment such as Leibniz, Voltaire, and Quesnay, among others found inspirations in many aspects of Chinese society and political organization. They "looked to China for moral instruction, guidance in institutional development, and supporting evidence for their advocacy of causes such as benevolent absolutism, meritocracy, and an agriculturally based national economy."<sup>2</sup>

Very often, the image of the "cultural China" was often not the real China, rather, a utopian exotic kingdom. The image was further mystified by *The Travels of Marco Polo*, which described the Chinese socio-economic formation and gave medieval Europe its first consequential knowledge of China's power and civilization. However, since China's defeat in the Opium War, this mysterious "traditional" and "despotic" civilization had never been able to compete with the Western "modernity". As Pye points out, the cultural China is "a civilization pretending to be a state."<sup>3</sup> Even those Western leftist intellectuals, who desired to help to transform China into a modern state, identified themselves as a professorial tutor with moral and intellectual superiority.

However, a real part of China which was less emphasized in the history textbooks of the West was China's achievements and development of the pre-modern science, technology, and medicine. The prosperity of major cities and the level of craftsmanship surprised and amazed many first-time European

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<sup>1</sup> An article in Chinese by Zheng Yongnian on May 13, 2008, available at zaobao.com

<sup>2</sup> Adas, Michael (1989) *Machines as Measure of Men: Science, Technology and Ideologies of Western Dominance*. Ithaca, NY: Cornell University Press, p. 79.

<sup>3</sup> Pye, Lucian W. (1990) "Erratic State, Frustrated Society", *Foreign Affairs*, Fall, p. 58.

travelers and missionaries to China. China was at the forefront of modernization in the domains of scientific discoveries and application to production process. The three major inventions<sup>4</sup> - paper, gunpowder, and the magnetic compass - had an enormous impact not only on the development of Chinese civilization but also changed the world on a fundamental nature. In 1620 the English philosopher Francis Bacon noted their importance:

Printing, gunpowder and the compass: These three have changed the whole face and state of things throughout the world; the first in *literature*, the second in *warfare*, the third in *navigation*; whence have followed innumerable changes, in so much that no empire, no sect, no star seems to have exerted greater power and influence in human affairs than these mechanical discoveries.<sup>5</sup> (*Italic added*)

What needs to particularly emphasize, according to Joseph Needham, is the emergence of modern science in the West owed major debts to many influences and innovations from China other than those of the ancient Greek tradition.<sup>6</sup>

### *The “economic China”*

Capitalism has been regarded as historically unique to Europe and as an organic development of Western civilization. However, according to Frank<sup>7</sup>, the modern capitalist world system with West as the core, surrounded by semi periphery and periphery structures is a relatively contemporary phenomenon; and the rise of the West in world economic and demographic terms and the decline of the East occurred around the 19<sup>th</sup> century. He predicted that the “center” of the world economy would be now again moving to East Asia with the rise of the “Middle Kingdom” (China) as the key driving force.

In light of this view, the “economic China” refers to the post-Mao period in which China’s rapid economic growth began to unleash its worldwide impact. Largely influenced by the modernization school of thought, the West expected that economic reform would lead China into economic marketization, which would further lead the country into political liberation. There were hopeful writings of confidence about China’s “second revolution” in the most of 1980s. However, the June 4th incident in 1989 wiped out the Western expectation of a

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<sup>4</sup> In Chinese history, it is mentioned four inventions: Compass, gunpowder, paper-making and printing.

<sup>5</sup> Bacon, Francis (1620) *Novum Organum - Liber Primus*, CXXIX. Adapted from the 1863 translation.

<sup>6</sup> Needham, Joseph et al (1954) *Science and Civilisation in China*, Vol. 1, London: CUP.

<sup>7</sup> Frank, A. Gunder (2002) [1998] *ReOrient: Global Economy in the Asian Age*. Berkeley: University of California Press.

comprehensible China making the West deeply antagonistic toward China's lack of political democratization.

For the past three decades China's remarkable success so far has already made its economic impact felt worldwide in the areas of FDI, commodity price, international trade, regional integration, international relations, etc. China's size, population and its integration with the world economy have contributed to uncertainties about the global inflationary environment; its currency has been a subject of contention; its trade has raised concerns for workers and firms in both developed and developing countries; its demand for energy has led to competition, price rise and conflict; it has rivaled the United States and the rest developing countries as a destination for foreign direct investment; and the effects of its own overseas investments have begun to be felt across the world. Beijing's policies on finance, currency, trade, military security, environment issues, resource management, food security, raw material and product prices are increasingly seen as connecting with the economies of millions of people outside China's boundary because its shifts in supply and demand cause changes in prices hence leading to adjustment in other countries. China's has the largest foreign currency reserve in the world and its financial policies and economic performances are bearing worldwide implications.

As a result, China is increasingly seen by many as having the quality of the previous United States as an "indispensable country". China has generated incremental growth in the global economy that has made its success significant for the welfare of other countries. Some scholars and analysts begin to compare the role of the Chinese economy – the workshop of the world – with that of Great Britain in the 19<sup>th</sup> century and that of the United States in the 20<sup>th</sup> century.<sup>8</sup> Consequently, many begin to ask the crucial questions: "what could happen when China will be able to manufacture nearly everything --- computers, cars, jumbo jets, and pharmaceuticals --- that the United States and Europe can, at perhaps half the cost?" and "how do these developments reach around the world and straight into the lives of all Americans?"<sup>9</sup> These questions indicate clear signs of worry and anxiety, a popular sentiment currently prevailing in the West and the United States in particular.

Nowadays when the "economic China" has increasingly become a reality and when the Chinese economy is being integrated with the lives of millions of people in the West, the demand that "China must be a responsible stakeholder"

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<sup>8</sup> Zakaria, Fareed (2006) "Does the Future Belong to China?", *Newsweek*, September 2.

<sup>9</sup> These questions are raised by Ted C. Fishman, who attempts to answer them in his book *China, Inc.: How the Rise of the Next Superpower Challenges America and the World*, New York: Scribner Publisher.



is becoming legitimized. China is being associated with almost all global issues, trade balance, exchange rate, energy price, commodity price, environmental protection, unemployment, food security, etc. In addition to these economic arenas, other related issues are unavoidably linked with China's footsteps, such as intellectual property rights, labor rights, child labor, inequality, human rights and democracy.

### *The "political China"*

The notion of the "political China" goes beyond the fact that China's success in moving from a plan economy owned and controlled by the state to a market economy supervised and regulated by the state in combination with market mechanism has established itself a Chinese model of development. The "Chinese model" is increasingly attractive to many developing countries at large. Such a model embraces specific historical dimensions, cultural elements and ideological discourse, and it has made China attractive to many developing countries in terms of how to manage state-market-society relations and political economy in international relations. It is recently termed as the "Beijing Consensus"<sup>10</sup> in contrast to the "Washington Consensus", which is seen as a great challenge in "soft power" in terms of hegemonic discourses and value systems. This is much unexpected because it is firmly believed in the West that China will eventually transform itself into a Western type of democracy as many other non-Western countries had experiences, such as Russia, South Korea and Japan. This is also much unprepared because China's success has turned itself into a model of its own.

The "political China" in many ways manifests the strengthening of China's hegemonic discourses in the process of constructing a unique indigenous political culture. Observing the historical interplay of economic and political hegemony in the evolution of the capitalist world-system, Arrighi, in his new book<sup>11</sup>, invites people to re-read Adam Smith's *The Wealth of Nations* in a radically different way through a unique interpretation of the economic ascent of China along with its far-reaching *political* implications. Arrighi argues that Smith's vision of a world market society based on greater equality among the world's civilizations may well be likely, and China may well become what Smith described as a non-neoliberal market economy that defies conventional ideological and political norms by the established capitalist hegemony. A potential consequence of this evolution will be a new "beginning of history"

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<sup>10</sup> Ramo, Joshua Cooper (2004) *The Beijing Consensus*. London: the Foreign Policy Centre.

<sup>11</sup> Arrighi, Giovanni (2007) *Adam Smith in Beijing: Lineages of the Twenty-First Century*. London: Verso.

rather than the “end of history”.<sup>12</sup> In other words, the world will perhaps witness a “paradigm shift”.

A paradigm shift refers to a recurrent situation where different ideological paradigms may occupy the dominant position at different times. It also presents a constant war of ideologies. Since ideological cognition/consciousness is discourse-dependent, the construction of theoretical discourses is embedded with powerful meanings and implications in social-political contexts. It is expected that within the near future Chinese social science theories will gradually emerge to challenge the existing ones which have been defined, constructed and dominated by the West. As one Chinese scholar notices, Chinese schools of “international relations theories” will be likely and even inevitable to come forward following its great economic and social achievement.<sup>13</sup>

In line with the above framework of understanding, the “political China” also implies the fact that the West does not know how to conceptualize, analyze and deal with China outside of the frameworks that it feels familiar and comfortable with. On the one hand, the West wishes China to continue its market growth, which can generate enormous business opportunities. On the other hand, to many western politicians and opinion-makers China simply does not conform to some most basic beliefs perceived in the West about what makes nations grow and about a set of mutually dependent relationship between property rights and economic growth, between the rule of law and market economy, between free currency flow and economic order, and most importantly between political system and popular sentiment. This mismatching seems to verify what Huntington has attempted to argue about the “clashes of civilization”:

“Different civilizations have different views on the relations between God and man, the individual and the group, the citizen and the state, parents and children, husband and wife, as well as differing views of the relative important of rights and responsibilities, liberty and authority, equality and hierarchy. These differences are the product of centuries. They will not soon disappear.”<sup>14</sup>

The above spells out an uneasiness of the West in dealing with a country that does not readily fit into the Western cultural and political framework. Dressing

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<sup>12</sup> Francis Fukuyama, in his *The End of History and the Last Man*, New York: Free Press, 1992, claims that the end of the Cold War has proved that free market capitalism combined with liberal democracy is perhaps the highest stage of human history.

<sup>13</sup> Qin, Yaqing (2007) “Why is there no Chinese international relations theory?” *International Relations of the Asia-Pacific*, 7(3):313-340.

<sup>14</sup> Huntington, Samuel (1993): “The Clash of Civilizations?” in *Foreign Affairs*, 72(3), p. 25.

concepts like democracy, freedom, human rights, liberalism, authoritarianism, dictatorship, etc., one is consciously or unconsciously inserting oneself into a Western intellectual and historical context. It is needless to accentuate the important roles of the historical milestones in the history of the West, such as the *English Revolution* (1640-88) the *American Declaration of Independence* (1776) and the *French Revolution* (1789), in the formation of the political discourses with which these concepts are associated. Unfortunately the historicity of these events is somehow disembedded in the lens through which the West sees and compares with other cultures nowadays.

The West does not necessarily worry about China's rapid economic advance from which the West has gained tremendous business interest. What worries the West is the political "uncertainties" generated by the rise of China. Questions like "what will China become?", "what will China want?", "how will China use its power" are still hanging in the minds of many Western politicians and mainstream public. As Legro points out, "the "rising China" problem is not just about power, but purpose."<sup>15</sup> China's unknown political future and its accumulation of economic and military power trigger uncertainty and mistrust about how China will use its power and about whether China's power application is defensive or hegemonic.

Therefore, the "political China" also portrays a military threat of China followed by its increase in military budget and rapid defense modernization. China's ascendance in military capacities is argued to be a serious menace to the regional balance of power in East Asia and to America's global dominance in military and strategic influence. Thus, many realists and opinion-makers predict an eventual China-West conflict on the basis of the historical lessons that the rapid growth of the economy of a great country has often triggered enormous, often disruptive, transformations both internally and externally. The West is still struggling for realizing the hope that China will eventually become a "responsible stakeholder" in the global system, a system in which China is already highly integrated, and from which China is seen as enjoying substantial benefits. It is expected that the rise of China and its development model will unavoidably have to absorb and adjust to hardcore external challenges and constraints by the existing capitalist world system.

In summary, the long historical relations between China and the West reflected by the periodical transitions from the "cultural China", to the "economic China" and then to the "political China" indicate a dialectical process of waxing and

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<sup>15</sup> Legro, Jeffrey W. (2007) "What China Will Want: The Future Intentions of a Rising Power", *Perspectives on Politics*, 5(3): 515-534.

waning, decline and rise, as understood in the ancient Chinese concept of *yin* and *yang*. Seen from this perspective, China-West relations will continue to be in a state of flux and reflux, rather than in a purposeful forward or backward movement as deterministic theories imply.

Ever since its first contact with the West some centuries ago China has been a source of both fascination and disturbance for the West and it has been seen as a nation of puzzle, mystery and unfathomably beyond comprehension. Even now when China has become an integral part of the capitalist world economy, China is still a country that the West finds it difficult to accommodate. Nowadays China finds itself to be a “middle kingdom” surrounded by jealousy, admiration, anxiety, worry and even resentment. Within the near future both China as the rising power and the West as the established world order will have to find ways to accommodate each other. In order to do so both will have to go through a considerable period of struggle, adjustment and tension. It is still too early to predict whether the rise of China to the West means a world disorder, a world reorder or a new world order.

### **The achievement of the workshop**

Recognizing the fact that the rise of China is a phenomenon that is of global importance and China’s rapid development is laden with significant worldwide consequences, the workshop - *The Rise of China and Its Impact on the Existing Capitalist World System* - held on May 8-9, 2008 at Aalborg University of Denmark served as a good discussion forum for scholars from Aalborg University as well as from other universities and institutions of Denmark who are specialized or interested in China studies to 1) exchange ideas and viewpoints on the factors and forces shaping China’s rise; and to 2) conceptualize the implications of its resurgence on the existing capitalist world system; and to 3) enhance exchanges and understanding between China and Denmark in the areas of China research and teaching.

The workshop together with its timely topic manifests an endeavor to gain a better conceptualization of the possible impacts of these changes brought about by the “China effects” or “China factors”. In other words it attempts to promote a better understanding of the complexities of modern-day China, especially its rapid social, economic, and political transformations, its foreign policy objectives, its role in the global economy and the dialectics of China-West relations.

The papers presented during the workshop are wide in their scope encompassing various levels of analysis from different internal and external perspectives. They deal with a whole range of issues, such as China-West relations, China’s

globalization strategy, China's impact on the world order, the nexus between the internalities and externalities of China's evolution, China's new national identity and foreign policy, China's innovation vision, China's new "cultural revolution" and China's military expansion and strategy. The workshop discussions and paper presentations are rich in their contents and heuristic in their approaches covering a variety of academic domains – economic history, political science, development studies, international political economy, international relations, and military strategy, etc.

## **Chinese globalization: state strategies and their societal anchoring**

Clemens Stubbe Østergaard

This is a joint ongoing project, by Stig Thøgersen and CSØ, to investigate whether the last two decades have brought a qualitative change to China in relations between local, national and global forces, or whether it is simply an intensification of a long-running process, or perhaps even primarily a new discursive cloak for a neo-liberal ideology. Whatever our attitude to the concept of globalization, there is no doubt that it pinpoints the way central actors in China have experienced the process that the country has gone through since its opening in 1978. A more or less self-reliant system, with minimal economic and cultural exchange has in 20 years been penetrated by global economic, cultural and political currents. The state at all levels, corporations, organizations and individuals have all had to integrate the global level in their strategies in an entirely new way (hitherto unseen way). For the rest of the world, Chinas integration in the world market has been one of the most decisive trends of the global economy in the last decades, and in the political-cultural field, China has been one of the most consistent proponents of the view that global value-sets, conventions and regimes have to be adapted to ‘national culture’, as it is defined by leaderships of each state. In this way, China can be seen as a focus point for many of the discussions about the manifestations and consequences of globalization.

We want to pose two main questions: which strategies has the Chinese state employed towards the challenges of globalization, and how has it attempted to anchor these strategies in the population?

The first part analyses state globalizations strategies: if it is true that there is a fundamentally new form of competition between states in the international system, i.e. about world market shares, then the state has to adapt to this and find suitable strategies. The imperatives of global competition in this case forces the “competition state” of Philip Cerny to strengthen its transnationalization and deliver an “enabling environment” which can maintain and hopefully expand national competitiveness, for instance via comprehensive structural reforms. National competitiveness is the new criterion of survival and politics is about creating conditions which can increase growth.

This can be done in many ways, the most visible (obvious) is the East-Asian developmental state, the liberal Anglo-American, and the neo-corporatist European version. China attempts to maintain a strong role for the state, but this

is dependent on its capacity to formulate internal and external globalization-strategies. This part of the project on one hand attempts to describe a cluster of strategies which have crystallized over particularly the last 15 years, on the other hand uses an actor-structure model to try to explain the particular noted characteristics of the collected state response to the threats and possibilities of globalization.

These strategies fall into two main groups, those directed internationally, and those which seek to transform the state and the economy.

To the first one belong the 'over-involvement' in international organizations, the strong emphasis on multilateralism – not least the regionalism-version - , and also a thorough liberalization of trade. But liberalization towards FDI is also important, in so far as it has made China an 'integrator' in a number of the production chains of East Asia. It requires a continuing emphasis on moving up the value-chain, from labor-intensive to hi-tech contributions. As a part of these strategies, China strengthens its own industries, encourages their overseas investment and internationalization. It even backs up this effort with large state investment funds like the CIC.

In the second group we find primarily the transformation of the state, via recentralization and structural reforms in the direction of the modern regulatory state, in order to maintain the autonomy and capacity of the state. (Evans). Secondly the struggle to cope with the core area of globalization: the globalized financial markets. This financial integration is seen to require internationalizing of the financial system, relaxation of capital controls and an incremental currency reform. These things are accompanied by a cooptation of the new economic elite into the party, and a taking away of the privileges of labor (workers).

The analysis of these many policies and their genesis, proceeds in a simple framework, inspired by Prakash and Hart (2000). It includes global processes, like market pressures, and the pressure exerted by international regimes and other governments. It adds the institutional context, in particular the changing rules for policy-making and for relations between the institutions of government. The domestic dynamics, and the mobilization of winning coalitions behind particular globalization-strategies, is equally important. The actors are in the first instance bureaucracies, but increasingly also firms, business associations, NGO's and interest groupings. Ideational factors play a role as an intermediary variable, in the shape of the ideas and norms of decision-makers, such as their concepts of the phenomenon of globalization, or their relevant causal beliefs (Goldmann 1982).

The research task is to go deeper into the strategies sketched out, both to be able to characterize their respective weight and interconnections, and to try to explain their origin and shape. This is mostly done from documents and academic analysis, but also based on interviews with actors in relevant ministries, think-tanks and business organizations with their growing lobbying role.

The second part of the project takes a closer look at how the Chinese state has sought to anchor these strategies in various social groups, first discursively by trying to depict China's role in a globalized world in a way that legitimizes globalization in general and the strategies in question in particular, secondly through the building of hierarchically structured links to the population, so that the government – even without a democratic mandate – obtains a degree of popular support for its strategic goals and the derived policies. The point of departure is that the networks which connect state and society are of decisive importance (crucial) for the states ability to determine strategies and carry them out (Evans 1995)

The discursive aspect will be investigated through an analysis of authoritative texts (of programmatic character, from Chinese top leaders) and of voices from the public which challenge the official account of globalization. The purpose is to reach an understanding of the mental aspects of globalization: how does the leadership and that part of the population which takes an active part in societal debate, construct China's role in the world, and has the leadership succeeded in creating a meaningful and convincing story about globalization and its effects, thus furthering popular accept of the chosen strategies?

Somewhat more weight attaches to the second aspect of this part of the project, namely the institutions that the state has created as part of its creation of a consultative-authoritarian system, in which the views of the population form part of the basis of political decision-making, without the hands of the leadership being tied by it. We are talking about institutions, which link the state to diverse social layers in a hierarchic pattern, where you are consulted in so far as you have social, cultural or (not least) economic capital. Business associations tend to have a corporatist look, and at the same time the economic elite is increasingly recruited into the party. Intellectuals have an input through think tanks, requested research, and certainly also through the relatively open academic debate which characterizes China.

The state has been less successful in integrating groups outside the elite in the political process. Some of these groups see themselves as victims of social and political processes which are not necessarily related to globalization, but can easily be depicted as such: peasants, workers sacked from SOE's, and low-wage migrant labor in foreign owned firms are the most important groups here.



The Chinese leadership is certainly aware of the problems these groups can create, and have increasingly tried to create “input institutions” which will allow the Chinese to believe they have some influence on policy decisions and personal choices at the local level. This is a broad palette of institutions and mechanisms. Beyond the well-known village-elections, there are the experiments with direct election of delegates to local peoples congresses and xiang-leaderships, popularity-contests which test the popular appeal of local leaders, focus-groups, deliberative democracy, panels which vote on people and policies, petition-bureaus, hot-lines, more transparency and publicity in the appointment of local officials, etc.

This part of the project will also base itself on interviews with researchers and local officials, in order to determine how these new mechanisms are working, and to what degree they really embed the state in society by creating networks which can tie the losers in the process of globalization into the political process.

# **The Rise of China and its Impact on World Order, Disorder and Reorder**

Mammo Muchie

## **Inspiring Quotes!**

“With our historical background and our natural and human resources, it should be easier for us than it was for Japan to rise to the place of a first class Power by a partial adaptation of Western civilisation. We ought to be ten times stronger than Japan because our country is more than ten times bigger and richer than Japan.. China is potentially equal to ten Powers.”<sup>1</sup>

“.. If China follows at the heels of the imperialistic and militaristic nations, China’s ascendancy to power would not only be useless, but harmful to humanity. The only glorious and honourable path for us to pursue is to maintain in full force the old policy of “helping the weak and curbing the strong”<sup>2</sup>

“When the days of our prosperity come, we must not forget the pain and misery which we are now suffering from the pressure of economic and political forces of the Powers. When our country becomes powerful, we should assume responsibility of delivering those nations which suffer in the same way as we do now. This is what ‘Ta Hseuch’ means by ‘securing tranquility.’”<sup>3</sup>

## **Abstract**

The rise of China has given rise to the China threat theory where a pessimist oppressive temper asserts that such rise can not be peaceful or non-threatening to the declining power that occupy the current status as a sole super power. “China represents the central challenge to the American way of life in the 21<sup>st</sup> century”. It has been described as the “... strongest intentional illiberal state on this planet”<sup>4</sup> Deng Xiaoping linked liberal multi party elections to amounting

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<sup>1</sup> Sun Yat-sen, National Morale and World Tranquillity, in Lewis Copeland, Lawrence W. Lamm & Stephen J. McKenna (eds.), **The World Great Speeches**, Dover Publications, Mineola, New York, 1999, pp. 399- 401.

<sup>2</sup> Ibid., p. 401.

<sup>3</sup> Ibid.

<sup>4</sup> See Lynn T. White III, America at the Taiwan Strait: Five Scenarios, In Asia Perspective Vol.31 No.3, 2007, pp. 5-40.

creating chaos in China.<sup>5</sup> Despite the illiberal political system, China has attained spectacular economic achievements since its opening of its economy to the rest of the world in 1979. It has been projected by some analysts to become a leading economy in the next decade or so. Its economy is now interdependent with the major economies of the world. This integration of China's economy increasingly within the world economy makes it impossible to hold credibly that any problem to China or by China can be confined merely to China alone or others. In spite of this growing interdependence, there is an alarmist agitation by some scholars, journalists, policy makers, pundits that spread the view that a looming China threat is what the rise of China means to the world. This notion of a China threat instigates China containment rather than engagement strategy which if pursued with zeal can turn into a self fulfilling prophecy. China can be cornered into a position where it may have no option but to resist this constraint on its desire to grow prosperous and join the community of developed economies by resolving its current identity that exhibits features of both a developing and developed economy status. China should not be framed with either malevolent or benevolent imaging or character. It is an emergent and transitional economy with a very large economic size, population, production and market sizes, that can be harnessed to a win- win outcome provided the world is willing to risk engaging with China and understand and respect Chinese patriotism as clearly expressed by the

Modern founder of Chinese nationalism Dr. Sun Yun-Sen quoted above...

### **Introduction: The Context and the Main Issues**

Are we going to live in interesting/ uncertain or exciting/ hopeful times? What can be the imagination for the possible portrait of the future given the challenges, risks, and threats of the 21st century world?

In this exploratory paper I shall outline briefly some of the general portraits of the rise and fall of the great powers from the past to the present in order to see the likely opportunities and possible dynamics of the future in broad sketches.

To be frank, I find politics to be harder than physics. With physics one tries to research and comprehend the mysteries of the physical universe from its lowest quantum mechanistic sub-atomic entities to the grander cosmos and the universe. With politics there are elements of interest, will, deception, immorality, cheating, double standard, chasm between rhetoric and reality, and

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<sup>5</sup> "If our one billion people jumped into multiparty elections, we'd get chaos like the 'all-out civil war' we saw during the Cultural Revolution." (quoted in Lynn T. White III, op. cit. p. 9.

promise and delivery, policy and action, and a general lack of integrity and massive dishonesty built into the way the various players try to manipulate and control the dilemmas of the relationship of the domestic and international, the internal and the external, the political and the economic affairs, problems and challenges confronting their own nations as well as the world whether one welcomes it or opposes it.

One hardly sees a sincere acknowledgment of what the great powers have done to the lesser powers from the injustices and failure to mitigate global inequities for the purpose of bringing about both an equitable, just and fair system of power, resource and knowledge distribution as well as sharing the burdens of climate change, global energy and food crises, the emergence of new diseases across the world. It has been very often the case that the way interests, motives, ideologies, contrarian perceptions, views and language- games manifest amongst the players in the world, makes it rather hard to see how the future of the world may shape out. With the way politics is being played in contemporary times, it is infinitely hard to predict the future.

A humbling caveat is thus in order, it is not easy to get to the bottom of how the contradictory forces with diverse interests, views and beliefs that try to shape our world work: how the ordering, disordering and re-ordering logic expressed in the dynamics of the rise and fall of the great powers can be understood both for the purposes of knowing precisely how the world is currently either ruled or misruled or has been ordered in the past, may be disordered by the rise of new powers to great power status and may be re-ordered also in the future by either accommodating, engaging and welcoming the rising powers or by unleashing the opposite impulse of reaction against perceived threats from them. The normative trajectory for world reorder is dependent heavily on how the disordering impact of the rise of new powers either elicits a discouraging response or welcoming response to join the great power constellation for the 21<sup>st</sup> century. At a deeper level it remains to be seen, whether the new rising powers are accommodated or not, the values and goals of global power can reflect the normative choices for shaping a world that can either self- govern on the basis of justice and equitable distribution of the current uneven political, economic and military power, resources and knowledge for the promotion of life, health and happiness or weapons, death and sorrow. The choice is stark either the world order is re-founded and built on the means that promotes life, health and well being or remains stuck on a system that promotes the means of death, weapons, misery, lies, criminality and hypocrisy. It is either a world where the plutocrats reproduce the military-industrial-finance complex, or where people can create a social- health, education, wellbeing and life promoting complex. At a deeper world order may be better sustained if this choice resolves in favor of life against death, peace instead of war and food instead of armament production.

## **World Order: Problems and Discontents?**

World order has always resulted from the disordering dynamics implicit in the history and context of the rise of aspiring powers and the decline of established powers. There is an uncomfortable disestablishing logic implicit in the rise of nations to great power status historically. Those that have been strong have come by making the stronger before them relatively weaker. Conversely, those that have been weaker have climbed the ladder to the status of great power by replacing the economic, political and military position of the previously stronger powers. Part of the ability to emerge as a great power is related to alliance building. In the 20<sup>th</sup> century the USA was a stronger hegemonic power partly also because it made alliances with North Western Europe and Japan and drew vast parts of the world to fall in to its sphere of influence or orbit both for itself and through its alliances. The other power that contested the US hegemony was the former USSR. It too forged both military alliances and political alliances with countries of Central and Easter Europe and a number of developing countries.

In reality, the making or re-making of world order has never been a smooth and peaceful process. It has involved very often the relatively weaker becoming relatively stronger by combining preponderance in economic, military and political power. Very often the coming from behind, catching up and surpassing by rising nations to great power status is fraught with the potential of injecting violence to the process for realizing and bringing about the historic switch. Rare are the historical accounts where world hegemonic leadership has been attained without some form of deception, hypocrisy and violence injected in the process. The interesting puzzle is, whether or not in the 21<sup>st</sup> century risers to global economic and political prominence such as China, India and Brazil, the opportunity is open for them to join the club of great powers or even catch up and surpass the existing powers without violence? That possibility exists in theory. In reality, it is hard to predict the reaction of the already established powers to the rising powers. As we shall see in the case of China, the reaction to the rise of China is an overblown talk of how to contain the Chinese 'danger' rather than engage with China. The important question is whether the rise of China will be consummated without major wars being fought. If such a rise is attained without war, then a new and important milestone in world history would have taken place. It may mean the rise and decline of nations including historical switches in 'world leadership' can be a peaceful and civilized process forestalling the very often unwelcome danger of rivalry and possible conflict. It may mean also it is not any longer impossible for nations to attain great power status and not fear being thwarted by major wars. The de-linking of war with the rise of great powers takes the two sides that are involved to demonstrate a willingness to reach out to each other, understand each others' fears, learn to engage and enter into consultation whilst competing by avoiding indulgence and

toying with containment strategies based on perceptions of threats and risks. This is however easier said than done in reality.

We recall how the country that wanted to emerge as a great power, Germany went to war with the allied powers eventually prompting the USA to get involved in the last phase of the second world war. The Second World War was a typical example where the Axis Powers led by Nazis Germany failed to assert leadership or hegemony in shaping world order with fascism, and instead the USA emerged as the hegemonic power of the post World War order. US hegemony was contested by the Cold War where ideological disputes between the former USSR and the USA led to hundreds of proxy wars fought largely in the geographical areas in what came to be known later derogatorily as the ‘third world.’ The demise of the USSR opened the possibility for the USA policy makers to speculate on how to bring a ‘new world order’ by a renewed assertion of US unilateral domination of world politics and economics by maintaining the possibility of employing US military threats.

The discussion on making world order with the motivation to put behind the back of the human race the unmitigated and barbarous slaughter by major wars has been long. H.G. Wells in 1939 recommended a social-democratic world order to forestall the impulse of the human race enclosed within national, religious, ethnic, class and other distinctions continuing to throwing itself again and again into war and slaughter. He anticipated the concept of a world order or Government would be opposed, but he urged that despite the protest, the effort must be pursued. Such ideas to create a world order that can control human conflict from degenerating into war have manifested at various times. Politicians in the UN always routinely talk about creating a world order although these same politicians will loath the notion of seeing a very strong UN capable of restraining their behavior mainly or even exclusively to act in the pursuit of their real or imagined interest rather than the shared interest of global humanity.

After the cold war was over, a number of notions appeared that relate directly and indirectly with how to make, re-make or maintain the 20<sup>th</sup> century world order up to 1989 when the Berlin Wall fell. The notions or phrases that came to dominate public debate were the following expressions that are now part of the popular imagination: The End of history by Francis Fukuyama, Clash of Civilisations by Samuel Huntingdon, and New World Order by Bush Senior. There are also people saying Bush Junior stands not so much for unilateralism but for a “New, New World Order”.<sup>6</sup>

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<sup>6</sup> The US administration failed to get UN Security Council endorsement for its military invasion of Iraq. It formed quickly a number of states that the officials from State Department and National Security Advisors described as the “coalition of the willing.” Getting around the UN lack of endorsement by a UN member country taking military

This is how Daniel Drezner put it:” Given its performance over the last six years, one would not expect the Bush administration to handle this challenge terribly well. After all, its unilateralist impulses, on vivid display in the Iraq war, have become a lightning rod for criticism of U.S. foreign policy. But the Iraq controversy has overshadowed a more pragmatic and multilateral component of the Bush administration's grand strategy: Washington’s attempt to reconfigure U.S. foreign policy and international institutions in order to account for shifts in the global distribution of power. The Bush administration has been reallocating the resources of the executive branch to focus on emerging powers. In an attempt to ensure that these countries buy into the core tenets of the U.S.-created world order, Washington has tried to bolster their profiles in forums ranging from the International Monetary Fund (IMF) to the World Health Organization, on issues as diverse as nuclear proliferation, monetary relations, and the environment. Because these efforts have focused more on so-called low politics than on the global war on terrorism, they have flown under the radar of many observers. But in fact, George W. Bush has revived George H. W. Bush's call for a “new world order” -- by creating, in effect, a new world order.”<sup>7</sup>

The coinage of the ‘new world order’ or ‘the new, new world order’ from Bush Senior to Bush Junior does not change the fact that World Order or System still is dominated even today largely by the Post-World War II victors with the USA at the apex or the helm as the hegemonic central commander. As the Cold War stalemate from 1945-1989 did not change the world order fundamentally, so has the post Cold War world order failed to become any newer except for the fact that the danger to the planet in terms of the possibility of its incineration or extinction is heightened by the lessening commitment to international norms and regulations that the hegemonic power displayed that has become a license ironically to others unfortunately to copy by disparate groups that resent American hegemony for a variety of one reason or another. The manner by which the Great Powers showed disrespect to evidence for selecting the policy option to wage war in Iraq can also potentially be read that others can do the same with evidence and take action on false information! This has the unintended consequence of creating moral anarchy rather than moral strength to observe norms, rules, procedures and institutional integrity in international public life.

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action against another UN member country led to a wide variety of commentary that the US is willing and capable of undermining the UN when it perceives its vital interest is not served by going through the UN. The unilateralist and unipolar quest for an American projection of global power for the 21<sup>st</sup> century was advocated with zeal and certainty by the ideologues of the Project for the New American Century such as William Kristol, Robert Kegan and others.

<sup>7</sup> Daniel W. Drezner, *Foreign Affairs*, March/April, 2007.

With norms and rules for regulating behavior faltering and policy choice without a basis of evidence permitted by the action of the great powers, the space was open for various actors to make their own rules as each fights to claim a stake in the scheme of things. Rather than a norm and rule guided world order where evidence matters for policy choice, we have a world gripped with fear where the restraints of morality, evidence and norms have become relatively looser and public life is open to uncertainty, risks, threats and danger.

At present the world seems to have not so much a world order, but world disorder or a world gripped with fear where every person has become a suspect as a potential 'terrorist.' Like an unexpected and unpredictable earthquake defying any seismic prediction, it looks periodic acts of random terror affecting any part of the globe has become part of the post Cold War phenomenon. This situation has led the Bush Junior administration to define world politics in terms that makes the pursuit against terrorists to be a permanent and time-defying feature of global politics: "Our war on terror... will not end until every terrorist group of global reach has been found, stopped and defeated."<sup>8</sup>

It looks those who fight US power have found exactly where they want the US Government to be in a position where it has to continue being preoccupied with trying to identify and find even individuals who engage in acts of terror. Instead of treating terror as crime, the US Government policy makers gave it global ideological significance by coining the political-ideological circum-framing of 'the Global war on terrorism' and thus raised the stakes high forgetting those who are pursued by USA power paradoxically turn such US pursuits into a brand name to carry out more acts that the USA and indeed much of the world wish to prevent. As a consequence in the post cold war period, far from getting the peace dividend and a climate for peace and security, we have a peace penalty situation where the whole world has turned into a vast guerrilla theatre where those individuals or groups who choose to do so can operate using the facilities and conveniences of the information and technology revolution.

One of the most negative developments after the Cold War was the addition to the character or behavior portfolio of the individual not only as 'homo-economy-cus', but also 'homo-terror suspect-cus' This has made almost everyone in the world including those who may be employed to track suspects of unlawful potential military acts as suspects. The empirical proof of this adverse development can be easily witnessed by all those who know the inconvenience during flights and travels at various airports and borders across the world.

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<sup>8</sup> Speech by Bush Jr., September 20,2001 after the September 11,2001 attack, quoted in Glenn P.Hastedt & Kay M.Knickrehm (ed.), International Politics in a Changing World, 2003, p. 9.



Today power fears citizens and citizens fear both power and the terrorists. Such has been the unwelcome outcome of the post-cold war world order whether one describes it as new or new, new world order! Today, fear has replaced trust, and random acts of terror have replaced a potentially peaceful global atmosphere.

From Afghanistan to Somalia one sees air strikes targeting individuals that are suspected to be terrorist ring leaders suggesting that the mode of waging war has moved from states and organized movements directly to identifying individuals, pursue them, target them and hit them. Thus military action has degraded from being war between states and organized groups to the level of major powers, NATO and others pursuing individual actors. This has changed the norms of war and the places where wars have been fought in the Cold War period. The 9 /11 Twin Towers attack in New York showed, if it showed anything no power on earth is immune from terrorism, thus converting the war arena from being fought in the geographical area of what has been described as the 'third world' to encompass literally the whole world including the financial and political hub of the central hegemonic power itself.

The attempt to reorder the world order in the Cold War came from the decolonizing world, the workers movements in many countries, the national liberation movements and even the countries of the former Soviet Union, and from advocates for new International Economic Order. During the Cold War disorder represented the desire to change world order to accommodate national liberation, independence and the desire for spreading justice and equitable sharing of resources and the burdens and the battle to contain or fight that aspiration

Reorder implies the rise of new ideas, new powers, and movements to contribute to making world order and the response of those who are entrenched and have become self- appointed defenders of the existing status quo world order. The question that we ask in this paper is whether the rise of China is a world order reordering factor or not.

There are three possible reordering thrusts that can be mentioned.

The first is reordering world order from below. That is to say, from below the Social World Forum and others with similar concerns would like to claim that another world is possible, and the globalization driven world spearheaded by business, commerce and finance is not inevitable. Thus they mount protest against the global ordering institutions such as WTO, IMF and WB and others. They claim that through anti- globalization actions they wish to reach the poor and raise their voice, and participation. But this remains yet to be translated into concrete action.

The second is world order through globalization from above where there is a hegemonic centre based on the US and North Western Europe primarily with the US as the leader. The main actors are states supposed to seek and form alliances by entering into international arrangements to protect their interests and security, and businesses engaged in seeking profitable outlets. Together states and business ally to create the political economy of making a global order those policies those who are excluded and at the same time hopes that through the goods of security and commerce, further inclusion of the excluded world will be promoted. That is what the World Economic Forum advocates as opposed to the Social World Forum where citizens, peoples, civil society and others are to come and create another world based order.

The third is the rise of China, India and other hitherto not so powerful states. Whilst there is recognition of the impressive rise of China, sizzling disputes have also accompanied this claim of the rise of China, where fears, threats and containment talk on one side and a welcoming and salutary assessment have been locked into a kind of argument which will remain without closure undoubtedly for a considerable time. The controversy has boiled down to either recognize positively, engage, accommodate , refrain from fearing and containing China or fight this rising by spreading fear, disengagement, surveillance, negative presentation. Whatever ones view today China cannot be ignored or avoided and has a role in any reordering process more so now than at any time in its long history.<sup>9</sup>

The 20<sup>th</sup> Century world order was led by the USA, what would be the world order like in the 21<sup>st</sup> century and who is likely to shape and dominate that world order. Will there be a world disorder to establish or reorder a world order? How might that play out in reality?

### **The Rise of China and Implications for World Order**

From 1500-1945 the rise and fall of the great powers has always been accompanied by rivalries, conflicts and wars.<sup>10</sup> The Post World War II period saw at the same time a peaceful switch of power from Britain to the USA whilst these two boasted of their 'special relationship', the world as a whole entered into a period of the Cold War between the former USSR and the US led Western world. Much of the wars, conflicts and rivalries were played out in what then came to be known as the 'third world' since 1952. Many wars in Asia and Africa raged on in the vulnerable parts of the world.

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<sup>9</sup> William Kristol, Chairman of the Project for New American Century, May, 1997.

<sup>10</sup> P. Kennedy The Rise and Fall of the Great Powers: Vintage Books, New York, 1989.

The critical question that confronts both China and the USA is this: how will the rise of China evolve and which model is likely to be the one likely to be preferred by both sides in accommodating China's rise and US hegemonic decline? Will it be the Britain-USA model, the former USSR and USA model of the Cold War, and the classic pre-1949 pattern of war, conflicts and rivalry?

The most desirable evolution in Sino-US relationships is of course the Britain-USA model of benign and peaceful transition of power. It is interesting that some Chinese analysts have begun to stimulate such thinking in China<sup>11</sup> the most undesirable evolution is both the Cold war variant and /or the Pre-1945 variation. Both of these patterns of relationships will lead to world destruction.

It is thus critical for both the USA and China how they construct images of each other, whether they discuss their issues with hostility, fear and threat or benign imaging matters a great deal how each side relates to the other.

When we examine how those who influenced the foreign policy of the current Bush administration see the rise of China, one wonders whether the desirable option may be lost and the more unsettling options of the pre-1945 and post World War II cold war may remain to define the tensions and relations between china and the USA. US power is seen exclusively in terms of sole and an unquestionable cause where it is assumed that US leadership is natural to the whole world to solve its innumerable crises. This is how I. Kristol put it: "One of these days, the American people are going to awaken to the fact that we have become an imperial nation, even though public opinion and all of our political traditions are hostile to the idea. ...It happened because the world wanted it to happen, needed it to happen and signaled this need by a long series of relatively minor crises that could not be resolved except by some American involvement."<sup>12</sup> The neo conservatives of the Project for New American Century(PNAC) also reinforce this exclusive preservation of US exceptional leadership of the world: They write in their vision statement: "American leadership is good both for America and for the world; and that such leadership requires military strength, energetic diplomacy and moral clarity.."

The neo-conservatives are famous for advocating regime change in Iraq making that more or less an exemplification of what they mean by projecting American global leadership through US military strength, energetic diplomacy and moral

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<sup>11</sup> Y. Feng, The Peaceful Transition of Power from the UK to the US, The Chinese Journal of International Politics 1(1) 2006, pp. 83-108.

<sup>12</sup> Irving Kristol, The Emerging American Imperium, Wall Street Journal, August 18,1997, p. 14.

clarity.<sup>13</sup> Once the argument for US hegemonic tenure is cast at a meta- moral universe level as a cause, it is far removed far from any earthly based temporal interrogation. All are disenfranchised because we are told the whole world wants America to be imperial and to intervene because without the USA no crises minor or big can be resolved. This perspective has been deployed to extend US hegemonic leadership without interruption like Trotsky's permanent revolution which some of the neo- conservatives apparently subscribed in their youth. The Project for New American Century is committed to continue the US- led world order of the 20<sup>th</sup> century to the 21century and even beyond. US unilateralism is seen as 'a natural cause' and US power and leadership is benign and morally good. Any opposition to US leadership shows moral weakness and un-clarity including opposition to the use of US military strength guided by energetic diplomacy.

It means if American leadership is good for the world, and opposition to it means also opposing what is not only good for America but also for the world, any new power that appears to contest or even perceived to contest US authority is likely to be condemned. The Neo Conservatives have been very shrill in condemning the rise of China as a threat. A China threat theory treating very much China's rise with Chinese 'malice and dishonesty' has been spawned with hysterical condemnations.<sup>14</sup> The theory argues that China is unlikely to have a peaceful and benevolent rise to great power status. If it reaches super power status, it will be a threat and not an ally of the USA.

This is how Robert Kegan put it:" The Chinese leadership views the world in much the same way Kaiser Wilhelm I did a century ago. Chinese leaders chafe at the constraints on them and worry that they must change the rules of the international system before the international system changes them."<sup>15</sup> He goes on to add: China aims "in the mean time, to replace the United States as the dominant power in East-Asia, and in the long term to challenge America's position as the dominant power."<sup>16</sup>

What the neo-conservative reaction demonstrates is the intensity of competition that puts pressure on the US power to reassert and revalidate with a mix of

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<sup>13</sup> William Kristol & Robert Kagan, "Bombing Iraq is not Enough". See the New York Times, January 30, 1998, also see a Great Victory for Iraq, The Washington Post, February 26, 1998.

<sup>14</sup> See Khalid R. Al-Rodhan, "A Critique of the China Threat Theory: A Systematic Analyses in Asian Perspective", Vol. 31, no. 3, 2007, pp. 41-66.

<sup>15</sup> R. Kegan, "What China Knows that We Don't", The Weekly Standard, January 20, 1997, p. 3.

<sup>16</sup> R. Kasplan, "How would we Fight China" The Atlantic Monthly, 295(s), 2005, pp. 49-64).

moral and military strength to continue its hegemonic status by freely admitting and adding openly to preserve it with imperial dispositions.

The China threat theory challenges the concept of China's possible peaceful rise. Again Robert Kegan says: "The history of rising powers... and their attempted 'management' by established powers provides little reason for confidence or comfort. Rarely have rising powers risen without sparking a major war that reshaped the international system to reflect new realities of power."<sup>17</sup>

What the neo-conservatives are saying is that any new power that wishes to come will find an occupied space of world leadership by the US unwilling to allow a peaceful rise of the new power because the old power is divinely or morally entitled to remain as a super power without any one to pass this mantle to... There is no vacancy. That is why the neo conservatives are ringing the alarm bells on the significance of the threat from the rise of China:

The rise of China has to acknowledge this US posture never to relinquish or share the status of super power with any new entrants after the US saw off the former USSR by the disintegration of the latter into 15 new states! The fact the US goes alone when others do not come on board every time its leadership deems a vital interest is at stake in any part of the world demonstrates US attitude indeed to others as well as China that dared to rise and claim similar status as the USA today.

It is not only the neo conservatives, senior politicians also corroborate the view of a Chinese threat: the current World Bank Chief Robert Zoellick expressed the view:" Many Americans worry that the Chinese dragon will prove to be a fire-breather. There is a cauldron of anxiety about China."<sup>18</sup> Secretary of State Rice adds her voice to the China threat theory:" China is still a potential threat to stability in the Asia Pacific region.... China is not a status quo power, but one that would like to alter Asia's balance of power in its own favor. That alone makes it a strategic competitor and not a strategic partner."<sup>19</sup> American public opinion also shows that 'China threat' is worrying. In 2005, 31 % believed that China will soon dominate the world.<sup>20</sup> 54 % believed that the emergence of China as a superpower is a threat to world peace.<sup>21</sup> Surveys of Western opinion

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<sup>17</sup> R.Kegan, "The Illusion of 'Managing' China", Washington Post, May 15, 2005.

<sup>18</sup> Robert Zoellick, "Whither China: From Membership to Responsibility", Speech to the National Committee on US-China Relations, New York, September 21, 2005 quoted in Asian Perspective, Vol. 31, no.3, 2007, pp. 41-66.

<sup>19</sup> Condoleezza Rice, "Campaign 2000: Promoting the National Interest", Foreign Affairs, vol. 75, No.1 (January-February, 2000), p. 56.

<sup>20</sup> Khalid R. Al-Rodhan, op.cit. p. 43.

<sup>21</sup> Ibid.

reported by the Economist classifies China as part of the rogue states along with North Korea and Iran, proof that the media in the west has succeeded to create an image of China as illiberal and authoritarian that is not part of the status quo worthy of strategic partnership that Clinton toyed with for a while in the USA.

What is this China threat then? There are three threats that are mentioned very often regarding China. The first is economic, the second military and the third is China's expansion to other parts of the world especially in Africa, Asia and Latin America.

In the economic sphere the following type of claims are made about China: China's domestic economy has registered a dramatic growth averaging 10% per year for over a decade. It is said it has massive currency reserves, requires commodities to feed its production, it has vast holdings of US Treasury bonds, a growing high technology and modernized military.

The OECD economic survey of China has predicted that China's economy would overtake both the US and German economies by 2010, which is very doubtful it would happen.

“In terms of an expanding share of world output, China's growth spurt has been much greater than any other yet seen.” It is said China contributed to 28 % to the increase of global GDP between 1990-2005 compared to 19 % from the USA and 18 % of the OECD, If China continues with reforms that sustain the rate of economic growth, China would account for 37 % of global GDP and is likely to grow more than the combined GDP of the OECD economies by 2020!

Other analysts corroborate the dynamism of the Chinese economic growth: “ Since 1978 it has burst back on the world scene in a manner paralleled in scale and speed in world history only by the rise of the USA between the Civil War and the First World War”<sup>22</sup> China is not just a big producer, it is also a big market, has become the world's biggest exporter after USA and Germany, largest recipient of FDI, a new workshop of the world, producer of two thirds of photo copiers, microwave ovens, DVD players and shoes, over half of the digital cameras and around two fifths of personal computers.<sup>23</sup> The world economy grew by 5 % in 2004, its fastest pace in two decades. Growth was powered by two high octave fuels America's exceptionally loose monopoly policy which has encouraged consumers to keep spending and an unprecedented investment by china. America and China together account for almost half of global growth in

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<sup>22</sup> Will Hutton, *The Writing on the Wall: China and the West in the 21<sup>st</sup> Century*, ABACUS, 2007, p.i.

<sup>23</sup> From Simon Cox 2<sup>nd</sup> ed. *Economics: Making sense of the Modern Economy*, profile books ltd.

2004.<sup>24</sup> If American consumers and Chinese producers were to retreat at the same time, global growth could slump.<sup>25</sup> If China continues its reforms, it will enjoy faster growth than America ever achieved. Within a decade it will be the world's largest exporter and importer, and one day it may overtake America as the world's largest economy.<sup>26</sup>

China sees its foreign trade as mutually supplementary with many countries and says that about 70 % of china's exports to the US, Japan and European Union are labor intensive while 80 % of its inputs from there are capital intensive and knowledge intensive. In the evolving international division of labor, the country has become a key link in the global industrial value chain. China stresses its peaceful development road, global interdependence, caution, and pragmatism.<sup>27</sup>

The military threat thesis from China is also built on the mistrust of what China is perceived to be and becoming. Analysts and Pentagon sources allege the modernization of the Chinese military is a threat to the USA. They allege the Chinese Government reports less military expenditure when it spends more. They allege China is producing weapons that give it capability to project global military reach, and they argue why China modernizes its army when it faces hardly any recognizable threat, forgetting that the repeated invocation of China as a threat itself can make the Chinese prepare at the minimum to defend themselves in the event of the talk of them being a threat turns nasty.

The other threat from China is its investment and trade with Africa, Latin America and other developing countries. We mention a few of the kind of things and the scale with which China's engagement in Africa that has sent worrying signals to countries in Europe and the USA which have had much influence in Africa and still do for that matter. The New Africa reported the following:<sup>28</sup>

Between 2000 and 2006 China's trade with Africa has seen a dramatic increase from the US 11bn to US 50 bn dollars.

President Hu Jintao visited 17 African states in 2006-2007. No other foreign head of state has done this before.

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<sup>24</sup> Ibid, p. 90.

<sup>25</sup> Ibid, p. 89.

<sup>26</sup> Ibid.

<sup>27</sup> White Paper on China's Peaceful Development Road, State Council of the Chinese Peoples Republic, Information office, December 2005.

<sup>28</sup> See the Special Issue in New Africa: China-Africa: Why the West is Worried, issue no. 471, March 2008.

In the first 10 months of 2007 China's exports to Africa rose by 36 %, while imports from Africa surged 81 %

In 2005, total trade between Africa and China was 40bn and is expected to reach 100bn by 2010. It is true China's investment to Africa, for example is expected to reach 100 billion in 2010 while the World Bank is struggling to reach 3 billion.<sup>29</sup>

By November 2006, China and Africa had signed 16 agreements worth a total of 1.9 bn dollars. The deals, between 12 Chinese firms and 11 African governments and companies, followed President Hu's pledge to offer 5 bn dollars in loans and credit and to double aid by 2009.

China sees" Africa as a business opportunity and partner, not as a charity case as has been seen with western economic deals."<sup>30</sup>

The official China's view is that what they do in Africa is to "assist African countries to seek economic independence..."<sup>31</sup> Increasingly it looks China is trying to make Africa an integral part of its own economic development, prepared to write off or cancel debts, training people from the various professions, opening a development fund and pledging to increase its concessional loans.<sup>32</sup>

A glimpse to the official African response to the Chinese presence in Africa is provided by President Abdoulaye Wade of Senegal: " I achieved more in my one hour meeting with president Hu Jiantao in an executive suite at my hotel in Berlin during the recent G8 meeting in Heiligendamm than I did during the entire, orchestrated meeting of world leaders at the summit where African leaders were told little more than that the G8 nations would respect existing commitments"<sup>33</sup> He admonished it is about " time the west practice what it preaches."<sup>34</sup> At the Africa-India Summit Wade added that 'Africa's future is bound up with that of India's'<sup>35</sup> He added: " Much has been written about the spectacular growth of China in Africa's emerging economy, but too little attention has been paid to India's role in the burgeoning economies of the

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<sup>29</sup> See the Special Issue in *New Africa*: "China-Africa: Why the West is Worried", issue no. 471, March 2008.

<sup>30</sup> Regina Jere-Malanda, in her "How China is Speaking in Figures" in *New African*, no. 471, March 2008.

<sup>31</sup> Bo Xilai, Commerce Minister quoted in *New African*, *ibid*, p. 22.

<sup>32</sup> See HeWenping, "All-Weather Friend: The Evolution of China's Africa Policy", in Kwsii Kwaa Prah (ed.), *Afro-Chinese Relations: Past, Present & Future*, Casas Books, 2007, p. 43.

<sup>33</sup> *Ibid*, p. 20.

<sup>34</sup> *Ibid*.

<sup>35</sup> The Hindu, Bangalore April 7, 2008.



continent. After France, it is India that leads the list of Senegal's trading partners, not China.—Indian trade with South Africa has increased by 75 % over the last five years.”<sup>36</sup>

The Asian interest from China, India, Japan , Malaysia and South Korea and others can be perceived as providing African countries options that they did not have to succumb to conditions and demands from the international financial institutions. If the West perceives China and others as threatening their interests in Africa, it could turn Africa into a battle ground for new scramble for Africa. This danger exists. It matters therefore how the relationship between the West, China and India is regulated. If China is a strategic partner then the opportunity exists to construct a win- win outcome to all, but if it is seen as a strategic competitor, there will always be a looming danger. Unfortunately the perception of threat from China is felt more than the opportunity to relate with maturity by respecting Chinese patriotic sentiments as witnessed in the recent mix up of Tibet's issues with Chinas hosting the Olympics game.

### **Concluding Remarks**

The rise of China does not project a Chinese benign image or character. Those who fear China's rise project a malevolent dragon out to beat and swallow the eagle. This perception or misperception is hard to cure the longer the rise of China creates the China threat theory.

There is no doubt as the Chinese modern nationalist leader Sun-Yat-Sen said China can become a superpower if it is not distracted by other concerns. He also said that it must not do what others did when they achieve power and prosperity, i.e., being imperialistic and militaristic. He also said that China should share its prosperity with those that went through historical humiliation like itself before.

It seems the Chinese leadership is doing more or less what their first nationalist leader admonished on the whole. What they do, that we see, looks very much like that. But the advocates of China threat theory see more than what may be there in China's re-building and modernization of the army, the economy and its relations with other developing economies.

What is refreshing is that China continues to advocate peaceful rise and its analysts suggest a China-USA special relationship much like the Britain-USA relationship. That is a very noble ambition. But the reality is that for that to take place the imagination for the future should first require building and storing social capital, trust and the mutual recognition that one is not cheating the other.

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<sup>36</sup> Ibid.

As long as these commodities are not there or a willingness to create them obtains or exists, getting any form of balance of power equation remains unstable, as it would be, indeed, in the end futile, and the ensuing international arrangement is likely to be fragile and open to breakdown at any time when pressures pile up for one reason or another.

Given the interdependence of China with the rest of the world, it is not containment but engagement with China that can stabilize a new world order. Otherwise China can be a factor for world disorder not because that it wants this but because it is forced to be in this situation. The real challenge is to forestall this outcome and construct a future of benign imaging by both the risers and the declining powers rather than continuing the current hysteria. There is a need for wisdom to change strategic confrontation into networks of renewed strategic partnerships across the globe. Ultimately an unjust world order is nothing but disorder waiting to happen. The world order must be founded not on balance of power with all the mistrust remaining undiluted and in fact exacerbated, but a balance of justice and fairness where morality, non-deception in politics, integrity, honesty are commitments that all must share as a value, mission, vision and imagination.

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# **Understanding China's Transformations: The Dialectical Nexus between Internalities and Externalities**

Li Xing

## **Introduction**

After China was united in 221 BC under the first emperor, Emperor Qin, his response to the external threat along the northern borders was to build a long wall of “civilizational division” – the Great Wall - along its northern borders in order to keep the “barbarians” outside the “land of civilization”. Until the arrival of European colonialists in the 19th century, China had been an autonomous, self-contained and self-assertive civilization. Historically Chinese used to perceive their civilization as the “middle kingdom” of the world surrounded by barbarians.

China had traditionally been a land of empire in the length of unbroken history and cultural tradition, and Chinese devoted much of their energies to the sophistication of civil and cultural activities, and social organization. Despite the changes of imperial dynasties, the basic fabrics of Chinese civilization had been unchallenged until the 19<sup>th</sup> century.

The West began to have a great curiosity and serious interest in the Far East after Marco Polo returned to Italy and brought back his image of China to Europe: the most powerful and wealthy country in the world ruled by stable and efficient elites. Since the Rome's time, the flows of trade and commodities were overwhelmingly from the East to the West through the *Silk Road*. Although the West now takes special pride in its technological achievements, the original transmission of major new techniques was, until the recent past before the western industrial revolution, no less overwhelmingly from the East to the West (Segal, 1966: 318). The Western image of China had been indeed mysterious and promising.

For a long period of time China had no interest in dealing with outsiders and it claimed to need nothing from the West. But Western countries wanted a great deal from China and their ambition was not only to urge their government to protect their trade but also to force a passage for their own products. Since the early 19<sup>th</sup> century the Chinese civilization when the well equilibrated Chinese imperial system was gradually challenged. Unlike the downfall of previous dynasties, which did not inflict any obvious damage to the way of Chinese life and the integration of Chinese culture, the decline of the last Manchus dynasty had the whole civilizational foundations weakened. The causes of the decline

were both multiple and complex. There were certainly a number of domestic socioeconomic factors as well as external forces which contributed to this state of affairs.

China's first war with the West, *The Opium War* (1840-1842), ended with its disgraceful defeat. The *Treaty of Nanjing* forced China to pay a huge indemnity to Britain for the compensation of the war and imposed China a tariff on all imported goods. The consequences were very damaging: traditional tributaries were taken away; concessions to foreign privileges were made; the authority of the emperor, upon which the Chinese order based, was ended; the hand-labor-based industries on which Chinese economy depended were destroyed; and the favorable balance of trade, which existed until 1830 and which had brought an uninterrupted flow of silver from the outside, became lopsided (Kapur, 1987: 2). China became indeed an "international colony". The traditional social structure was finally broken down. China's customs and post offices were largely controlled by Westerners; Western ships were permitted to navigate freely in its water, and even to demolish some of its coastal defense; many Western troops were stationed at a number of points on a permanent basis; pieces of territory in various parts of the country were taken over as concessions. China was thus divided by Western powers as "spheres of interest" and was "carved up like a melon."

China in the late 19<sup>th</sup> and early 20<sup>th</sup> century was in a turbulent period of social disintegration, regional warlordism, popular revolution and political chaos. Very few societies like China had been so radically transformed in such a short time within the 20th century. Politically, the Chinese state and society transformed from a long imperial system to a short-lived republic, and then from a fragile and predatory warlordism to a revolutionary centralized socialist authoritarian state. Ideologically the Chinese value systems went through many "great leaps forward" from Confucianism to Marxism, from imperialism to republicanism, from feudalism to socialism and from collectivism to individualism. Economically China underwent a state-led socialist industrialization project based on planned economy and collective egalitarianism, and then moved to an all-round economic reform based on market mechanisms. The Chinese political and economic landscape had experienced repeated shifts from crisis and failure to very rapid growth and achievement.

#### *Objective and methodological consideration*

How can we comprehend and interpret these historical transformations shaped by fundamental changes? What are the internal driving forces and the external influences behind these transformations? And what are the consequential impacts when internal transformations were triggered by external thrust, and vice versa?

The objective of this paper is to offer a framework of understanding the dialectical nexus between China's internal evolutions and the external influences with a focus on the century-long "challenge-response" dynamism. That is to explore how external factors helped shaping China's internal transformations, i.e. how generations of Chinese have been struggling in responding to the external challenges and attempting to *sinicize* external political ideas in order to change China from within. Likewise, it is equally important to understand how China's inner transformation contributed to reshaping the world. Each time, be it China's dominance or decline, the capitalist world system has to adjust and readjust itself to the opportunities and constraints brought about by the "China factors". The current rise of China is and will be arguably the most challenging event in the 21st century that has an impact on the "future of the West" (Ikenberry, 2008).

### *Analytical propositions*

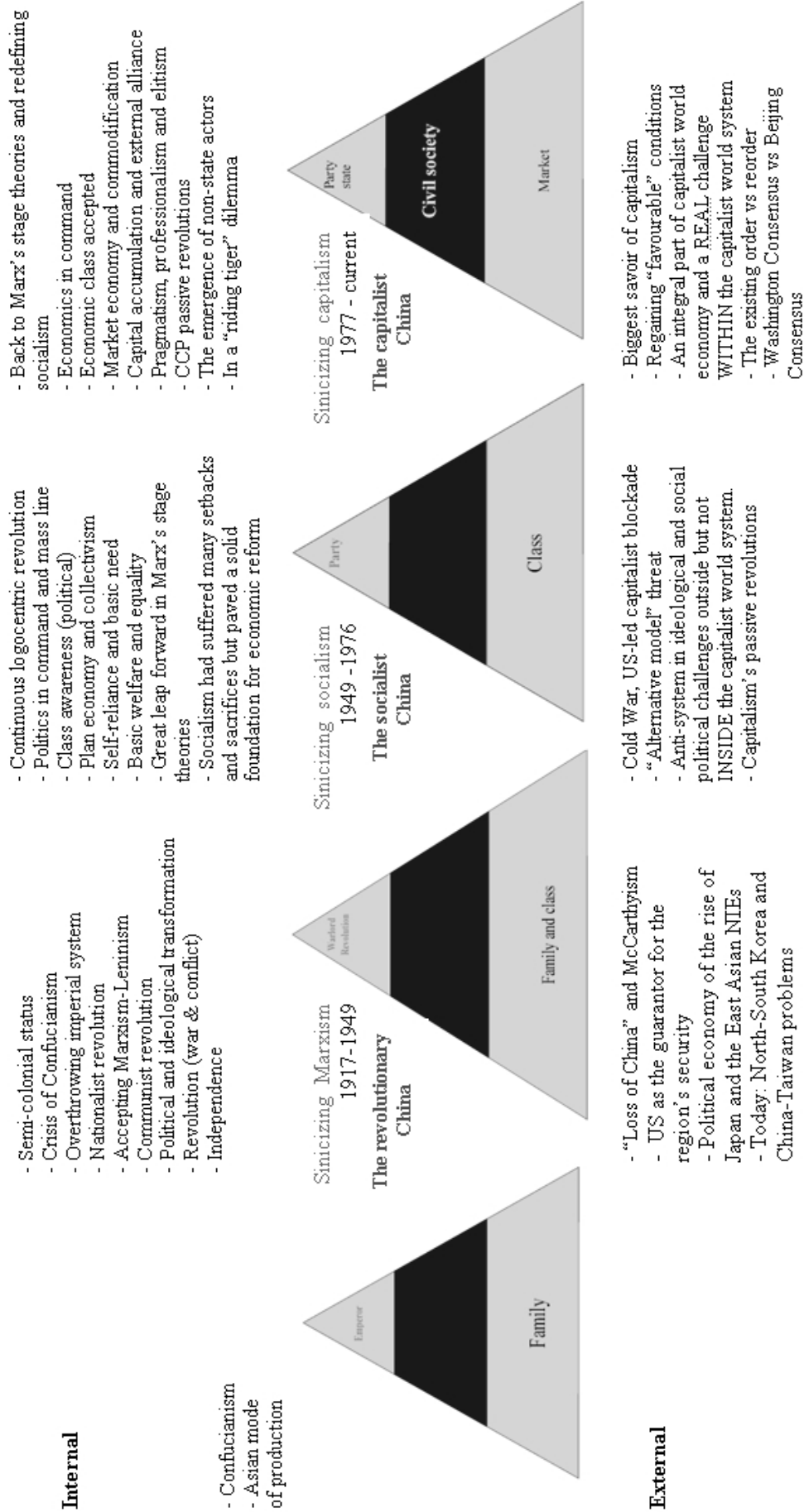
Methodologically, the paper's analytical frameworks proposes an analysis of the fundamental changes in the socio-political components of the Chinese society brought about by drastic revolutionary transformations at different periods and their external *reciprocal* impact (see Figure 1):

- 1) Before its collapse at the beginning of the 20<sup>th</sup> century China's imperial system consisted of two poles of societal components: the imperial authority at the top and the family structure at the bottom. Ideologically, culturally and politically Confucianism contributed to moral and ethnical frameworks for the sustainability of this two-pole system. The references of cultural understanding and the production and reproduction of political and individual life were structured around this two-pole system which had been unchallenged for more than 2000 thousand years. Linguistically, the vocabulary of "civil society" (the third social force between the state and the market) does not exist in the Chinese language, and even today the Chinese translation of "civil society" cannot cover its actual notion and implications.
- 2) Imperial China was less interested in the outside world, whereas the Western curiosity about China had never stopped. China's defeat in the Opium War not only had such an impact on the nation's psychological understanding of the "middle kingdom" as well as the Confucian teachings but also forced China to open its doors to external ideas and political thoughts. As a consequence of the China-West conflicts, the traditional equilibrium of the two-pole system began to be destabilized leading to several decades of disintegration and chaos.
- 3) Through sinicizing Western Marxism with Chinese reality, the Chinese communists achieved the state power in 1949. The Chinese revolution cut the root of the "old China" and created a socialist "new China"

characterized by a historically unique experiment to skip over the stage of capitalism and to bring about a socialist transformation of both the social structure and the consciousness of its people in ways that defied conventional ideological and political norms in established capitalist as well as socialist states. Externally the “loss of China” had a shock effect to the US-based capitalist system and contributed to the political economy of the rise of East Asian authoritarian capitalism.

- 4) The historical two-pole system was replaced by a new type of two-pole system represented by the party leadership at the top and class struggles at the bottom. The whole socialist period was characterized by state ownership, agricultural collectivism and welfare egalitarianism. However, such an endeavor of independent and self-reliance development alternative was severely constrained by the US-led capitalist world order. Chinese socialism had to adjust to both internal constraints and external pressures. Nevertheless, the overall achievements of socialism paved a solid material and infrastructural foundation to China’s comparative advantage in its post-Mao integration with the global economy. During the socialist period, red China’s attempt of “sinicizing socialism”, although seemingly threatening, did not impose any direct destructive impact on the capitalist world system.
- 5) The post-Mao leadership undertook a modernization process through economic reforms aiming at sinicizing Western market capitalism with “Chinese characteristics” and through embracing market capitalism while incorporating China into the existing world system. China is now undergoing transformative changes through a series of processes of economic, institutional and ideological “passive revolutions”. Not only has the previous party-class system been replaced by a party-market system, but also has it successfully integrated with the capitalist world system. The *sinicized* “Chinese capitalism” or “Chinese market socialism” combining market mechanism with an active role of the party-state is unleashing direct “threatening” impact on the existing international order. Dialectically internal economic achievement and external dependence are two sides of the same coin creating both internal contradictions and external anxieties.

Figure 1. The challenge-response nexus between the internalities and externalities





### **The classical China in the 19<sup>th</sup> century: emerging underdevelopment**

Between the early 19<sup>th</sup> century and the victory of the Communist revolution in 1949, China exhibited the classic symptoms of backwardness: political corruption, social debility and class exploitation, economic stagnation, negligible technical change, and heavy demographic pressure. The reality China faced was a typical picture of political-economic underdevelopment by any standard.

Then, the questions are: how had this come about? What were constraints that brought about China's decline and underdevelopment? Were constraints mainly external or internal? The decline of the Chinese civilization and its underdevelopment has been a subject of interest in social science and especially in the field of development studies. Different schools of thought have tried to offer the explanations from different perspectives.

In line with the classical Marxist conceptualization, which identifies East Asia societies with the *Asiatic Mode of Production* (AMP), the AMP goes that geographically, the landscape of the Chinese traditional communities was dependent on irrigation systems which required a centralized authority to coordinate and develop large-scale hydraulic works; politically, the Chinese state were stagnant societies dominated by a despotic state class with a centralized governance; and socioeconomically, the Chinese economic bases consisted of economically self-sufficient families and village communities combining agriculture and handicrafts. The sustainability of the system was built on loyalty to the state on the hand and filial piety to the family on the other, which made political patriarchy and patrimonialism possible. Under this type of socio-political organization, the middle space between the state and family became so narrow that it was not possible to expect China (or any other non-Western historical society) to have had, or to have required, anything like the complex of attitudes, values, and institutions that are amalgamated and reified under the term "civil society".

The concept of the AMP endorses "the privileged position of Occidental over Oriental history: the dynamic and progressive character of the West versus the stationary and regressive features of the East (Bottomore, 1983: 33). It argues that the Oriental pre-capitalist economic formations together with their "primitive" societal forms and family- or clan-based social structures were unfavorable for the emergence of the "capitalist mode of production," i.e. the existence of the Occidental feudalism in politically independent kingdoms and cities was crucial for the growth of the production of exchange values and for the rise of a bourgeois class and industrial capitalism. The primary hub of this conceptual approach focuses on the constraints of the internal economic organization.

Another school of thought which also emphasizes the internal factors is *The state and social structure theory*. It is an attempt by China-scholars to explain underdevelopment in China specifically from the perspectives of its internal factors in relation to a number of features of the Chinese state and social structure. It stresses the social structure symbolized by Chinese family system, a conservative bureaucracy and ruling ideology, a parasitic elite, fatalistic attitude, etc. as obstacles to modernization. The arguments of this theory suggest that the requirements of modernization were incompatible with the requirements of Confucian stability and hierarchy system (Lippit, 1980). Again, the conceptual framework of this school emphasizes the malfunctioning of the domestic socio-political structure.

The most challenging arguments come from the culturalist line of thinking. Hegel, for example, at a time when the Western consciousness of the world created revolutionary history, saw China in the “Childhood” of history (Engels in Dirlik & Meisner, 1989: 17); and Marx, whose theories and insight inspired the Chinese revolution, described China a society “vegetating in the teeth of time” and discovered in the Great Wall of China a metaphor for the universal resistance of non-European societies to change (Marx in Dirlik & Meisner, *ibid.*: 17). Their views were understandable because these perceptions of China, although premature, were a product of a comparison between the immobility of non-Western cultures and the revolutionary Europe. What was behind the viewpoint was to establish a European model for other cultures to follow. To put China in the framework of the Weberian explanation, the failure of China’s transition to the stage of capitalism was due to the fact that Chinese Confucian cultural values were not receptive to the development of capitalism in terms of creativity, competition and development. Once again, the theoretical paradigm of this approach points to the limits of inner value systems.

### **The revolutionary China: sinicizing Western Marxism**

Since China’s defeat in the Opium War and its final collapse of the Qing Dynasty, Chinese academics and elites were deeply divided in which direction China should move to. There were mainly four schools of attitude. The first school favored the restoration of traditional social structure, recovering the ancient power and expelling outsiders. The second school preferred a limited change, but was not interested in modern science and industry nor was it interested in learning Western political philosophy and economic system. Its only interest was Western weaponry technology and military training. The third school went to the opposite extreme. It favored total Westernization, and was convinced that science and technology did affect values. People belonging to this school believed that it was impossible to borrow Western technology while

maintaining Chinese ways of thinking and its outdated institutional structure. The most influential one was the fourth school - Marxism and Leninism.

#### *The historical role of Marxism-Leninism*

Confucian cultural and value system developed over several thousands of years under feudal systems, while Marxism emerged in a Europe context in the 18th century. They appear to be unrelated both in timing and content; nevertheless, history has brought the two together in China.

The post-Opium War challenges to the Chinese nation were dual: China had not only to build a modern economy, but also to create a new culture and value system in order to shape the direction of national development. The requirement for forming a new cultural identity became a yardstick for generations of Chinese reformers and revolutionaries because new value system and attitude were preconditions for the transformation of individuals as well as the material base of society, and economic development and culture were intricately interconnected (Kung, 1975: 219). China indeed needed a new comprehensive philosophical base, a new framework of understanding - a new Confucianism, and that was why Western communism found its precise role in China.

During this period different of schools of thoughts entered China including many foreign-inspired schools, such as Constitutionalism, Positivism, Marxism-Leninism, Socialism, Liberalism, Darwinism, etc. It was during this period that the Marxist proletarian culture and class theory began to influence and inspire the worldviews of revolutionary Chinese people especially some intellectuals, among them Mao Zedong, who was one of the founders of the Chinese Communist Party (CCP). The CCP successfully linked the potential of the Chinese proletarian revolution to the worldwide proletarian movement and paved the way for the establishment of a populist tradition in the course of the national struggle for independence and prosperity.

Marxism-Leninism opened the horizons of the Chinese progressive intellectuals and internationalized their conceptualization of China's domestic problems. The Marxist-Leninist teachings of colonialism and imperialism provided China with a radical approach viewing underdevelopment as essentially an outcome of a historical process caused by western colonial-imperialist expansion. Marxism and especially Lenin's theory of capitalist imperialism provided Chinese intellectuals with a partial theoretical framework as well as a psychological answer to their difficulties in finding the proper explanations and theories to the failures of traditional Chinese culture and for the humiliation suffered at the hands of the West (Peck, 1975: 73). It offered them a great source of inspiration to take positions and to analyze the world from different perspectives. China, as

they saw, was no longer an isolated center of globe surrounded by barbarians, but a part of the world full of different forces and ideas. Since the establishment of Chinese Communist Party in 1927, the Chinese impact on both transforming and strengthening Marxism-Leninism was equally important. The Chinese view on its role in the international affairs had changed from regarding itself as the center of the world and universal authority to seeing that China's problem was part of the world problems and Chinese revolution was relevant for the outside world.

Nevertheless, whatever political discourse might be more suitable to China, it was Mao who was able to combine both learning and statesmanship and combine Marxism-Leninism with China's reality. He seized this opportunity to sinicize the Chinese Communist movement in terms of skilful redefinition of "class" and application of class politics<sup>1</sup>. Mao's strategy of "using countryside to surround city" turned the Chinese revolution into a peasant-based and backward Chinese uprising. No matter how significant Western progressive theories were in influencing the Chinese revolution, without combining it to China's reality by Mao Zedong, Marxism-Leninism would probably have aroused only a few rebels. Although communist historians maintain that it is "the people who create history" and reject the great-man theory of history, it is no doubt that without Mao's contribution Chinese history would have run a different course (Chi, 1986: 296).

*The "loss of China" and the rise of East Asian developmental states*

This "loss" of China to Communism had a tremendous impact on American society (Thomson, 1992). From the president and government officials down to the media and ordinary people, Americans simply could not understand how a hopeful Chinese Nationalist government with modern US military support could be defeated by a Communist-led insurrection. There might have been a chance after the Second World War and the Chinese communist victory, when an American government could have actually coexisted and developed normal relations with socialist China. But the US government immediately responded to the "loss" of China by military containment and isolation of Red China under the assumption that the containment of China could prevent the spread of revolution. For nearly a quarter of a century, the "loss of China" had a grave impact on America's policies in Asia which were skewed by the fear of Communism, so were American politics, education, and society. This fear of Communism not only founded McCarthyism in the US politics but also made America take part in two perhaps entirely avoidable wars in Korean Peninsula and

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<sup>1</sup> Mao realized the power of hundreds of millions of peasants who could be converted to become part of the revolutionary army. The Chinese Revolution is in reality a peasant revolution rather than a working class one

Southeast Asia. And America-East Asia relations became engulfed by years of blind and lethal zealotry. The “loss of China” also attributed to the political economy of the rise of East Asian developmental states under the American parenthood (Hersh, 1993)

Under the American protection, external military threats and the internal danger of communist expansion were substantially contained in these two regions. Through providing security, economic support and military aid to Japan and other East Asian states, the American goal was consequently to control and define their roles (including Germany in Europe) within the American-led alliance and prevent them from embarking upon an independent political and military course (Schwarz, 1996: 92-102)<sup>2</sup>. The burden of the allied countries’ military expenses was also greatly reduced by the American military presence. American military bases have been documented to have not only protected these countries but also provided them with economic benefits such as employment. Even now, the withdrawal of American military forces would be considered as a substantial economic loss.

America’s long-term strategic interest in East Asia can be understood as having a dual objective: “watching” the role of Japan and “managing” the risk by the rise of China as a regional and global power. American role and presence in this region as a balance-of-power guarantor are generally welcome by the smaller nations. It is expected that in the foreseeable future the US will remain a key role player in this region’s integration process whether one like it or not.

### **The socialist China: alternative experiment in a capitalist world system**

#### *The history and trajectory of Chinese socialism*

According to some scholars that the reason why China was able to industrialize more rapidly since 1949 was that the Communist revolution “decisively broke the ties that chained China to the imperialist system” (Moulder 1977: viii-ix) and also broke free of a variety of complicated domestic confinements, such as localism, warlordism and foreign domination. However, like all socialist states, post-revolutionary China was still a constituent part of the “capitalist world system”<sup>3</sup>. Would China be able to form an autonomous entity interacting with the capitalist system while avoiding the vulnerability to the vicissitudes of the larger capitalist bloc? In other words, would China be allowed to peacefully

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<sup>2</sup> It is recognized that the US post-war objective in East Asia, as a part of its global strategies, was to restore the functioning of the capitalist world system, which was fundamentally different from the fascist-militarist Japanese agenda during the Second World War.

<sup>3</sup> Socialist countries, in the view of the World System Theory, are “state capitalism” because the state is the key actor in the capital accumulation process.

develop an alternative model and an independent path to social and economic development? The answer, as proved by the history, is no.

The ideas and ideologies of socialism can be traced back to some centuries ago, but worldwide socialist movements as a political force of global historical significance were relatively a recent phenomenon centered in the 20<sup>th</sup> century. Seen from a world system perspective, the historical evolutions of socialist and communist movements can be seen as part of long-run spiraling struggles between the expansion capitalism and the counter-reactions (Chase-Dunn, 1999). This history of spiraling struggles between these two contending forces can be comparably referred to “double movements” in a Polanyian term (Polanyi, 1957). Socialism, seen as part of antisystemic or counter-hegemonic movements, necessitated the capitalist world to initiate a number of social, economic and political “passive revolutions” including the New Deal, Keynesianism and Fordism in order to regain its dynamic and resilient capacities. Between the period of the post-war and the end of Cold War it was popular then for Western governments to proclaim themselves to be Keynesian or Social Democratic, rejecting laissez-faire capitalism and favoring for a more regulated macro-economic system of controlled and rationalized production.

The history and trajectory of socialist states in the 20<sup>th</sup> century indicates that worldwide socialist movements in the periphery and semi-periphery all initially attempted to transform the basic logic of capitalism and establish an alternative mode of product, but they ended up using socialist ideology to mobilize national industrialization in order to catch up with advanced capitalist states in the core. Hence, seen from a world system perspective, socialist states were still situated within the interactions of the capitalist world economy, and their activities are very much constrained by the international system of the capitalist world economy (So and Chiu 1995:139-40). Socialist states, despite of some socialist feature, such as egalitarian distribution, employment security, comprehensive welfare provision, etc, nevertheless they were still an integral part of *capitalist* accumulation. The history of Chinese socialism proved to be no exception.

It is necessary to point out that the setback of Chinese socialism must not be simply reduced to “utopianism” or domestic policy failures because, in addition to internal difficulties, Chinese socialism encountered severe external constraints such as imperialist hostility, economic embargoes, deprivation of access to capital and technology, diplomatic isolation and military interventions from the capitalist world led by the US. China faced the severe external constraints from the Cold-War world order, which in many ways influenced the choices and strategies of its socialist experiments as well as the course they took. Even its

institutional set-ups were structured according to the need of survival in a war situation.<sup>4</sup>

*The legacy of Chinese socialism*

Before drawing any deterministic conclusions on the period of Maoist socialism, we have to keep in mind that what Deng's China has been doing since the end of the 1970s is not "economic reconstruction" but "economic reform" aiming at correcting the "irrational" part of the earlier economic policies. Hence, it is historically incorrect to ignore the fact that the achievements Chinese socialism under political sovereignty and a major change in domestic class relations paved the foundation of the economic progress achieved in the post-Mao era. If we do not make a realistic assessment of China's socialist development during Mao's period when it developed from a backward agrarian society to a major industrial power in the 1970s, we will not be able to understand both the economic achievements and problems inherited from that era. The legacy of Chinese socialism can be obviously seen from the favorable position China had, when the economic reform started, in defining the terms and establishing parameters of interaction with the capitalist world order. As a China-scholar observes,

it [China] was not entangled in a complex web of external economic constraints which limited its freedom of action or skewed its decision in the interests of foreign powers or corporations. ... the establishment of a strong, autonomous state provided the political precondition for ensuring – with a margin for miscalculation – that international economic ties were more likely to be beneficial, as classical economic theory and modern development economics have promised.

(White 1982: 131)

The Maoist independent and non-alliance foreign policy, armed with concrete advance in certain industries and military technologies as mentioned before, and assisted by its strong ties with the developing world which backed China's victorious re-entry into the United Nations as a permanent member of the Security Council, paved a solid foundation for its successful rapprochement with the United States. Consequently and not coincidentally, the post-Mao regime was in a favorable position to negotiate political, economic and military relations with the outside world on a either relatively equal or advantageous basis.

The success of the post-Mao market reform proves fact that the fundamental changes and achievements during the reform period in the 1980s and the 1990s were a clear indication of the contribution of the socialist development strategy

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<sup>4</sup> The organizational logics of Chinese institution (in Chinese "*Dan Wei*") have their roots from the war periods (the anti-Japanese war and the civil war). It was a decentralized system in which each unit/institution is supposed to survive on its own in terms of production, reserve, welfare, medical care, etc.

rather than its failure. For example, it has been recognized that China's village-township enterprises had played an important role in its economic growth during the reform period. Township enterprises became, more than the state sectors, the most dynamic engine of China's economic growth. According to the World Bank report, the growth and performance of China's township and village enterprises (TVE) was extraordinary: their share in GDP rose from 13 per cent in 1985 to 31 per cent in 1994; their output grew by about 25 per cent a year since the mid-1980s; they now accounted for a third of total industrial growth in China; and for more than a decade TVEs had created 95 million jobs (World Bank 1996: 51).

Conventional wisdom claims that the rapid development of village-township enterprises is only due to the reform-oriented leadership which came to power and ended the public ownership system, and unleashed their enormous potential of entrepreneurship. While such a view contains elements of truth, it is not historically correct and can be seriously misleading.

What we must not forget is that the rise of TVEs was not a product of the reform policy; rather, it is the direct result of the socialist mass-line mobilization development strategy to push forward rural industrialization aiming at making rural areas into affiliations of industrialization processes alongside major industrial cities. What was behind the socialist economic policy, albeit it was radical, was the standpoint that Chinese peasants would ultimately bear the burden of industrial investment in one way or another; and instead of over-taxing them and widening the rural/urban gap, they could be helped to develop rural industries along with urban industrialization. The essential goal of the Maoist rural development policy was to create a simultaneous process in which collectivization went hand-in-hand with industrialization.

Therefore, TVEs were the outcomes emerged during the "Great Leap Forward" and the Cultural Revolution. Village-township enterprises are direct 'descendants' of those previously owned by communes and brigades (Putterman 1997). It was a gradual process based on a number of innovative ideas such as factory and commune linkage, young intellectual going to the countryside, cadres and technicians working in grass roots units, and linkage between industry and agriculture, etc. About 28 million people were employed in commune and brigade factories out of a total labor force of about 300 million (Lippit 1982: 128). In 1958, 85 per cent of the 1,165 enterprises under the jurisdiction of the central state were transferred to local administrations; and within one year there were about 6 million small-scale industries: coal, power station, cement, fertilizer, agricultural machinery and processing enterprises (Gao 1997).



### *The socialist foundation for China's economic emergence*

As it is well known, the success story of Japan and the rapid economic development of some Asian newly industrialized countries (NICs) were largely based on export-oriented strategy. It is widely recognized that the engine of economic growth in the East Asian model of development was attributable to the rapid growth of exports. Beginning in the 1960s, favorable conditions created opportunities for relatively low-cost industrial production to be integrated into the world economy through increased relocation of production by multinational corporations to low-wage sites. China was obviously denied access to all these benefits and was thus excluded from taking advantage of the favorable international development conditions during the upward phase of the world economy. Neither was China unable to pursue a development strategy based on export-oriented industrialization even if it had so desired, nor was it able to adopt the import-substitution option due to the economic sanctions and embargo imposed upon it.

Ironically and not coincidentally, the rapid economic advance of China in the post-Mao decades is actually because of the “regaining” of these favorable international conditions. Furthermore, dialectically, because of the international isolation leading to the alternative choice of self-reliance and self-sufficiency Chinese socialism, it was possible for China to confine the external impact of distortion at a limited level. Due to the socialist legacy, “China also stands out as the only developing country without any internal or external debts outstanding and a uniquely stable currency.” (Bhattacharya in Bergmann, 1977: 228)

In a nutshell, the economic success and comparative advantages generated during the decades of Chinese socialist experiment laid a solid foundation and paved the way for Deng Xiaoping's open-door policy in integrating the Chinese economy with the world market. However, the latter course was not predetermined. The socialist achievements made China relatively stronger and equal in world market exchanges. The present contradiction between China and the west, especially the US, is that the latter wants to make sure that China competes in the world market according to the “established rules” because its comparative advantages could be used to break these rules. Therefore, it is ahistorical to stress the present success without giving a proper assessment of the contribution of the socialist achievements.

### **The capitalist China: challenges and opportunities in the capitalist world system**

China's rejoining the capitalist world after restoring diplomatic relations with the United States and especially after it started the economic reform since the

end of 1970s was regarded as the biggest *savoir* to the capitalist world order because the core parts of the capitalist world system - the United States and Europe - were also much weakened by the long Cold-War competition with the former Soviet Union.

If the Maoist self-reliance and self-sufficient path of development was projected as a potential development model and ideology and the central goal of socialist politics was seen to challenge the unequal hierarchy in the world economic system, such a socialist hegemonic project, although threatening, existed more or less outside the US-led capitalist world system. In other words, it was more an ideological challenge without being able to construct an alternative world system to replace the capitalist world system. But ironically, the post-Mao economic marketization together with its political authoritarianism is also beginning to be viewed as a menace because of its ambition to have access to a larger share of world wealth, resources, and its responsibility in creating environmental problems as well as resisting American political demands. More importantly, such a “menace” exists *within* the mechanism of global capitalism! And it can be summarized in the following areas:

#### *The global “China factors”*

China’s high economic growth of three decades has already made its economic impact felt worldwide. China’s size and integration with the world economy have contributed to uncertainty about the global inflationary environment; its currency has been a subject of contention; its trade has raised concerns for workers and firms in both developed and developing countries; its hunger for energy has led to competition and conflict; it has rivaled the United States and the rest developing countries as a destination for foreign direct investment; and the effects of its own overseas investments have begun to be felt across the world; Beijing’s policies on finance, currency, trade, military security, environment issues, resource management, food security, raw material and product prices are increasingly seen as connecting with the economies of millions of people outside China’s boundary because China’s shifts in supply and demand cause changes in prices hence leading to adjustment in other countries. As a result, China is increasingly seen as having the quality of the previous US as an “indispensable country” (Feffer, 2007). China has generated incremental growth in the global economy that has made its success significant for the welfare of other countries. The global “China factors” can be summarized in the following areas:

#### 1) Research and development

China is rapidly developing as a more sophisticated industrial power. According to the Organisation of Economic Cooperation and Development (OECD), mainly due to growing international investment, China recently surpassed Japan

and became the world's second largest spender on research and development (*International Herald Tribune, Business Section*, December 4, 2006). China has also overtaken Germany as the fifth most prolific nation in filing patents for new processes and technologies. Although its overall capacity for technological innovation still lags behind industrially advanced countries, these figures demonstrate that China is rapidly catching up.

## 2) Two-track FDI

China has in the recent years become a magnet for global foreign direct investment (FDI). Especially in 2002, China replaced the United States as the world's number one destination for FDI, nearly \$53 billion. The dramatic inflows of foreign investment come due to China's progress on structural reforms, its accession to the World Trade Organization as well as its continuous effort in bringing regulations in line with international standards. China is to aim at developing a more transparent business environment with a clear legal and regulatory framework, which will help attract higher-quality investments that are focused on long-term, high-technology, capital-intensive projects.

In terms of China's outflow FDI to the developing world, Beijing has developed strategic plans on how to provide aid without following the colonial model of economic relations and without following the suit of Western condition-based practices. Most FDI to developing countries such as Africa are placed in the extractive mineral and primary economy sector, whilst China's FDI targets mainly at the manufacturing sectors in developing economies of Africa, Latin America and Asia. China does not tie aid to policy preference by those who receive its assistance, which is seen as a great challenge to the conventional ideologies and practices of Western donors.

## 3) Natural resource and commodity price

Metal prices have increased sharply due to strong demand, particularly from China which has contributed 50 percent to the increase in world consumption of the main metals (aluminum, copper, and steel) in recent years. Due to its rapid growth and rising share in the world economy, China is expected to retain its critical role in driving commodity market prices (*World Economic Outlook*, September 2006). China offers above world market prices for buying raw materials, which attributes great comparative advantages to the developing world.

China has always sought to maintain self-sufficiency in the production of basic food products for its entire population. However, following the rising living standards, it is forecasted China's demand for grains, meat and oilseeds will be gradually outpacing its ability to produce them. China has already become the

world's largest soybean importer and is expected to become a significant grain importer as well, with profound impacts on global commodity prices.

It is foreseeable that in the near future China's import of natural resources especially oil and gas will have to be substantially increased. The implication is seemingly clear that not only the global commodity price and international geopolitical power relations will be affected but also China's own internal evolutions, such as foreign policy thinking, foreign aid designing, arms sale consideration and compulsory expansion of its long-range naval power projection capabilities will be closely connected.

#### 4) International trade

Nowadays Ricardo's theory of comparative advantage is being questioned as never before. China is currently the world's third-largest trading nation and it will soon be the second in the coming years. The rapid rise of China as a major actor in the global economy is provoking a controversial debate about whether free trade is still in America's interest. China's rapid rise is feeding a common fear in the West: developing nations led by China and India may out-compete the western powers for high-tech jobs while keeping the low-skill, labor-intensive manufacturing jobs they won already. The fear is that China might soon gain comparative advantages of labor, capital and even technology that will allow it to dominate the world economy. According to the IMF studies, a strong tendency is shown that China is moving out of labor-intensive manufacturing such as textiles, apparel, footwear, toys, etc, and beginning to increase its share of technology-intensive products, such as machines, electrical machinery, telecommunications, together with increasing degree of specialization (Amiti and Freund, 2007:39-40)

The US trade deficit with China reached a new record of \$230 billion. The American and Chinese ruling elites have no progressive means for resolving these massive economic imbalances. Beijing needs to keep foreign capital flowing in and exports expanding, in order to create millions of jobs to maintain social stability. The US economy requires the supply of \$2 billion a day from the rest of the world, especially from Asian central banks, to finance its massive trade deficits. If this process continues indefinitely, the financial system must collapse at some point with incalculable consequences for the world economy.

#### 5) An emerging global creditor

China used to be proud of being one of the largest recipients of FDI. Although in comparative terms China's overseas investment is still small, the situation is changing considerably: China's foreign currency reserves surpassed the \$1.5 trillion last year; and according to the official statistics, "China's net overseas investment hit \$21.16 billion in 2006, with an annual average growth rate of 60 percent over the past five years" (*China Daily*, Oct. 2, 2007).

Recently, China's state Sovereign Wealth Fund has attracted the global attention. China Investment Corp (CIC), a state-owned investment company with \$200 billion of assets. In early this year during his visit to China the UK Prime Minister Gordon Brown openly offered London as an overseas base for China's sovereign wealth fund, aiming to get a share of Beijing's overseas invests in Britain. However, due to the state ownership of the fund, suspicions and worries about China's economic agenda and geopolitical motivations can be revealed by some headlines like "China Sovereign Wealth Fund Could Buy Every US Company" (Bonner, 2007), and "Sovereign Wealth Funds: China's Potent Economic Weapon" (Navarro, 2008).

#### 6) International relations

China's rise to the status of a world power is leading to some profound changes in the world system. The Chinese "indispensable" roles in influencing international politics and national policies are globally recognized: its active leadership in the 6-party talks in preventing North Korea from developing its nuclear program; its new approaches and policies to development assistance to the African continent are welcomed by most African nations and the representatives of 48 Africa nations gathered last fall in Beijing and expressed a new hope that Chinese investments in the continent will bring about their economic development. China's growing influence in Africa and in other developing countries under the Five-Principles approaches to international relations specially to development assistance and aid to in which Beijing's adherence to the principle of non-interference in internal affairs and its determination not to impose conditionality is challenging the Western especially the EU's ideology-based policies. In East Asia, the region since the 1990s has witnessed a gradual shift away from the vertical Japan-led "flying-geese" model of regional development to a new horizontal China-driven regional economic integration (Li, 2007a).

China's enlarging involvement in the relationship with Latin America, its new activism at the United Nations, its representative voice in the WTO for the developing world, and its close relations with the World Bank, and its efforts in promoting regional multilateralism through the Shanghai Cooperation Organization in central Asia, indicates China's global presence. Even for the China-US relations, which are the world's most difficult and complicated relations, the Bush administration will readily admit that China's purchase of American bonds is *indispensable* in keeping the U.S. economy afloat despite of the fact that American politicians tend to demonize China's large trade surplus and Beijing's reluctance to liberalize its financial sector.

### **The impact of China's challenges**

To some scholars the rise of China can be termed to be “Beijing Consensus” (Ramo, 2004 and Li, 2007b), a notion coined with distinct attitudes to politics, development and the global balance of power; to others it can simply be called the “Chinese model”, a sinicized market capitalism called “a socialist market economy with Chinese characteristics” implying an active role of the Chinese party-state in attaining macro-policy independence and socio-political stability. Both the “Beijing Consensus” and the “Chinese model” are being interpreted either as the rise of China’s soft power (Nye, 2005) or as a serious challenge to the existing economic theories (Chow, 1997) as well as to international relation theories (Paltiel, 2005). Will we witness the emergence of “Chinese international relations theories” in the near future along with the great economic and social transformation? The answer is both likely and even inevitable (Qin, 2007).

What is the implication of the rise of China to interest of the Western World at large and the United States in particular? Will a rising China be willing to be constrained by the established rules of games set up and defined by the post-war world order? Or will it alter the rules or write its own rules in many areas, such as intellectual property rights, trade practices, state-market relations, military expansion, and inter-state relations? Opinion-makers of both realists and neoliberals provide very different analyses and policy recommendations in response to the rise of China. Realists stress the importance of understanding the world system as zero-sum game advocating prevention against the “coming conflict with China” (Bernstein and Munro, 1997 and Mearsheimer, 2001 and 2006). Whereas, neoliberals emphasize strength of an institutional approach to engage China so that it will be incorporated in international regimes and becoming a stake-holder in the existing global system (Ikenberry, 2008).

In the past decades either fascination or irritation with China has always influenced Western scholarship and journalism, which often produce abrupt sentiment from excessive approval and unqualified optimism to unwarranted revulsion and deep pessimism. There were hopeful writings of confidence about China’s “second revolution” in the most of 1980s; then there was deep antagonism toward China’s lack of political reform following the June 1989 crackdown; and in recent years, there are exaggerated projections of China’s threatening rise to the superpower status. From time to time Western politicians and observers selectively use China’s successes and failures to justify their existing theories and prejudices. A *correct* reading of the anxieties and contractions connected with the rise of China must be found in the understanding of a dialectical process of “mutual generation” and “mutual destruction” between domestic transformations and international premises.

### *A dual pressure on the capitalist world system*

Internally China has dramatically transformed itself from being an agrarian society to becoming the “world factory” and within a short period China has experienced rapid industrialization and urbanization which the West has gone through for about 200 years. Consequently China’s class components of the population will be fundamentally transformed in such a way that the share of its proletarian and semi-proletarian wage workers will increase substantially, and in the foreseeable future China’s degree of proletarianization and wage level will be equivalent to the current levels of the semi-peripheral states in Latin America and Southeast Asia (Li, 2005:435). Here, the “China threat” could come from purely domestic destabilizing effects of economic marketization: massive social dislocations stemming from the, rising unemployment, energy shortage, and widespread protest over widening inequalities, environmental degradations, mass migrations, ethnic tensions, minority separatism, and etc. Some of these are of serious concern of both internal sustainability and global security. The social cost of the contradiction of China’s transformation is hugely high (Hart-Landsberg and Burkett, 2004).

The concerned scenario of China’s internal collapse portrays a threatening situation that if China suffered a Soviet type of sudden-death syndrome and spinned out of control, the whole world would face the worse nightmare – the return of pre-revolution China: a failed and predatory state surrounded by warlordism, civil war, crime, in addition to the modern China’s problems which are impossible for the world to deal with: huge refuge problem and proliferation of nuclear weapons.

Externally China’s competitive advantages are weakening the relative monopoly of the existing semiperipheral states in certain commodity chains exerting pressures on their production cost and wage level (Li, 2005). The danger of *peripheralization of the semiperiphery* in the current capitalist world system is analytically theorized by a scholar:

This has dangerous implications for the capitalist world economy. The semi-periphery plays the indispensable role of the “middle stratum” in the world system. A layer of the semi-periphery offers hope of “modernization,” “development,” and ultimately, upward mobility for the great majority living in the peripheral states. Should this layer disappear and be reduced to no more than a part of the periphery, the world system is likely to become politically highly unstable.

Peripheralization of the semi-periphery would deprive the capitalist world-economy of a major source of effective demand. Moreover, the peripheralized semi-peripheral states will inevitably face highly explosive political situations

at home. The relatively more proletarianized working classes will demand semi-peripheral levels of wages and political and social rights. However, the peripheralized semi-peripheral states will not be able to simultaneously offer the relatively high wages and survive the competition against other peripheral or peripheralized semi-peripheral states in the world market. The entire semi-periphery will be threatened with revolution and political turmoil.

(Li, 2005: 436-437)

It is unavoidable that China's capitalist growth strategy has generated regional and global contractions. China is being associated to the cause of the problems of other countries and other regions: overproduction, decreasing regional wage rates, destructive regional competition for investment and resource, etc. (Hart-Landsberg and Burkett, 2004).

## **Conclusion**

The paper attempts to construct a framework of understanding the dialectical nexus between the internalities and externalities behind China transformations. Such an internal-external linkage intertwined with challenge-response paradigms has a dialectical process of mutual generation: internal struggles were triggered by external challenges while internal transformations were responded by external adjustments and accommodations. China's century-long internal struggles to overcome constraints on its development can be equally paralleled by the continuous external responses to the "China factors". China's ability to successfully solve its internal development problems and manage external challenges will not only influence its internal stability, economic and political liberalization, and leadership but also affect regional and global security.

Historically China has been able to display a capacity of absorbing foreign ideas and influences as well as sinicizing and transforming them into part of native value systems, such as the sinicization of Buddhism and Marxism-Leninism. Today it is still a question whether China is attempting to sinicize capitalism and create a "socialist market economy". In recent decades economic growth has torn down much of the physical symbols of China's cultural history, but Chinese people still remain an intensely historical nation with strong and popular *nationalism*. Chinese nationalism is an integral part of the internalities of the driving forces which can be turned into strong anti-west sentiment if the West refuses to accommodate or share the leadership with China. The time when nationalism was mainly led by the party and the state, today nationalists, assisted by modern technology and economic prosperity, are acting independently beyond the control of the state (Gries, 2005).



Currently we witness an interesting dialectical situation China is facing: due to its embeddedness in the global capitalist system Beijing is gaining economic strength on the one hand but losing traditional political independence on the other. In other words, China's rise through active participation in the global political economy is, at the same time, translating into greater vulnerability and dependence (Economy, 1998). Beijing's desire to retain its legitimacy through integrating China's economy with global capitalism will make it politically vulnerable to internal economic setbacks and external pressures, thus endangering the preservation of its integration. Today China again finds itself to be a "middle kingdom" surrounded by jealousy, admiration, anxiety, worry and even resentment. The West must understand the political inevitability, cultural requirement and social necessity that China's adaptive *sinicization* is of vital importance.

Historically China, ever since its first contact with West, has been seen as a nation of puzzle, mystery and unfathomably beyond comprehension. Even now when China has become an integral part of the capitalist world economy, China is still a country that the West finds it difficult to understand. To many western politicians and opinion-makers China simply does not conform to some most basic beliefs in the West about what makes nations grow and about a set of mutually dependent relationship between property rights and economic growth, between the rule of law and market economy, between free currency flow and economic order, and most importantly between political system and popular sentiment (Zakaria, 2007). As a well-known historian put it clearly "the most salient characteristic of international relations during the last century was the inability of the rich, established powers - Great Britain and the United States - to adjust peacefully to the emergence of new centres of power in Germany, Japan and Russia" (Johnson, 2005, online).

Within the near future both China and the West will have to find a regional and global role which the other will accept and support. In order to do so both will have to go through a considerable period of struggle, adjustment and tension. It is still too early to predict whether the eventual outcome is a world disorder, reorder or new order.

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# **Bombs upon a brittle Sino-American relationship: The 1999 bombing of China's Belgrade Embassy**

Erik Beukel

## **Abstract**

The American bombing of China's Belgrade embassy on 7 May, 1999, triggered a major crisis between China and the United States. In China, the responses were strong, both from the government and thousands of demonstrators outside the American embassy in Beijing and American consulates throughout China who saw the bombing as a deliberate attempt to humiliate China. After a couple of days the demonstrations subsided, among others because the Chinese government realized that it might not be able to control a continuing outburst of nationalistic feelings. In Washington, the Clinton administration's response to the bombing was marked by its preoccupation with the wars in the Balkans, and its primary concern was to continue the military offensive against Serbia. The Administration apologized several times for the bombing, but Americans underestimated the independent role of Chinese nationalism as an important background for the strong popular reactions in China. China underestimated the significance of bureaucratic and domestic politics in the United States as well as the impact on Americans when China's state-controlled media didn't report American apologies as they appeared. The features of the 1999 bombing aftermath point to some of the critical problems in relations between the American superpower and the rising China.

## **Introduction**

At 11:45 pm on May 7, 1999, Belgrade time (that is, early in the morning at 5:45 am on May 8, Beijing time), five American cruise missiles, launched by two Air Force B-2 bombers that took part in NATO's bombing of Serbia, struck the Chinese embassy in Belgrade (Strategic Survey 1999/2000: 199-200; Wu, 2007-08: 61f.). Three Chinese journalists, two from the *Guangming Daily* which is one of China's premier national newspapers, and one from the *Xinhua News Agency*, were killed. Twenty-one other persons from the embassy's diplomatic personnel were wounded. The bombing triggered a major crisis between China and the United States, and for a few days there were big demonstrations against the United States in several Chinese cities. The intensity of the demonstrations took not only Western observers but also the Chinese government by surprise. However, the Chinese leadership did not try to prevent protests, primarily because it shared the demonstrators' view that the bombing was intentional rather than mistaken, although the leadership probably

considered rogue elements in the American military or intelligence community as the guilty rather than President Clinton (Wu, 2007-08: 62). The bombing was a watershed event for many in China, especially urban elites and students who had focused their hopes and aspirations on America, and for them it represented the end of illusions about America's good intentions toward China; actually, some intellectuals who in the 1980s had had much admiration for America were deeply disappointed by American arrogance in the aftermath of the bombing incident (Heng and Ngok, 2004: 97; Suettinger, 2003: 377). The most severe aspects of the crisis subsided after a few weeks, and in late July the two governments reached agreement on the compensation by the United States to the Chinese casualties. Toward the end of the year they agreed on the compensation for the damage done to Chinese properties by the bombing in Belgrade and the damage done to American facilities by the demonstrations in China. In April, 2000, the Central Intelligence Agency (CIA) issued a statement declaring that intelligence officers responsible for the bombing had been disciplined (Wu, 2006: 370).

The Belgrade bombing crisis demonstrated the brittle, labile and unstable character of the relations between China and the United States, and it strengthened a legacy of deep suspicion and distrust in both countries. The Sino-American relationship is not only brittle but the relations between the two countries are important as a source of instability in the post-Cold War order and will be critical to world politics in the 21<sup>st</sup> century. After the end of the Cold War, the United States is the only global superpower with unrivalled military and economic power and extensive influence in international politics. China is a rising power whose strongly growing economy through almost 30 years provides a solid basis for claiming a prominent role in world politics and especially in its regional environment in the Asia-Pacific region. The Asia-Pacific region is the area where American and Chinese security interests meet directly, with the United States as the incumbent dominant power and China as the rising challenger. The region contains two of the world's most dangerous flashpoints, the Korean Peninsula and the Taiwan Strait, and China and the United States share an interest in a stable East Asia. Thus one crucial determinant in East Asia's evolving security situation is whether the two countries can steer their mutual relations and the relations with their respective regional 'friends', North Korea and Taiwan, in such a way as to produce regional stability (Beukel, 2008; Goh, 2005). Another determinant is the two countries' abilities to handle bilateral crises with insight and knowledge of the other country's specific political and societal characteristics.

One obstacle is that the impact of both sides' ideological traditions and proclivities may make the Sino-American relationship vulnerable to official miscalculations, mistrust, or populist emotions which may plunge the

relationship into new major crises (Zi, 2004). In China, the increasingly vocal patriotism and nationalism among intellectuals and in the general population, which is a result of pride in China's recent economic achievements as well as a historical sense of cultural superiority, may confront the government with difficult choices when it feels it has to respond to nationalist protests and sentiments (Gries, 2004; Shen, 2004, Wong & Yongnian, 2000). For pragmatic Chinese leaders, the maintenance of good – or at least cool-minded, businesslike – relations with the United States in order to realize China's economic modernization is a top priority and so they clearly worry about strong domestic protests against American actions even if they share some of the substantive attitudes as in the 1999 crisis. From this follows that there is a potential conflict between a pragmatic leadership's preferences and bottom-up populist sentiments that China should strongly react to perceived offensive American actions (Miles, 2000-01; Zhao, 2004).

In basic American attitudes to the nation's role and mission in international affairs there is an ideological urge to promote liberty and democracy and rid the world of undemocratic regimes. In relation to China, the confluence of conservative hawks and liberal human rights advocates, both invoking the image of China as the last "Red Menace", may lead to a strong policy of containment which is difficult to distinguish from a policy of confrontation. The critical issue in the making of American China policy is whether a composite alliance of moderate conservative and liberal Realists, arguing that it is an American self-interest to realize and consider the basic security interests of a rising China, can hold the line against another heterogeneous conservative-liberal alliance that advocates a confrontational China policy to defeat the last Communist threat. As dominating schools of thought that have shaped American foreign policy since the nation was founded emphasize a combination of the idea of an American mission with its moral duty to spread democratic principles throughout the world and the value of superior American military might as well as American populism, the result is that a moderate Realist alliance is generally disadvantaged in the American political process (Mead, 2002: 86f.). Besides, the challenge from China's economic rise since the first economic reforms were introduced in 1979 has presented the United States with a number of intractable economic and political issues where different political answers and movements interact with traditional security issues.

The purpose of this paper is to analyse the relationship between the United States as the world's only superpower and China as the strongest newcomer by focusing on important features of the 1999 bombing crisis. The bombing had an impact as a bomb upon a brittle relationship, and the following sections will elucidate the more exact character of this with a special view to the conflict and the interplay *between* dissimilar political systems in China and the United States

and different concerns and views of the bombing *within* each of the two countries and governments. In short, the purpose is to elucidate how and why neither China nor the United States in the bombing crisis can be considered as a unitary actor with a well-defined set of foreign policy goals. As to China, the focus is on the contrast between, on the one hand, the government's desire to maintain a reasonably working relationship with the United States despite what also the leadership considered an offensive attack against China and, on the other hand, the protesters' vehement reactions and protests. As for the United States, the focus is on the Clinton administration's attempt to work out a line of conduct after the news of the bombing and the strong reactions in China, especially considering that the administration's actual foreign policy preoccupation was continuing the bombing of Serbia. The point is that not only had the two governments highly contrasting views of the bombing of the embassy, but the concerns *within* the two capitals focused on very different aspects of the crisis, particularly in the first days, which provided important constraints on both governments' ability to dampen the crisis (Goh, 2005: 230; Wu, 2007-08: 62f.). Considered in that context it is interesting to note the impact of differences between the two political systems. There is no determinism or one-to-one correspondence between political systems and foreign policies, but critical trends, factors, problems and dilemmas can be pointed out and analysed.

### **Chinese responses**

Chinese responses to the Belgrade bombing can be analyzed as passing through two stages. The first stage, May 8-9, was marked by strong responses by the government and the state-controlled media as well as violent street demonstrations against the US and NATO. In the second stage, from May 10, the demonstrations lessened and the government became more in charge of all Chinese reactions. To be sure, the contrast between a confused government responding to unexpected foreign and domestic events in the first stage and the same government simply controlling the domestic situation in the second stage should not be exaggerated. Still, the difference between the overall pattern of Chinese responses during the first two days and after those days offers an important insight in some of the political dynamics of the Sino-American relationship.

#### *Government and demonstrations*

The complete astonishment and lack of information in the Chinese leadership through the morning of the bombing is critical to understanding initial Chinese responses. Damage to the fixed telecommunication equipment at the Belgrade Embassy meant that embassy personnel were unable immediately to report the

bombing to the Ministry of Foreign Affairs (MFA) in Beijing.<sup>1</sup> The first person to report the bombing was a resident journalist of the *People's Daily* who had survived the attack and reported the event to the MFA with his mobile phone at 6:00 am, that is, 15 minutes after the bombing. Thereafter, the MFA tried to get in touch with the ambassador and other Embassy officials in order to have the information confirmed but they failed. A few minutes later, after 6:10 am, the Chinese intelligence services began to report the bombing, mainly based on news broadcasts by *Agence France-Press* (AFP) and *Cable News Network* (CNN). Only after 7:30 am did the *Xinhua News Agency* and China's ambassador in Belgrade phone the MFA to confirm the bombing and the casualties. As the event came that sudden and was wholly unexpected, and communications and intelligence was inadequate, many details of the attack were incomplete during the first hours after the attack. Thus as it was very difficult for Chinese authorities to ascertain the nature of the incident and American intentions, it was not possible to formulate a clear-cut and comprehensive official response at the outset. There was no contingency planning for handling such an incident, and the government initially responded slowly to the bombing. Apparently, the senior Chinese leadership did not convene before 10:00 am (Swaine, 2006: 52; Wu, 2006: 358-9).

After the meeting the Chinese government issued a strong protest pointing out that the bombing constituted a gross encroachment upon China's sovereignty and flagrant violation of the Vienna Convention on Diplomatic Relations and the basic norms governing international relations. In the statement, the Chinese government and people expressed their utmost indignation and strong condemnation and lodged the strongest protest, demanding that the US and NATO assume full responsibility. The government presented four demands to the American government: a public and formal apology to the government and people of China and to the families of those who had been harmed; a comprehensive and thorough investigation of the bombing; a prompt public disclosure of the details of the investigation; and severe punishment for those responsible for the incident (Cheng and Ngok, 2004: 91). Moreover, the government reserved full rights for further reactions. In the afternoon of May 8, the Chinese Vice Foreign Minister Wang Yingfan made an emergency appointment with James Sasser, the US Ambassador to China, and made solemn representations with him. Also, China asked the UN Security Council for an emergency meeting to condemn the bombing (Strong Protest by the Chinese Government ...). A task force was set up by the government to handle the bombing incident, and a 34-member delegation flew to Belgrade immediately afterwards to inspect the heavily damaged embassy compound. Moreover, the government decided to suspend the high-level exchanges between the armed

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<sup>1</sup> The account of the events early on May 8 in this section is based on Wu (2006: 354-6) who refers to interviews with Embassy personnel.



forces of China and the United States, and consultations on arms control and international security were postponed. In the same way, the two countries' dialogue on human rights was suspended and a number of American visits to China were cancelled. Interestingly, however, the talks over China's accession to the World Trade Organization (WTO) were not suspended (Campbell and Weitz, 2006: 332).

Chinese television carried an extensive report on the bombing during its noon newscast on May 8. Television videos and the pictures of the rescue and recovery operation in the destroyed embassy in Belgrade imparted a sense of design and precision, among other because the surrounding buildings remained undamaged (Campbell and Weitz, 2006: 328-9). Demonstrations began after news of the bombing were published and in the early afternoon, thousands of protesters, organized by the Beijing City Student Association and university authorities, surrounded the American embassy with banners decrying American "Nazi murderers" and demanding "blood for blood" (Suettinger, 2003: 370-1). Hundreds of police lined the streets close to the embassy but they did not interfere with the protesters who, as the day wore on, became more threatening and began throwing rocks and breaking embassy windows. However, when protesters began smashing embassy cars late on May 9, the police moved in and blocked off access to the main embassy compound but let people gather in front of the ambassador's residence (Pomfret and Laris, May 9, 1999). As crowds outside the American embassy became more rowdy, there also seemed to be a growing undertone of anger at the Chinese Government's perceived weakness in responding to the bombing; demonstrators gradually shifted from supporting the Chinese Communist Party (CCP) to making demands of it as they wanted China to take a tougher stand (Gries, 2004: 129-31; Suettinger, 2003: 371). Also in provincial capitals across China, tens of thousands of demonstrators took to the streets and marched on NATO, particularly American, consulates. Protests erupted in Changsha, Chengdu, Guangzhou, Hangzhou, Shanghai and other cities. Altogether, the unrest spread to more than 20 cities and involved hundreds of thousands of people (Miles 2000-01). Residences were damaged, but no one was hurt, and Chinese police dispersed the protesters with tear gas. A specific point worth noting is that also Chinese students in America and Europe demonstrated on university campuses and outside American embassies (Gries, 2004: 14 and 129).

The demonstrators clearly believed that the bombing was a deliberate attempt by the American government to humiliate China and loudly expressed this in banners denigrating especially President Clinton. The demonstrations were partly spontaneous and overwhelmingly voluntary. They were not only allowed but also endorsed and encouraged by the government, for instance by the provision of transportation and the issue of demonstration permits, despite – or

maybe because of - its concern that a public protest could be used as cover by anti-government activists (Miles, 2000-01: 51f.; Shen, 2004: 126; Wong & Yongnian, 2000: 332f.; Wu, 2007-08: 62-3). Also, the police tacitly tolerated physical damage to the American embassy and other American facilities in China but only within some limits. The central point is that once under way the demonstrations were marshaled by the Chinese government who wanted the nationalist demonstrations to serve its own political goals. The protesters did not need encouragement to initiate the demonstrations, but the authorities determined early on that they needed 'guidance' (Hillman, 2004: 81; Strategic Survey 1999/2000: 199-200; Wong & Yongnian, 2000: 322-23). However, the authorities' attempt to control and steer the demonstrations were only partially successful during the first stage because the Chinese government evidently did not anticipate the vehemence of the protests and became nervous about its ability to fully control the course of events. No doubt, the protesters expression of sometimes extreme nationalist views and sentiments challenged the leadership's ability to maintain a prudent and pragmatic course of action. It could not afford to be indifferent to the strong nationalist demonstrations, but had to take part in the process of the strongly nationalistic demonstrations in order to manage it (Wong & Yongnian, 2000: 323). It is difficult to assess different aspects of the complicated situation, but the leadership in Beijing seemingly feared that efforts to suppress the demonstrations might provoke a strong public backlash which in turn could destabilize the entire Chinese society and ultimately undermine the regime (Swaine, 2006: 44; Wong and Yongnian, 2000: 336f.).

On the second day of the demonstrations, May 9, the leadership met in the afternoon and decided to take some measures in order to control the situation. At 6:00 pm, Vice President Hu Jintao, in a highly balanced address to the nation on TV, was the first Chinese official to make a public response to the bombing.<sup>2</sup> A few excerpts will show how the Chinese Vice President combined a strong condemnation of the bombing and a basic sympathy with the demonstrators' cause with a call not to overreact, but proceed in accordance with the law, support the government and uphold the policy of reform and openness to the world as well as protecting foreigners in China. Hu declared:

“people across the country have held forums and gatherings, and issued letters or telegrams of protest to voice their support to the solemn statement of the

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<sup>2</sup> According to Nathan and Gilley (2003: 83 and 195) this was the only time Vice President Hu substituted for President Jiang who had invested heavily in the improvement of China's relations with the United States and did not want to denounce Washington publicly. See also Gries 2004: 131-32. A study “Hu Jintao: The Making of a Chinese General Secretary” (Ewing, 2003: 28) mentions that Hu's televised appearance was the first time most Chinese had ever heard him speak.

Chinese Government and to condemn the barbaric acts of the U.S.-led NATO. ... All those activities have reflected their strong indignation at U.S.-led NATO's attack on the Chinese Embassy in Yugoslavia and the keen patriotism of the Chinese people. The Chinese government firmly supports and protects, in accordance with the law, all legal protest activities. We believe that the broad masses will, proceeding from the fundamental interests of the nation and taking the overall situation into account, carry out the activities in good order and in accordance with law. We must prevent overreaction, and ensure social stability by guarding against some people making use of the opportunities to disrupt the normal public order. ... We will uphold the policy of reform and opening to the outside world. We will protect, in accordance with relevant international laws and norms of international relations as well as relevant laws of China, foreign diplomatic organs and personnel, foreign nationals in China and those who have come to China to engage in trade, economic, educational and cultural undertakings, and reflect the civilization and fine traditions of the Chinese nation”.

(Hu JinTao's televised speech, May 9, 1999)

Altogether, the speech was a remarkably judicious mix of extending government support to the protestors' patriotism, and restraint by warning against extreme behavior (Ewing, 2003: 28-9). It demonstrated an awareness of the very delicate situation with the urgent need to handle divergent policy goals in an authoritarian system with state-controlled media. Considering that the policy of reform and opening to the outside world was and has been clearly maintained since, it is a central conclusion that the Chinese government's manifested support for patriotic and nationalist feelings of the Chinese people after the bombing of China's Belgrade embassy did not lead to a nationalist foreign policy (Shen, 2004: 129).

### *The government in charge*

On the third day of large demonstrations, May 10, the protests differed markedly from those that exploded in anger during the first days when students dominated. Now protesters came from all walks of life and had to show proof of having secured permission to demonstrate from the Public Security Bureau. In this stage, the demonstrations were more organized into groups, given a designated route of marching as well as a schedule for completion of their protest and they were provided with bullhorns and a list of government-approved slogans. But although the protests were choreographed by the authorities, the emotions – underscored by placards saying “Clinton is a Nazi” or “Kill Americans” - clearly were genuine. The following day, May 11, the number of protesters dwindled sharply and a day later the demonstrations were over (Pomfret, May 11, 1999; Suettinger, 2003: 372). The media continued to evoke nationalistic sentiments. On May 10, *The People's Daily*, the official

publication of the CCP, had a front-page editorial titled “China will not be bullied”, which stated that if “people think they can use arms to scare Chinese, they have made a big mistake”. On May 11, the Chinese media began to disclose the apologies of high-level members of the Clinton administration which had been stated since May 8, cf. below (Pomfret, May 11, 1999; Wu, 2007-08: 63).

The change in the Chinese media’s presentations was evidently caused by a concern in the Chinese government that the situation might escalate to a point where both domestic stability and a cooperative relationship with the United States would be seriously endangered. On May 11, President Jiang stated that life in China should now return to normal. The Chinese people had expressed their strong indignation and patriotism and now the whole country is determined to “work harder, so as to develop the national economy continuously, enhance national strength, and fight back with concrete deeds against the barbaric act of U.S.-led NATO” (Zhao, 2004: 80-1). In the same way, the government’s back-to-normal line and the fact that it now seemed to be in charge of the Chinese responses was reflected in President Jiang’s speech at the reception held in honor of the staff of the bombed embassy on May 13 where the Chinese President emphasized the role of the government as defender of China’s dignity against foreign abuses, the government’s support for the popular protests, the necessity to restrict them to certain limits and the continuance of the policy of opening to the outside world (Esteban, 2006: 201).

A specific point worth noting is that the Chinese leadership apparently decided to shift references to the CCP to the back seat during the bombing crisis. Usually the CCP is mentioned before country, nation or people. The CCP was clearly not absent from official manifestations, but it seems that the leadership used the opportunity to harness the people’s nationalistic fervour to supporting the government’s policy and the ruling regime (Hillman, 2004: 69 and 82). This meant that the bombing incident had the effect of consolidating the CCP’s hold on the Chinese society and a stronger government control with demands for democracy: when nationalism arises, popular demands for democracy decrease (Wong & Yongnian, 2000: 342-43).

### **American responses**

Important aspects of American responses to the bombing and its aftermath can be reviewed in two parts: first, initial concerns in the Clinton administration and other parts of the American political system as the Congress and the media; second, the administration’s endeavours to convey the results of its investigation of the bombing to Chinese officials when a delegation visited Beijing in mid-June.

### *Initial concerns*

The news of the embassy bombing in Belgrade reached Washington at a time when the Clinton administration was completely consumed by the diplomatic and military efforts of the Kosovo campaign. The leadership in Washington had for some time been heavily Balkan-focused, and for it the bombing and its repercussions in China was a complicating and tiresome issue at a highly unwelcome time. Therefore the most important preoccupation initially at the highest levels of the US government was not to lose momentum and international support for the bombing of Serbia to curb Serb atrocities in Kosovo rather than mending Chinese-American relations (Campbell and Weitz, 2006: 335f.). Thus China experts in the Administration were not involved in the initial White House meetings after the bombing, indicating that Administration policy makers underestimated how intensely China would respond to the bombing, but an interagency working group also including China experts was formed at a later point in the crisis (Campbell and Weitz, 2006: 337; Shirk, 2007: 21-18). However, for different reasons various parts of the Administration were reluctant to share much information about the bombing in the high-level crisis management meetings. In the wholly unexpected and confusing situation all worked under extreme stress, bent on protecting their own organizational turf. The military brass and the intelligence services wanted to protect operational secrets and avoid all embarrassing exposures of defective working methods and procedures while the President as the supreme commander was occupied by the Kosovo campaign and didn't care enough to order the uniformed military to provide the necessary information (Campbell and Weitz, 2006: 336).

A number of official apologies from high-level members of the Administrations came through the first days after the bombing. The first came from the Ambassador in Beijing, James Sasser, who contacted the Chinese Foreign Ministry on the morning of May 8 to apologize for the "terrible mistake" and offer condolences. However, as the day wore on with no word from Washington (where it was the middle of the night) Chinese anger began to grow over Washington's indifference, and so an initial chance for the United States to downgrade the crisis was missed (Suettinger, 2003: 370; Wu, 2006: 358). The second apology came the same evening when Defense Secretary Cohen and CIA Director Tenet issued a joint statement in which they deeply regretted the loss of life and injuries from the erroneous bombing. Faulty information led to the mistaken targeting, but they added that there was no such thing as risk free military operations. Secretary Cohen ended the press release by stating that NATO was determined to continue to strike military and related targets until Milosevic stopped the killing in Kosovo (Cohen and Tenet, May 8, 1999). President Clinton sent a letter to President Jiang Zemin on May 9, expressing "apologies and sincere condolences for the pain and casualties brought about by the bombing". Talking about Kosovo to reporters, he emphasized that it was

important to draw a distinction: while the embassy bombing was an “isolated tragic event”, the ethnic cleansing of Kosovo was a “deliberate and systematic crime”. The following day he offered a personal, public apology to China: “I apologize, I regret this” the president said at the opening of a conference in Washington. (“Clinton apologizes ... CNN.com., May 10, 1999; Campbell and Weitz, 2006: 338). Secretary Albright expressed “profound sorrow at the loss of life and injuries. ... The people of China should know that NATO leaders, including President Clinton, have apologized for this tragic error”, and she added that NATO would provide China with a full explanation of how this could have occurred (Pomfret, May 11, 1999). The Secretary also carried a letter of apology to the Chinese embassy in Washington which emphasized the contrast between the accidental fall of bombs on China’s embassy in Belgrade and Milosevic’s crimes in Kosovo. Besides, the American embassy and consulates in China, as well as other Western countries in China, lowered their flags to half-mast for condolences (Wu, 2006: 352).

On May 14, President Clinton telephoned President Jiang, apologizing again for the bombing and telling Jiang that the US would conduct a thorough investigation into the incident and report the findings to the Chinese side. President Jiang had for some days refused to accept a phone call from President Clinton about the bombing, and the Clinton-Jiang talk after six days marked a mitigation of the tension between the two countries (Wu, 2007-8: 65).

It was evident that the Chinese government considered the American apologies and explanations wholly inadequate and insensitive – quite apart from the demonstrators’ views. For mainstream American media, however, the Chinese responses to what everybody agreed was an accident came as a shock, and the huge public demonstrations were quickly portrayed as expressing the Chinese government’s manipulations. It was highly difficult to accept that people in China were genuinely angry with America, and so the predominant interpretation in American media and in Congress was that the outbursts of nationalism in Beijing were simply a result of a dictatorship’s propaganda and manipulation of public feelings in order to force US concessions on other issues, especially as to China’s membership of WTO which was the ongoing issue in the spring 1999. Many in the Congress with its Republican majority – who for years had criticized the Clinton administration for being soft and weak - were infuriated by the Chinese reaction to the bombing and particularly the riots outside the American embassy, and they blamed it on both the manipulations by the Chinese government and the weak American president. Actually, members of the administration had to reassure Congress that the administration would not yield to Chinese pressure (Campbell and Weitz, 2006: 340; Gries, 2004: 18-21).

### *US Delegation in Beijing*

The Clinton-administration ordered an investigation of all aspects of the decision-making process leading to the bombing. The investigation was layered with secrecy and many details and conclusions as to the faulty targeting remain classified (Campbell and Weitz, 2006: 339-40). In mid-June, after the Chinese had delayed the trip for three weeks, explaining that “public opinion” was still too inflamed, a report on the results of the investigation was presented to the Chinese government by a delegation led by President Clinton’s Personal Envoy and Under Secretary of State, Thomas Pickering. The delegation included representatives from the White House, the intelligence community, the Department of State, and the civilian Office of the Secretary of Defense. Appointing the members of the delegation became a part of the bureaucratic politics of the whole bombing-affair in the American capital as the Defense Department declined to have a uniformed military officer in the delegation and provided only grudging cooperation and was very much opposed to sending a delegation (Suettinger, 2003: 374-5).

The main conclusion of the report was that multiple factors and errors in several parts of the US government were responsible for the bombing. The errors included a CIA employee using a flawed technique to locate the Yugoslav military agency the US intended to strike, the military checking and double-checking the target with outdated databases and not as independent of one another as they were supposed to be. The result was that a building assumed to house the Serbian Federal Directorate for Supply and Procurement actually housed China’s embassy (Cambell and Weitz, 2006: 327 and 339-40; Shirk, 2007: 218). The Chinese side pointed out that the explanations were anything but convincing and by no means acceptable to the Chinese government and people. It demanded that the US should make prompt, adequate and effective compensations for the Chinese loss of lives, injuries and loss of property. The day after Under Secretary Pickering’s presentation to Chinese officials *Renmin Ribao* (*People’s Daily*) published a lengthy refutation of the presentation. In connection with this it is interesting to note that the visit by the US delegation was not covered by the leading Chinese press until the Americans had departed from China. The Chinese government had instructed the concerned ministries to keep information on the visit confidential to prevent further complications from a public dissatisfied with the results of the investigation (Wu, 2006: 367-8).

### **Conclusions**

China and the United States never came to an agreement on what actually happened in the American decision-making system and military bureaucracy before the two Air Force B-2 bombers launched their cruise missiles over Belgrade late on May 7, 1999. Most Chinese probably still believe that the

United States deliberately attacked their embassy. They can only guess about the reasons, but they are sure that these were nefarious. Some Western reporters share these suspicions (Gries, 2004: 171-72; Suettinger, 2003: 376). It is not the purpose of this paper to unravel the mystery and unanswered questions persist.<sup>3</sup> The purpose has been to elucidate and explain Chinese and American responses after the bombing and the other country's first responses. The results of the study can be summarized in six points, the first focusing on the interplay between critical features of the two political systems and their ideational predispositions while the last five focus on important characteristics of Chinese and American responses:

1. The initial neglect of China's government-controlled media to report the Clinton administration's apologies strengthened a traditional American inclination to interpret all social movements in non-democratic societies which strongly criticize the United States as manipulated by the government.
2. The demonstrations in China involved a complex interplay of bottom-up 'social movement' and top-down 'statism' characteristics. However, there was an evident change from the first- to the second-mentioned during the crisis.
3. The Chinese leadership did not anticipate the scale and intensity of the public demonstrations and became concerned that they might get out of control – just as the administration in Washington and the American embassy personnel in Beijing.
4. As the bombing triggered a strong outburst of Chinese nationalism, it consolidated CCP's hold on the Chinese society and weakened popular demands for individual and democratic rights (Wong and Yongnian, 2000. 342-43).
5. The Clinton administration's preoccupation with the campaign against Yugoslavia and the impact on its ability to understand and respond to the bombing crisis demonstrates that a superpower has a limited span of attention in crisis situations.
6. American media and politicians did not realize the important bottom-up characteristics of Chinese demonstrations during the first days and only

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<sup>3</sup> To the author of this paper, the official American explanation as presented to Chinese officials at June 17, 1999, cf. above, at some points seems implausible. However, all other explanations – including a conspiracy by “rogue elements” in the Central Intelligence Agency (CIA) or the Defence Department – are fare more implausible. Such activities would be rather impossible to carry out or cover up in an open American political system full of leaks and independent actors with their own agenda, cf. particularly Suettinger, 2003: 376. Indeed, simple bureaucratic confusion or human muddle sometimes account for terrible mistakes and tragedies in military operations despite all kinds of magnificent pinpoint technology, cf. Campbell and Weitz, 2006: 338-39.



perceived a top-down, party propaganda spin of the protests as simply 'stirred up' by the Chinese leadership.

One consequence of these findings is that Western countries, hoping for and demanding greater respect for democratic values and norms in China, could be disappointed when realizing that a Chinese government, facing the citizens' growing ability to organise and express themselves, may become more unable to contain damaging outbursts of public anger against Western policies and interests in China. The issue of popular movements is very sensitive in Chinese politics and Western observers should understand that this issue is never simply a matter of calling for China to become 'like us'. Even if it is realized that Chinese nationalism is also shaped by the interplay with other countries' policies, there is no guarantee that a policy of engagement with China will necessarily make China more responsive to Western values, norms or policies.

In the first years of the 21<sup>st</sup> century both the American superpower and the rising China face serious challenges which may make some of these knots more difficult to face. The heavy problems of the American-led invasion in Iraq have certainly diminished a disposition that the United States will use its military power in other conflict areas for defending and promoting what it considers its vital interests. Also, some of the measures used in the war against terrorism (torture, Guantánamo, secret CIA-prisons) have diminished the standing and influence of the United States. However, American military power and political influence in world politics is still second to none, and an American imperial overstretch may be followed by American retractions which allies and friends may view as dangerous to some regional stability. As to China, it is confronted with a cocktail of domestic problems (corruption, weak institutions, increasing gap between rich and poor people, and serious environmental problems) that may diminish the ability of China to wield greater influence in foreign policy. Moreover, Chinese authorities' secretiveness as to sensitive issues like prison camps, political dissidents or police abuse may continue to harm China's reputation. Also China's behaviour in relation to Tibet, not least the censorship on news from Tibet, may severely damage China's international standing and have repercussions which are difficult to control for the Chinese leadership. Yet, the rise of China is still one of the seminal developments in the early 21<sup>st</sup> century.

The findings in this paper should be supplemented by a study of the crisis in April 2001 when there was a midair collision between a Chinese fighter jet and a US Navy surveillance plane over the South China Sea. The Chinese pilot was killed in the collision, China held the twenty-four American crew members on Hainan Island for eleven days and the incident triggered another crisis between China and the United States.

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# Assessing China's Transition to Capitalism in a Comparative Perspective, or How Beijing Came to Adhere to the "Washington Consensus"

Wolfgang Zank

## Abstract

In this paper I try to assess China's reforms after 1978 and to categorize the results. After giving a short overview of the main reform steps, I introduce a model by János Kornai in which he identified the major system-specific attributes of a socialist and a capitalist system. Measured along these criteria, China has done a full-fledged transition to capitalism. I see this as a vindication of the proposition that a mixture of the systems, a state in between capitalism and socialism is not stable. If not politically driven back to socialism, the system will develop to full capitalism. Capitalism is, however, a very broad category; also e.g. the Nordic welfare states are capitalist in this definition. We should therefore restrict the use of the term "neo-liberal" to policies *within* capitalism and distinguish it sharply from policies of transition *towards* capitalism because these policies can as well lead to social democratic welfare states as to models with a low ambition as to redistribution and social security.

Thereafter I discuss the 10 policy recommendations, which John Williamson presented under the heading of "Washington Consensus" which in his view has united the economists and policy makers at the World Bank and the International Monetary Fund. Williamson's points have often been grossly misinterpreted. Nothing in them implies, for instance, a destruction of welfare-state arrangements. Instead, they can be seen as containing a set of policies away from mixed systems, in the above-mentioned definition, to capitalism, without specifying to which type of capitalism. A closer look at the Chinese reform process under the perspective of Williamson's list shows an almost complete adherence of China's leaders to the Washington Consensus. Only the recommendation of directing more public spending to primary health care has not (yet?) been followed.

China has become a very open economy with import and export shares above 30 percent. If measured along this yardstick, China is the most open economy among the five biggest countries in the world, much more open than e.g. the United States. This openness has made China very dependent of the outer world, and very much interested in stability and cooperation. The Chinese transition has therefore not only produced strong growth and the fastest process of poverty reduction ever seen so far, it has also made peace more secure.

### **Introduction: The main questions addressed in this paper**

China's astounding record of economic growth and poverty alleviation after 1978 has provoked a vast academic debate all-over the world. Numerous questions have been discussed. In this paper I want to concentrate on a restricted set of problems.

After giving a short overview over the reform process since 1978, I want to explore what the main characteristics of the new society are? Has it been a transition to a capitalist system, or is it a kind of reformed socialism, or is it a "Third Way" to something beyond the capitalism- socialism dichotomy? Assessing whether China is a capitalist, a socialist or a "Third-Way" country depends, of course, on the criteria by which you measure this. In my opinion, János Kornai has developed a very useful typology which I will apply to the Chinese case. In this perspective China has made a full transition to a capitalist system.

The Chinese experiences vindicate the theorem that a state "in between" capitalism and socialism will not be stable. Given the functional interdependence between the various elements of the systems, a hybrid state which mixes elements of the two systems cannot produce growth over a longer period. Normally, systems "in between" tend to move towards capitalism. China has done so rather consistently.

In the second part I analyze Chinese reform policies, using John Williamson's ten points of the "Washington Consensus". China has implemented them almost completely. Williamson's list has often been misunderstood as containing an attack of welfare-state arrangements or social policy. Instead, it should be seen as a set of recommendations which bring a country out of a state in between socialism and capitalism. They do not indicate a specific type of capitalism and are completely compatible with e.g. Nordic welfare states. Much confusion can be avoided by distinguishing between transition policies *towards* a capitalist system and policy controversies *within* capitalist systems, and applying terms such as "neoliberal" only to the latter.

After 1978 China has experienced rapid growth and the fastest progress at poverty reduction ever seen. But substantial problems such as rising inequality and ecological damages remain to be solved. An aspect perhaps sometimes overlooked: By becoming a very open economy, China has also become deeply dependent on the outer world, with a strong interest in stability and cooperation. China's transition has therefore also made world peace more secure

### **China's Transition: A short overview**

In the late 1970s, China laid largely waste after the convulsions of the Cultural Revolution, in an economic and a mental sense. Maoist ideology was profoundly discredited, and economic processes were in disarray, at low stagnant or even falling levels of standards of living or technical sophistication. At the same time, the neighboring countries of South Korea, Taiwan, Hong Kong or Singapore could register double-digit growth rates, “exposing China as a stunning economic disaster” (Åslund 1989, 189). The necessity of reform was perhaps all too obvious, but so was also the point where to start: About three quarters of the workforce were engaged in agriculture which in turn was mainly organized in large people's communes, characterized by inefficiency and a de-motivated work force. Food availability was declining, the problem made itself felt in the relatively privileged cities, “something had to be done to raise farm output” (Ravallion 2008, 13). There were widespread demands to parcel out land, and accepting them and dissolving the people's communes, the government could buttress its legitimacy and boost agricultural productivity.

The communes became replaced by a ‘Household Responsibility System’, under which the land was formally leased to the peasants, in the beginning for 15 years. They had to sell a quota of produce at fixed prices to state agencies, but could freely dispose of the production above the quota and sell it on private markets (dual track system). Under this system the peasants were “without formally private ownership of land, but practically close to such ownership” (Brus 1993, 7). We will return to this problem. Private ownership was sufficiently established to create completely new incentive structures. The peasants benefitted directly from higher production, and this implied a substantial boost to productivity. From this largely de-facto private family agriculture the government could continue reform by extending it by allowing private handicraft, small-scale rural industry and trading. A huge system of “simple commodity production” (to put it in Marxist terms) could be installed within a short span of time. Wage labor employed by private enterprises played a minor role in the beginning. But it spread soon.

The early reforms profoundly transformed work and life of hundreds of millions of people within a few years. The dissolution of the people's communes essentially took place 1979-19981, and in 1983 they were formally abolished. “When the communes were dismantled, nearly three-fourth of the Chinese workers found themselves outside the socialized economy and subject to hard budget constraints with little social protection” (Sachs and Woo 1994, 104). As Stanley Fischer once commented, “the Chinese agricultural reforms were truly shock therapy” (Fischer 1994, 134). When the government allowed local governments to establish rural industries outside central planning, a non-state sector outside agriculture could develop, in the beginning mainly in small towns.

So-called TVE, town and village enterprises, existed before, but under the new conditions they could expand substantially. Increasingly non-state firms spread also to the bigger towns. Many of these new companies were individually owned, others were driven collectively, while still others had the state as co-owner. Consequently, many of them were not strictly private. But they behaved predominantly like private business, under hard budget constraints. This development can be seen as a huge process of “privatization from below” (Brus 1993, 7).

The new companies had good growth conditions in so far as there was a huge pool of “surplus labor” in the countryside, i.e. people who perhaps were engaged somehow in agricultural production, but whose participation was not strictly necessary (“hidden unemployment”), living at subsistence level. Prior to the reforms, restrictions on migration and bans on starting non-agricultural production condemned that to staying in poverty. When these restrictions became loosened, hundreds of millions of people could move and work in the new companies, at wage levels which were low by Western standards, but much higher when compared with the living conditions in the country side (Sachs and Woo 1994, 106). The existence of this huge reserve of labor force was a necessary, though in itself not sufficient condition for China’s impressive growth rates. In the countries of the Soviet orbit, heavily industrialized and urbanized as they were, this condition was not in place. In e.g. Russia the share of the agrarian population was only 14 percent in 1985.

The industrial state sector remained “intact” for many years. But in contrast to the Soviet Union and Central and Eastern Europe, it was never very important in quantitative terms. By 1978 only about 15 percent of the work force was engaged in industry, and only half of them in state-owned enterprises. And whereas Soviet planners tried to command the production of 25 million commodities, only 1,200 entered Chinese central planning (Sachs and Woo 1994, 105 and 110).

In 1984 the Chinese government extended the dual-track system from agriculture to the industrial sector: State-owned companies could sell the production above a quota of obligatory delivery on private markets. But whereas the dual-track system in agriculture meant a significant improvement, it did not do so in industry. In 1992 it became abolished.

Most state-owned industrial companies have been a severe burden to the Chinese economy over the whole period. According to Gao Shogquan, the then Deputy Director of the State System Reform Committee of the central government, in the early 1990s one-third of the state-owned enterprises (SOEs) were losing money in an overt fashion and one thirds covered them by opaque

accounting (Sachs and Woo 1994, 118n15). Ten years later the situation had not improved (*Economist* 2000, 94). And given the point that about 80 percent of the bank loans were given to state-owned companies, their non-profitability implied a great burden on the banking system (*Economist* 2001, 75). Still today, non-performing loans to state-owned enterprises are a heavy problem (see below). At any rate, it was decidedly not the state-owned sector which made China's economy expand rapidly, it was the non-state sector whose space the government stepwise enlarged.

Until today the heavy losses of the state-owned companies, to be covered by direct government support, by price subsidies or by non-performing loans by state-owned banks, implied a heavy drain on public finances, of approximately as high 8 per cent of GDP by the early 1990s. But the Chinese government has been able to keep overall deficits under control and, crucially, inflation at rather low levels. Chinese saving rates have been high and in the form of bank deposits because savers kept trust in the banking system and earned positive interest rates almost without interruption (Sachs and Woo 1994, 127-9). Also foreign indebtedness has been moderate. This basically prudent fiscal and monetary policy constituted a major difference to the Soviet Union, where deficits and foreign debts ballooned, and where inflation could reach levels of 2,800 percent (Russia) or even 10,000 percent (Ukraine).

The reforms meant also a substantial decentralization of economic power and responsibility. The budgets of provincial and local administrations became very much dependent upon the profitability of their companies (Brus 1993, 8). Decentralization made them interested in abolishing many restrictions and regulations, so that they, for instance, could attract new capital, not the least foreign. But they did not necessarily become advocates of fair competition – which could endanger their companies.

The internal reforms were accompanied by a stepwise but increasingly bolder opening to the outer world. Initially only in a special economic zones (SEZs), but then gradually extended, international trade and investment became liberalized. Foreign investors brought capital and technology to these free-trade zones and at low wages employed Chinese workers, who moved there from the country side. Within a few years an export boom began, initially based on labor-intensive products such as garments, textiles, footwear, toys or electronics, designed and pre-fabricated elsewhere but assembled there. From 1980 to 2000 exports of manufactured products jumped from a few billion dollars up to more than 200 billion dollars (Sachs 2005, 161). Today Chinese exports have become varied and much more sophisticated.



The opening of the economy meant that Chinese companies could buy cheaper inputs and they gained access to much wider and more profitable markets. And least not least, opening the economy meant also reducing monopolistic structures because it implied more competition. In 2001 China became member of the World Trade Organization (WTO) and has since then liberalized foreign trade in a consistent manner, e.g. by reducing tariffs, abolishing import quotas and simplifying licensing procedures. Also the financial sector became partially opened for foreign investment (Bertelsmann 2008, 12).

A necessary complement to the opening for trade and foreign direct investment was the reformation of currency policy. Prior to 1978 foreign exchange was part of central planning and steered by the state. In 1981 a dual exchange rate was introduced, a general one and another one for specific transactions, both rates being set by the authorities. Four years later the system changed anew, besides one official exchange rate the authorities introduced a second one, to be determined by the supply and demand for foreign currency from importing and exporting companies. In the beginning of the 1990s about 80 percent of all foreign-currency transactions were done at this market-determined rate.

In 1994 China introduced a unified exchange rate, in principle to be established by market forces, but subject to interventions by the People's Bank of China ("managed floating"). De-facto, however, the Chinese authorities pegged the renminbi to the US-dollar. The massive Chinese export-surpluses in relation to the USA created a systematic upwards pressure on the renminbi, which the central bank neutralized by large-scale buying of dollars (Herr 2008, 27f). In 2005 the authorities pegged the renminbi to a basket of currencies and revalued it by 2.1 percent to the dollar. This upward trend continued, by 7 percent in 2007 and by 4.5 percent in the first three month of 2008 (Hadas 2008).

Some restrictions to international transactions are still in place, for instance when it comes to portfolio investments. Foreign investors are allowed only to hold minority stakes in Chinese banks. Nevertheless, all in all today China belongs to the countries which are most integrated into the world economy. Imports and exports are each at levels of over 30 percent of GNI (see below table 3), record-high for a large country. This has created huge benefits, but also mutual dependencies. China and the ASEAN countries seem strongly committed to establish a free-trade zone by 2010, and also with the old rival India negotiations with such an aim are planned (Bertelsmann 2008, 22).

All in all, the Chinese economic development has been impressive indeed. According to the official figures, from 1978 to 2005 real GNI rose by 9.6 percent on average per year, or 8.5 percent per capita (Herr 2008, 27). These figures might overstate the progress somewhat, due, for instance, to heavy

ecological degradation. According to estimates by the World Bank, just the health costs of air and water pollution amount to 4.3 percent GDP (World Bank 2008 a, 4). Furthermore, new and higher estimates of the Chinese price level led to a substantial recalculation of China's GDP in Purchase-Power Parities, making the Chinese economy shrink by 40 percent. For the same reason, the World Bank also revised upwards its calculations of the extent of poverty, measured along a one-dollar standard.<sup>1</sup> The estimates, old and new methodology, are as follows:

**Table 1: Estimates of poverty rates in China based on different poverty lines**

	<b>1981</b>	<b>1990</b>	<b>2004</b>	<b>2007</b>
Poverty line based on costs of basic needs	64 %	33%	10%	7%
Poverty line of \$ 1, using new PPPs	71-77%		13-17%	

*Source: World Bank 2008 b, 22.*

However, as the World Bank explains, “the choice of the PPP conversion factor does not change the conclusion that China has had the largest and fastest poverty reduction in history” (World Bank 2008 b, 22).

We should perhaps conclude this section by pointing at the fact that the Chinese reform process has been steered internally. No foreign government could dictate anything to China. And never in this period, due to its prudent fiscal and monetary policy, did the country become dependent on foreign creditors; the International Monetary Fund (IMF) had no opportunity to design a Structural Adjustment Program.

And as all sources agree upon, the Chinese reformers from Deng Xiaoping onwards, did not have a master plan for reform. Maoism was profoundly discredited, Deng and many other reformers were actually personal victims of the so-called Cultural Revolution, but there was no positive theory at hand to replace the old one. Chinese leaders looked for pragmatic solutions, experimenting on smaller scales before formulating general policies. Their often-quoted mottoes were “keeping in touch with the stones when wading through the ford”, or “the color of the cat is not important as long as it catches mice”, and the like.

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<sup>1</sup> The World Bank endeavored to estimate for most countries what was needed in order to provide 2100 calories and other basic necessities for a person day. In the case of the China this was almost exactly one US-dollar at purchase-power parities, the standard measure used by the World Bank in international comparisons. However, the Chinese price level was presumably calculated too low. This means, the purchase power has to be recalculated, the effect of which is that it is harder for Chinese to have the equivalent of one dollar a day (World Bank 2008 a, 1f).

Nevertheless, taking review of the thirty years after 1978, the process seems to have been of a remarkable sense of direction. I adhere to the hypothesis that exactly a pragmatic, non-ideological policy, which adapts to functional necessities, produces such an outcome. By “functional necessities” I mean measures which have to be taken, if a leadership is serious about economic growth. Certainly, a leadership may decide *not* to take them, for instance, if it assigns a higher importance to ideological concepts or tactical considerations. But the Chinese leadership was ready to drop ideological constraints and was serious about economic growth. We will return to this point.

### **Capitalist and Socialist Systems: Kornai’s model**

The first problem we wanted to address is the question whether China’s system is still socialist, whether it has become capitalist or whether it is on some sort of “Third Way”. Such a question presupposes that we have criteria to assess the quality of a system. In this context I have found a model proposed by János Kornai to be very useful. The Hungarian Kornai, Budapest University and later also Harvard, has presumably been the scholar who has shaped the thinking among economists most when it comes to understanding the working mechanisms of socialist systems.

In his view, “[t]wo systems can be said to have dominated the 20<sup>th</sup> century: the capitalist and the socialist system” (Kornai 2000, 27). As he points out, “system” is used here as a “comprehensive and aggregate concept”, and there have been “specific historical manifestations of various kinds” (Kornai 2000, 28). However, the conceptual frame of thinking in terms of two overall-systems is admissible if the following three statements can be substantiated:

1. The varieties of capitalism share some common characteristics so that they can be interpreted as variations of one system. Likewise the varieties of socialism have shared common attributes. These common characteristics Kornai called “system-specific attributes”.
2. These system-specific attributes have been sufficiently important to influence the social realities in the countries in question deeply.
3. They provide also the essential criteria for distinguishing the two systems.

The basic system-specific attributes are summarized in table 2:

**Table 2: The System-Specific Attributes of the Capitalist and Socialist Systems.**

<u>SOCIALIST SYSTEM:</u>	<u>CAPITALIST SYSTEM</u>
Undivided power of the Marxist-Leninist party	Political power friendly to private property and the market
Dominant position of state and quasi-state ownership	Dominant position of private property
Preponderance of bureaucratic coordination	Preponderance of market coordination
Soft budget constraint; weak responsiveness to prices; plan bargaining; quantity drive	Hard budget constraint; strong responsiveness to prices
Chronic shortage economy; sellers' market; labor shortage; unemployment on the job	No chronic shortage; buyers' market; chronic unemployment; fluctuations in the business cycle

*Source: Kornai, 2000, p. 29.*

In Kornai's view, the first three rows contain the fundamental features of each system; rows 4 and 5 are consequences, once the first three points are in place.

The first and foremost distinguishing feature is in the political sphere: In the Socialist system the Marxist-Leninist party holds power without constitutional restraints, whereas capitalist countries are steered by governments which are friendly to private property, free enterprise and freedom of contract. Historically, capitalism has been compatible with both democracy and authoritarian or even totalitarian rule. The essential point is that the authorities refrain from mass confiscation or undermine private property in other ways.

Row number two highlights the relative extent of private property and of state ownership. In a capitalist system private property is dominant. We might specify Kornai's wording and underline: Ownership of the means of production. It was not the abolishment of ownership as such which has characterized socialist designs and socialist ideology, but specifically the ownership of the means of production. It is also exactly ownership in this sphere which triggers a lot of consequences. The type of ownership does not have to be in place to hundred percent. There were socialist countries where private property could have a substantial role in some segments, for instance in Polish agriculture. But the dominant type was also in Poland state ownership.

The third row refers to the way in which economic activities become coordinated, through market processes or by bureaucratic coordination. "Bureaucratic" is to be understood in the sense of Max Weber, a bureaucracy being a specialized institution with the task of steering social processes. Again market or bureaucratic coordination does not have to have an absolute position.

Also in socialist countries markets could exist in some spheres. The essential point is whether bureaucratic steering is preponderant, or whether market processes are.

The features pointed out in row number four and five “refer to regularities and lasting economic phenomena that are system-specific” (Kornai 2000, 30). Of utmost importance for the economic behavior has been the type of budget constraint. Under capitalism, budget constraints are “hard”. As a rule, companies have to balance expenses and receipts, otherwise they go bankrupt. It has happened that the state has subsidized companies and thereby made their budget constraints comparatively soft, but these have been exceptions to the over-all picture. However, in socialist systems the state-owned companies have worked systematically under soft budget constraints. Monetary flows have been of minor importance, instead companies have been directed at maximize production in physical terms (“quantity drive”). This has meant that production became extended to a point where it hit a physical constraint, for instance where it was not possible to procure more raw material, or energy, or man power. Given the low importance of monetary aggregates, companies could continue working in the same way for a long time; they did not have to respond to changing prices in their environment. Most prices were arbitrary, which implied that there was no proper instrument to calculate the profitability of investment decisions which instead came about by plan bargaining of ruling elites behind the scenes.

Because every unit was permanently short of something; shortage became a pervasive characteristic of the system. This implied also that those who had something to offer outside the official distribution system where in a strong position, for those it was a sellers’ market. Under these constellations companies had also a strong incentive to employ as many people as possible. Whereas in a capitalist system, as a rule, the marginal productivity of a worker must be higher than the wage, in a socialist system every worker was welcome if his marginal productivity was higher than zero. Besides, the pervasiveness of shortage created an incentive to hoard all sort of things, man power as well as inputs. This way hoarding exacerbated shortage. This had the, at least at first glance, positive consequence that open unemployment became eradicated. Instead there was massive hidden unemployment “on the job”.<sup>2</sup>

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<sup>2</sup> A very instructive case in this sense has been East Germany after 1945. Initially all experts feared massive unemployment because industrial capacities were reduced because of war damages, whereas the population was much bigger, due to the massive influx of refugees and expellees from the former German territories east of Oder and Neisse and from the Sudeten. However, after a few years there was no open unemployment any more (Zank 1987).

In a capitalist system the actors have to behave systematically different. Because the companies produce under hard budget constraints, they have to exhibit a high responsiveness to price signals, be it on the input side or in the markets for their products. The constraint on production is demand, which implies that the buyers are in a strong position. Unemployment is a permanent feature of the system, and shifting and fluctuating demand creates business cycles.

Kornai's system-specific features are comparatively few, but as he has convincingly shown in his books *The Economics of Shortage* and *the Socialist System*, they can indeed explain a multitude of phenomena, which could be observed in the socialist system, in spite of the diversities which socialist countries exhibited otherwise. In my view, it does indeed make sense to divide the economic history of the 20<sup>th</sup> century into these two systems.

Before we are going to discuss China more concretely, a few words on the capitalist system may be appropriate: Also capitalist countries have exhibited many differences, suffice perhaps to mention the United States and the Scandinavian countries. But they all have had governments which have been friendly towards private property, the ownership of the means of production has been pre-dominantly private, and the coordination of economic processes has happened mainly through markets. Production has been restricted by demand constraints, there have been business cycles, and there has always been open unemployment. We may add more features which they have in common by now, for instance independent central banks or rather open trade regime on the field of manufactured products.

However, also the important differences merit attention. The major ones, in my view, lie in the welfare-state arrangements, their quantitative extension and their types of institutionalization. In Denmark or Sweden, the public sector redistributes more than 50 percent of the GDP, inequality, as e.g. measured by the Gini-coefficient, has been rather low, around 0.25<sup>3</sup>; the national health care systems or the universities provides their services for free for all residents, and all retired people receive at least a basic people's pension, irrespective of whether they previously paid any pension contributions. By contrast, in the US welfare-state arrangements have been rather restricted, inequality is rather high.

As these cases demonstrate, countries with a capitalist system of production can have distributional outcomes which exhibit stark differences. We might see this as a vindication of John Stuart Mill who emphasized that there is a systematic difference between the principles which govern production and those which steer distribution. In his view, the "laws and conditions of the Production of

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<sup>3</sup> More precisely, in Denmark in 1997 0.247 and in Sweden in 2000 0.250 (Human Development Report 2007/08, 281).

wealth partake of the character of physical truths ... The opinions or wishes, which may exist on these different matters, do not control the things themselves” (Mill 1987[1848], 199). However, this “is not so with the Distribution of wealth. That is a matter of human institution only. The things once there, mankind, individually or collectively, can do with them as they like ... The distribution of wealth ... depends on the laws and customs of society” (Mill 1987[1848], 200).

There are certainly some limits to the possibility of redistribution in a capitalist system. But the space confined by these limits is evidently quite large. And while there has been a trend towards increased inequality in the US, in e.g. Denmark the Gini-coefficient has remained low. There is thus no unavoidable trend towards more inequality in capitalist systems. And rhetoric notwithstanding, the general trend in OECD countries during the last decades has been towards higher levels of public spending, not less. And as again Denmark and Sweden show, ambitious welfare schemes are perfectly compatible with being an open capitalist economy. All Nordic countries have produced state budget surpluses for many years by now (2008). In economically developed countries, having an elaborate welfare state or not is essentially a question of political will.

Within capitalist systems, we might as ideal types distinguish political forces which work for ambitious welfare state schemes, and those who work for lower taxes and a smaller role for the public sector. We might call the first policies “social democratic” and the second one “neo-liberal”. I put “social democratic” in inverted commas because this refers to orientations which can be found at more parties than just the Social democrats.

However, we should sharply distinguish between policies *inside capitalist countries* and policies whose aim is the *transition from a socialist to a capitalist* system. This essential distinction gets lost when the term “neo-liberal”, as it often happened, becomes attached to transition policies too. But transition might as well lead to a social democratic version of capitalism. Supposed the leadership in a transition country aims at establishing a Nordic type of welfare state capitalism. One of the things to do is the opening of the borders for trade and capital flows because open borders are essential elements of the Nordic models. Would it make sense to call this “neo-liberal”? Then the distinction between social-democratic and liberal policies would evaporate. I therefore recommend applying the term “neo-liberal” only to policies inside a capitalist system, but not to transition policies.

### Is a “Third Way” Feasible?

It has been discussed for a long time whether a system which composes elements from both system could be feasible, a system which perhaps combines positive aspects from both systems. Kornai (and many others) were of the opinion that this is not feasible, “mixed cases tend to return eventually to the path of capitalist development” (Kornai 2000, 34). To avoid confusion, “mixed cases” are systems which combine the system-specific features in the terminology here applied. When many Western economists use the term “mixed economy”, with a private sector and a strong state and welfare state arrangements, this is again just a variation of capitalism according to Kornai’s definitions. Transition countries which move away from a socialist system are by definition countries with mixed systems, but only temporarily so because mixed systems, in Kornai’s and others’ view, are non-performing hybrids.

The underlying idea of this view is the claim that the major elements of each system are mutually interdependent and have to form a consistent package if the system is supposed to be stable. More specifically as to the socialist system, Kornai spoke of the “affinity of the elements of the socialist system” (Kornai 1992, 366):

To apply a chemical analogy, the phenomena [*of socialist systems, WZ*] exhibit affinity, they attract and require each other. The monolithic structure of power, petrified ideological doctrines, almost total domination of state-ownership, direct bureaucratic control, forced growth, shortage, and distrustful withdrawal from most of the world (to mention just the main groups of phenomena) all belong to each other and strengthen each other.

To expand a bit on this line of reasoning: Supposed a government takes the road of massive confiscations of the wealthier strata, in order to get means for industrialization and/or to gain legitimacy through land reforms and other redistribution schemes. Then it destroys the incentives for private investment because the trust that the future fruits of investments will accrue to the investors is gone. This implies that the state has to replace private investment in general, and therefore it needs even more means. Historically it meant in the Soviet Union and China, among other things, the collectivization of agriculture, in order to give to the state the direct command of the agricultural produce. The borders must be strictly guarded in order to prevent capital flight. Also foreign trade must be closely regulated because it could otherwise be used for transferring wealth. Under those conditions markets become either destroyed completely, or they cannot function efficiently because price signals become hopelessly distorted. Planning and bureaucratic coordination must become increasingly comprehensive. Seen in this perspective, in the Soviet Union the move away from the *Novaya Ekonomicheskaya Politytika (NEP)*, a case of



mixed system, to a Stalinist command economy was logical. A continuation of the NEP would have undermined the Bolshevik regime, economically because the government lost increasingly control over economic processes, and politically because growing markets brought with them the rise of a new rural and urban bourgeoisie. After 1949 Mao did his best to implant a Stalinist system in China – with even greater losses of life than under Stalin.

The Stalinist system was stable for decades, albeit not as productive as capitalism. From the 1960s onwards various reform strategies became initiated in the countries of the Soviet orbit, beginning in the GDR in 1963. Hungary embarked on a rather steady reform course after 1968 (Kornai becoming closely involved). The Jaruzelski regime in Poland experimented with them in the 1980s, and finally Gorbachov tried the same. The basic idea was in all cases to keep party rule and state property intact, but combining it with market elements, for instance by giving more independence to the leaderships of the companies, allowing them some buying and selling outside the rigid state distribution system. All these various reform efforts had one common result, they were not functioning. More independence to the company directors weakened planning, but it did not bring the companies under the discipline of the market forces. Budget constraints remained soft, the companies did not become more efficient. More independence for the directors was often detrimental because it allowed them to transfer resources for “spontaneous privatization”, or to put it simply, theft. In an influential article Kornai summarized the failure of the Hungarian immanent reforms and ended by advocating a transition proper (Kornai 1986).

When communism collapsed in central and eastern Europe, many of the new democratic politicians (and most western advisors) advocated a rather rapid reform, whereas others preferred a more gradualist approach.<sup>4</sup> The gradualists could argue, seemingly plausible, that any kind of “Shock Therapy” implies heavy social costs. The advocates of rapid reform argued that many reforms indeed needed a long time for implementation, but that it did not make sense to delay reforms which could be done rather quickly. And furthermore, market economies only function properly when a row of conditions are met, reforms therefore necessarily must proceed on several fronts at the same time in order to create these conditions. Furthermore, some countries such as Poland and the Soviet Union, experienced hyperinflation, with inflation rates of several thousand percent. This had to be brought under control quickly, otherwise markets and prices did not give any meaning; not to mention the horrible social consequences of hyperinflation and its concomitant large-scale transfer of wealth from the poor to the rich.

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<sup>4</sup> For an overview over these debates, with extensive reviews of many positions, see Zank, 2001.

Practical policies varied to a high degree. Poland opted for rapid reform, whereas e.g. Ukraine hardly moved at all during the first many years. Other countries practiced some mix of policies. Russia, for instance, liberalized rather fast, but failed dismally at combating hyperinflation, i.e. the very first element of “Shock Therapy”.

Jeffrey Sachs, in 1989 an advisor to the Solidarity movement, summarized the comprehensive package, which became implemented in Poland on 1 January 1990, as follows (Sachs 1994, 54):

The basic goal was to move from a situation of extreme shortage and hyperinflation to one of supply-demand balance and stable prices. For this Poland needed tight macroeconomic policies with the de-control of prices. To have a working price system, Poland needed competition. To have competition, it needed free international trade to counteract the monopolistic industrial structure. To have free trade, it needed not only low tariffs but the convertibility of the currency. To have convertibility of the currency at a stable exchange rate, it needed monetary discipline and a realistic exchange rate.

When it comes to the outcomes, the picture is rather clear: Poland returned to growth after only two years, whereas e.g. slowly reforming Ukraine performed dismally until the end of the 1990s. In general, the connection between rapid reform and following growth is well established (Zank 2001).

All these observations seem to confirm the position that a mix of the system is indeed not stable and not well performing. Countries tend to develop to the capitalist system, and normatively speaking, a stage in between cannot be recommended.

More specifically as to China, also there the dual-track system in industry (as opposed to agriculture) did not produce positive outcomes. This scheme seemed to have had quite an appeal to some Western scholars because it allegedly allowed for the “achieving of Pareto-improving gains from liberalization” and “maintaining past contractual obligations from the plan” (Roland 2000, 340). But in spite of such theoretical attractions, in the Soviet Union, introduced in 1987 under Gorbachov, it did not work (Sachs and Woo, 120). Also in China, the institutionalized price differentials between state and market prices created one big incentive for profiteering and corruption: “Shrewd individuals” gained access to goods at cheap state prices, often by bribing officials, and then sold them at prices many times higher (Yan Sun 2005, 258). But also legal transactions were heavily distorted. Under the system exporters could buy commodities at low planning prices and then export them. Thus oil was a major export article until 1986 (Ravallion 2008, 7n19), generating high profits for

some individuals and heavy losses for others because the oil had to be re-imported at high world-market prices – drastic examples of non-functionalities created by a system mix.

We now try to assess the Chinese development in a systematic way.

### **Assessing China: Bringing the system-specific attributes of capitalism in place**

If we now apply Kornai's model to the Chinese case, the first question to ask is whether political power in China has become friendly to private property or not. As he specified (Kornai 2000, 29f):

The minimum required of the political sphere [in a capitalist system, WZ] is not active support of private property and the market, but rather that authorities refrain from outright hostility. They must not carry out mass confiscation or undermine private property in other ways. They cannot introduce regulations that seriously, systematically and widely damage the economic interests of the property-owning strata. They cannot lastingly banish market coordination from most of the economy. Rhetoric does not count for much here. (Hitler, for instance, railed against plutocracy.) The essential factor is the actual behavior in the political sphere.

The Chinese leadership has indeed changed profoundly in this sphere. The establishment of the People's Republic and Mao Zedong's rule was characterized by mass confiscation and outright hostility towards private property. Under Deng, while still adhering to socialist rhetoric, the leadership "refrained from outright hostility" and tolerated the spread of private ownership and market coordination. And according to amendments to the constitution in 2004, private property is to be regarded as on par with public property (Bertelsmann 2008, 14). New legal requirements have been formulated to give private companies in practice equal treatment as state-owned ones. They facilitated market access for private companies to areas which previously were restricted and also mandated that enterprises should have equal access to capital markets, irrespective of their ownership (Bertelsmann 2008, 11). During the debates it became clear that the authorities want to protect the state-owned sector and at the same time encourage the private sector.

In urban areas, property rights have been relatively secure for many years. Land could either be allocated by the authorities, or it could be acquired by long-term leasing contracts. The land could be used as a mortgage or rented to others, consequently already in the 1990s the urban land markets developed rapidly. Between 1993 and 1998 the land transacted rose from 11,000 to almost 1,1

million ha, and the land mortgages increased from 1,000 to 884,00 ha (Deininger and Jin 2007, 5).

However, rural land matters have been more complicated. Given the enormous size of the agricultural sector, employing about three quarters of the workforce on the onset of reform and still more than half of it today, these problems have been very important. As mentioned above, when the collective farms were dissolved, the land was formally parceled out to families on a 15-years lease. The big successes of individual farming made the authorities in 1998 pass the Land Management Law according to which the time of the new using rights, after the expiring of the first 15 years, were extended to 30 years. Furthermore, the farmers should receive written contracts. Leasing or transferring land to others was forbidden in the early stages of reform, only administrative transfers were possible. But these restrictions were lifted, and currently market-based land transfers dominate the picture (Deininger and Jin 2007, 6f).

However, the problem of conversion of agricultural land to non-agricultural uses has given rise to substantial grievances. The rapid economic development and urbanization has made the demand for land for non-agricultural purposes rise rapidly; the price differentials between the two types of land became enormous. All rural land which was to be converted into non-agricultural land had first to be acquired by the local authorities; subsequently it could be sold to private investors. And the local authorities could expropriate rural land, giving no or only insufficient compensation. Their main instruments for expropriation were administrative redistributions of land, so-called “re-adjustments”. In a “big” reallocation, all land was transferred to the community, a part of it converted to non-agricultural purposes, and the rest given back to the farmers in equal sizes. “Small” readjustments involved only a limited amount of households. Selling land for non-agricultural purposes has become an important source of revenue for the municipalities, which, of course, has created an incentive for arbitrary decisions and outright corruption. In the years 1999-2002 more than half a million accusations of corruption in connection with land transfers were filed, against 3,800 officials formal investigations were opened (Deininger and Jin 2007, 6-8).

Matters changed significantly with the introduction of the Rural Land Contracting Law in 2003. For the first time, the land rights of the farmers were given the status of property rights. This made it possible for the farmers to go courts in case their rights were violated. Expropriation is possible only if compensation is paid (however, calculated in the basis of the value of the land for agricultural purposes). Furthermore, the redistribution of land, the main tool for the communities to acquire land, has become precisely circumscribed. “Big” redistributions became forbidden altogether, and small ones are allowed only, if

higher levels of government ratify it and if a two-third majority in the village assembly accepts it (Deininger and Jin 2007, 8f).

In their impressive econometric analysis, using data from 800 villages and 8,000 randomly selected households, Deininger and Jin could show that the new law had a strong impact even in the short run, leading e.g. to increases of land prices by 30 percent. However, the new law seems to be effective only where the village leadership is elected. Also the mere possession of land-use certificates did not significantly reduce the risk of arbitrary redistribution.

Consequently, many problems remain, the law of 2003 is hardly already the end of the story. However, the central point in our context is the policy stance of the Chinese leadership. As the Rural Land Contracting Law and many other initiatives document, the Chinese Communist Party has not only stopped being hostile to private property, it has become an active protector of private property rights.

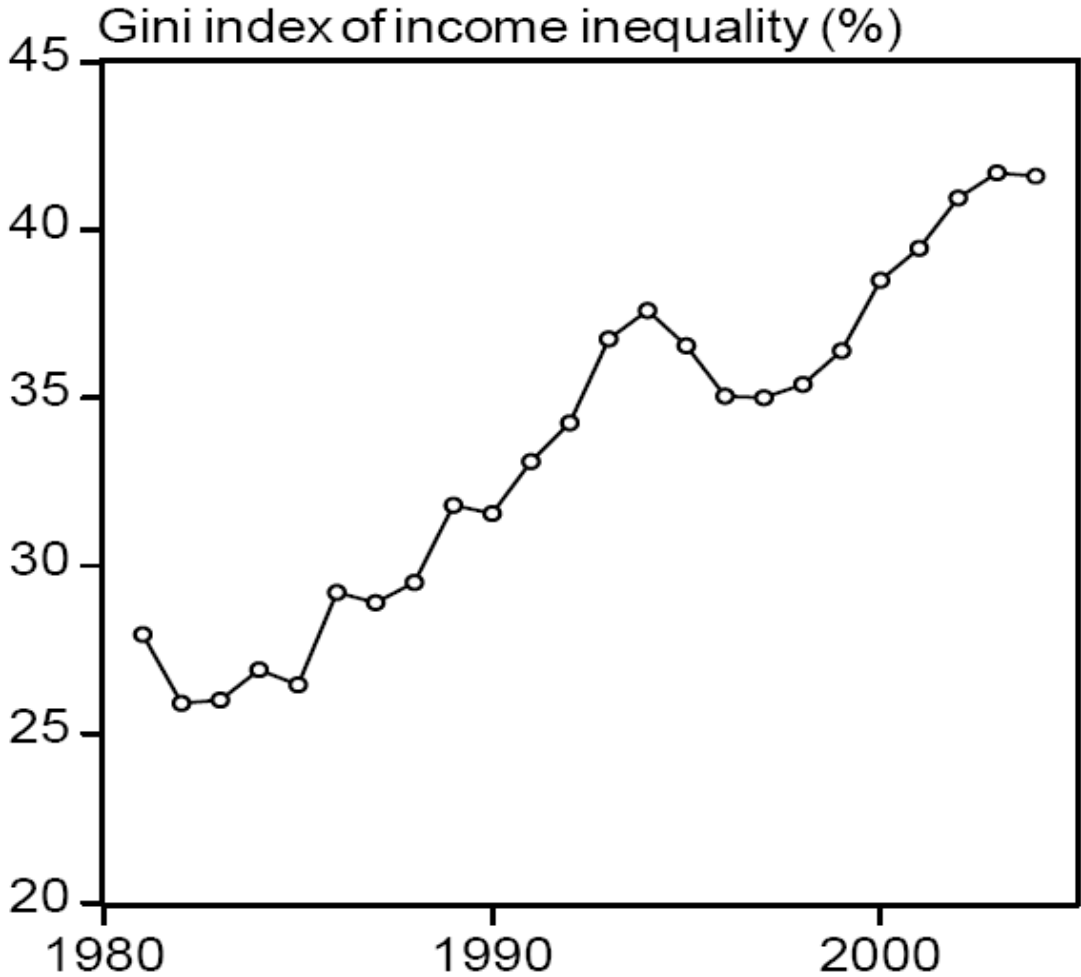
Looking at Kornai's second criterion, private property is certainly in a "dominant position". By now state property plays only a minor role, being relatively strongest in old industries and the banking system. All in all, the entire state sector employs only about 72 million people (Hussain 2005, 270). It would be misleading in our context to count the 133 million employees of the often collectively owned TVEs, town and village enterprises, under state property. The TVEs have been under hard budget constraints and their owners have acted as private owners. Economic processes are certainly pre-dominantly coordinated by markets and not anymore by bureaucratic decision. China is even to an outstanding degree integrated into international markets (see below). Also agriculture, in many countries insulated by high tariffs against the outer world, is quite open. This can be seen e.g. by the fact that Chinese food prices have become quite responsive to international prices (World Bank 2008 b, 5).

The vast majority of the population has been working under hard budget constraints early on, and from agriculture they became continuously extended. Production has become constraint on the demand side, not a problem so far in the aggregate, but certainly a problem for millions of people who have been working in low-price markets. Open unemployment has become a problem. This became officially recognized in 1997 when the authorities introduced a Minimum Living Standard Assistance (MLSA) for the urban population. Cash allowances of an equivalent between 17 and 44 US dollars (2005) helped to bridge the difference between the household income per capita and the local poverty line. Previously, those who were able to work did not get assistance, but were provided with a job instead (Hussain, 269f). Business cycles, not the least on the export markets, have become an important problem for China.

Consequently, measured along Kornai’s criteria, China has made a practically complete transition from communism to capitalism. Therefore I cannot follow Athar Hussain (or others) who write: “The country has replaced a planned economy with a (socialist) market economy” (Hussain, 2005, 268). I do not see any reason to insert “(socialist)” in front of “market economy”.

Rather on the contrary, if China has firmly become a capitalist country, it is a rather unsocial form for capitalism, decidedly not of social democratic type, at least not yet. Inequality, as measured by the Gini-coefficient, has risen dramatically, up to 0.469 in 2004. This is much higher than in the United States, 0.408 in 2000 (Human Development Report 2007/08, 281f).

Figure 1: The Gini coefficient in China from 1980 to 2005



Source: Ravallion 2008, 28.

Furthermore, the welfare state arrangements have been very moderate until now. The existing social security schemes comprise social assistance, means-tested and financed by taxation, and social insurance, not means-tested and based on

previous contributions. The schemes differ strongly between the urban and the rural population. Whether a person is rural or urban depends on the entries in the household registration system (*hukou*) which do not change automatically if a person moves. Millions of migrants to urban areas are still registered as rural, and as such not entitled to urban social security. China's "floating population", i.e. migrants without local household registration, amounted in 2005 to 147 million people (Bertesmann 2008, 10). Those registered as "urban" benefit from five insurance schemes (old-age pension, injury, maternity, health care, and unemployment). These insurances are financed by pay-roll taxes and exclude those outside the work force. In addition to these insurances there is the above-mentioned Minimum Living Standard Assistance (MLSA).

By contrast, there are almost no social insurance schemes for the rural population, not even for the employees of the TVEs. There exist, however, two contributory schemes which are organized on the basis of independent local initiatives, for pensions and for cooperative health care. The Chinese leadership has emphasized the need to build up a rural MLSA and rural health insurance scheme (Hussain 2005, 269f). A social security system is also a central part of President Hu's project of a "harmonious society", but it is still in its infancy. Currently social insurance covers only 10 percent of the population, and mismanagement and corruption reduce its efficiency further. Health care is a particular problem, where hospitals and doctors charge arbitrary fees or bribes, thus making medical treatment unaffordable for many (Bertelsmann 2008, 14). In 2004 public health care expenditure was at a level of only 1.8 percent of GDP (private expenditure added another 2.9 percent). By comparison, in "social democratic" countries such as Denmark or Sweden, public health care was at 7.1 and 7.7 percent (Human Development Report 2007/08, 247f). True, this reflects to a high extent the difference in GDP, on average rich countries spend relatively more on public health and welfare than poor ones. Also the heavy urban bias in the Chinese system is a feature which can be met in many developing countries. Under the conditions of, for instance, rather inefficient, often arbitrary and corrupt bureaucracies it is extremely difficult to build up working welfare systems. Supporters of the Chinese government can also with good reasons argue that for developing countries the best social policy is creating high economic growth. China has, after all, reduced absolute poverty dramatically (see table 1). My point here is not a critique of the Chinese government, but simply to state the fact that China has got a rough capitalist system, with the majority of the population being exposed to the market forces with almost no social security at all, and with hundreds of millions of people being forced to migrate over long distances into tough and heavily polluted urban agglomerations where they are subject to often arbitrary and corrupt officials.

And going back to the question whether a mix of the systems is feasible: The Chinese development seems to strongly confirm the position that a mix of systems is not stable, that countries in such a position tend to make a transition to a fully established capitalist system.

### **Beijing and the “Washington Consensus”**

The so-called Washington Consensus provides another set of criteria for assessing China’s policy. The term was coined by John Williamson who endeavored to identify “the lowest common denominator of policy advice being addressed by the Washington-based institutions to Latin America as of 1989” (Williamson 2000, 251). As we shall see, his 10 points were rather simple, and in themselves hardly able to cause much of a scandal. However, Williamson had to make the observation that it actually did. In his own words (Center for International Development 2008, 1f):

Audiences the world over seem to believe that it signifies a set of neoliberal policies that have been imposed on hapless countries by the Washington-based international institutions and have led them to crisis and misery. There are people who cannot utter the term without foaming at the mouth ...

Some of the most vociferous of today’s critics of what they call the Washington Consensus, most prominently Joe Stiglitz ... do not object so much as much to the agenda laid out above as to the neoliberalism that they interpret the term as applying. I of course never intended my term to imply policies like capital account liberalization ... monetarism, supply-side economics, or a minimal state (getting the state out of welfare provision and income redistribution), which I think of as the quintessentially neoliberal ideal.

We came already across the problem that the term “neoliberal” becomes used in an inflationary way. If we now have a simple look at the propositions, as Williamson formulated them (Williamson 2000, 252f):

- Fiscal discipline
- A redirection of public expenditure priorities toward fields offering both high economic returns and the potential to improve income distribution, such as primary health care, primary education, and infrastructure
- Tax reform (to lower marginal rates and broaden the tax base)
- Interest rate liberalization
- A competitive exchange rate
- Trade liberalization
- Liberalization of inflows of foreign direct investment
- Privatization



- Deregulation (to abolish barriers to entry and exit)
- Secure property rights.

I wonder whether critical spirits such as Joseph Stiglitz ever noticed, that this list contains e.g. the advice to redirect public spending in order to improve income distribution. Anyhow, we will now simply go through this list and ask, whether Chinese policies have complied with the propositions or not.

*Fiscal discipline* should be a banality. Not respecting fiscal discipline means spending more money than receiving for a long time. This implies piling up high debts, increasing interest payments and finally dependence on foreign creditors who can impose policy programs. Fiscal discipline does not exclude a carefully calculated Keynesian deficit-spending policy in times of recession because this is a rather short term event which could and should be corrected easily after recession has ended. By contrasts, lack of fiscal discipline has brought dozens of developing countries into bankruptcy, astronomic debts and misery, even oil-rich countries such as Algeria, which in 1994, having no credit lines anymore, was forced to go to the IMF (Zank 2008).

After 1978 China has managed to keep financial discipline all the time. In, for instance, 2004 public sector deficit was at moderate 2.1 percent of GDP (Bertelsmann 2008, 10f), the external debt service cost some 1.2 percent of GDP – and was more than offset by a staggering accumulation of foreign reserves. In 2005 China had a balance of payment surplus of 250 billion US dollars (Herr, 28). All in all, when it comes to financial discipline, China has been exemplary. If only other developing or transition countries had done the same.

The picture is slightly more mixed when it comes to directing public spending towards fields which can stimulate growth and at the same time improve income distributions such as primary education, health care and infrastructure. China has indeed developed a good infrastructure in roads, rails, ports, power and telecom, mainly through a “cost recovery” policy which sets prices high enough to be attractive for investors (World Bank 2008 a, 1). China Rail has extended its network significantly in recent years, and major extensions are planned for the coming years (World Bank 2008 b, 24). Also the investments in education are high, if perhaps not so by the government, then by the Chinese people. Already at the beginning of transition the levels of literacy were rather high, also in rural areas, perhaps for once a positive legacy of communism (Ravallion 2008, 9 and 14). The high educational level has certainly been an important factor behind China’s economic growth. However, as already mentioned above, public expenditure on health as percentage of GDP is rather low (1.8 percent), also by comparison to most other developing countries.

Williamson's point three says *reducing marginal taxes and broaden the tax bases*. Such a reform aims at distributing the tax pressure in a more efficient, less distorting way. This is not a reform in order to reduce overall taxation and does not imply any reduction of the welfare state. It can also be engineered in a way that the social effects are neutral. The social democratic Swedish government, for instance, implemented such a reform at the end of the 1980s (Zank 1989). In China the overall tax pressure has been comparatively low, 8.9 percent in 2004 (Bertelsmann 2008, 11). A tax reform along the lines proposed is not a priority on the agenda, problems such as reducing corruption and assuring more elementary tax justice are much more important.

Williamson has proposed to alter the formulation of the fourth proposition, *interest rate liberalization* into the more comprehensive term *financial liberalization*, interest rate liberalization being just one dimension of it (Williamson 2000, 253). This is a notoriously difficult field of reform, but China seems to be well on the way. In compliance with WTO requirements the country has opened the financial sector to some extent in 2006, substantial foreign investment flew into the banks. Major Chinese banks were also listed on foreign stock markets. However, most banks remain mainly state-owned, foreign investors are allowed only to hold minority shares. The domination by government or local-level politicians has often meant loans to loss-making state-owned enterprises. According to rating agencies the sum of non-performing loans can be as high as 650 billion US dollars, in spite of repeated endeavors by the central bank to write off bad loans. But the China Banking Regulatory Commission is seemingly working hard to reduce the intermingling of local politicians and to improve accountability. But there are "indications that the Chinese banking sector is progressing towards international standards" (Bertelsmann 2008, 13).

The background for the proposal to introduce a *competitive exchange rate* has been the observation that many developing countries insisted on a rate which has been too high. Algeria, for instance, kept the dinar at high levels in order to allow for cheap food imports, after government policies had practically strangled agricultural production. But the high exchange rate made it impossible to export anything except oil. Not surprisingly, the IMF-program of 1994 contained a devaluation of the dinar.

In the case of China this has not been a problem. After some years of experimenting (see above), the authorities introduced a market-determined exchange rate in 1985, besides a less important official one, and introduced a single unified rate in 1994. They pegged it first to the dollar and later to a basket of currencies. China's huge balance of payment surpluses, not the least in relation with the US, have shown that the renminbi rate has been truly

competitive, many US politicians even say: too competitive (“currency manipulator”). In spite of some appreciation of the renminbi China remains a very strong competitor on the world export markets.

*Trade liberalization*, point six on Williamson’s list, began in the early 1980s with exchange rate and tax concessions for exporters and the creation of a Special Economic Zone near Hong Kong. From 1986 onwards the special-economic zone principles became extended to the whole country (Ravallion 2008, 7) Since accession to the World Trade Organization (WTO) foreign trade became consistently liberalized, for instance by reducing China’s most favored nation tariffs and duty rates. Import quotas were abolished and import licensing procedures became simplified. China signed also bilateral and regional free trade agreements. If measured by the shares of export and import, no other big country has become as open to foreign trade as China:

**Table 3: Exports and imports as shares of GDP in the five biggest countries:**

	Imports of goods and services, % of GDP		Exports of goods and services, % of GDP	
	1990	2005	1990	2005
China	16	32	19	37
India	9	24	7	21
United States	11	15	10	10
Brazil	7	12	8	17
Russian Federation	18	22	18	35

*Source: Human Development Report 2007/08, 286f.*

On the export side Russia comes close to China, but this is due to huge oil exports. 60 percent of Russia’s export earnings come from oil, manufactures comprise only 19 percent. By contrast, 92 percent of China’s exports are manufactured goods (Human Development Report 2007/08, 286). A condition for China’s truly impressive export successes has been the corresponding opening to imports because this allowed for the inflow of cheap inputs. Since the 1990s more than half of China’s exports have been goods which became imported, further manufactured and then re-exported (Herr, 29).

*Liberalization of the inflows of foreign direct investment* began with the creation of the Special Economic Zone, from which it was extended. There exist still some limitations, for instance, as mentioned above, in the financing sector. But overall China is, as with trade, very open to direct foreign direct investment (World Bank 2008 a, 1). When it comes to short-term portfolio flows, China has (still?) some restrictions in place. However, openness to short-term capital movements has exactly not been on Williamson’s list. Nor has it, for instance, been part of the rapid-reform program which the Polish government implemented in 1990. Nor did it enter the reform recommendations which the Washington institutions gave to Eastern and Central Europe at that time. A very

instructive text in this respect is a paper by Stanley Fischer and Alan Gelb, in 1991 chief economist and director of the socialist economies unit at the World Bank (Fischer and Gelb 1991).

*Privatization* of state-owned enterprises has indeed been a standard recommendation by World Bank or IMF officials. The main argument has been that state-owned enterprises usually have been loss-makers because they were driven mainly not according to economic criteria, but with a view to political expediencies, such as providing leadership jobs for party comrades. Units which are loss-making beyond repair do not get closed because redundancies imply high political costs; instead, the bill is passed on to others, e.g. in the form of non-performing loans. As mentioned above, China is littered with such cases.

The most important privatization step was the transition to individual farming, in the first place, as we have seen, “only” a de-facto privatization, with the legal formalities coming later. There after there was much “privatization from below”. Now, at least de facto, privatization is almost completed, state-owned enterprises playing a residual role in industry, and the banks being in a process of gradual privatization, at least partially.

It should perhaps be emphasized that Williamson and others never recommended *rapid* privatization (as many critics erroneously have claimed). The recommendation to e.g. Eastern and Central Europe has instead been transforming the state-owned enterprises first into state-owned, independent corporations under hard budget constraints and aiming at privatization at a later point in time because many conditions must be in place before privatization makes economic sense (Fischer and Gelb 1991, 101f). The Polish governments after 1989 have actually been very slow privatizers, the rapid growth of the private sector being mainly the result of “privatization from below”. True, the Russian government practiced very rapid privatization. But not, because Western advisors recommended it, but because politicians such as Anatoly Tchubais and others came to the conclusion that under the conditions of the rapidly disintegration Soviet economy privatization was the only choice; everything which would not be privatized officially would become so “spontaneously”, i.e. stolen (Zank 2001, 24f).

*Deregulation (to abolish barriers to entry and exit)* makes sense if the aim is making markets more efficient. Regulations which prevent new actors to enter a market work as barriers to competition; and if exit becomes impeded, people and resources remain locked in rather unproductive occupations. In pre-reform China the most important barrier has been the restrictions on internal migration which confined hundreds of million of people to rural poverty. These restrictions

became eased early on; the registration system (*hokou*) still works as a barrier in this sense, but a mild one if compared with previous times.

In general, the institutional framework for market access has improved substantially. Legislation has passed with the aim to open activities for private enterprises where their access before was severely restricted, either by heavy regulations or by the dominance of state-owned enterprises. To these belong, for instance, defense, financial services or public utilities. According to legislation private enterprises should also have equal access to capital markets (Bertelsmann 2008, 11). In practice local authorities often interfere, in order to protect “their” SOEs, but the general direction of central policy seems to be clear.

The complex of *securing property rights*, the last point on Williamson’s list, we have already discussed: Within some thirty years, the Chinese leadership has completely changed from hostility to private property over tolerating it to actively protecting it.

All in all, Beijing has implemented the policies of the Washington Consensus practically completely, the major aberration seemingly being the underinvestment in public health care. But also this point will presumably be addressed soon. For those who view the Washington Consensus as an agenda of neoliberal imperialism, this conversion of the biggest country in the world, to whom the IMF never could dictate anything, must be incomprehensible. Within the theoretical framework discussed here, however, it becomes easily understandable.

We have above considered the proposition that a mixture of a capitalist and a socialist system will not be stable. To quote Kornai again, “mixed cases tend to return eventually to the path of capitalist development” (Kornai 2000, 34). And I see the Washington Consensus simply as a set of recommendations for countries in mixed systems to go for capitalism consistently because mixed systems are non-performing hybrids. There is nothing in the ten points of the “Washington Consensus” which aims at a particular type of capitalism. An ambitious welfare state such as Sweden or Denmark is perfectly compatible with it. Reports by the IMF on these countries may contain punctual criticisms (e.g. the Danish policy of tax freeze being “overly rigid”), but are otherwise full of praise (“benign outlook”, “impressive decline in debt-to-GDP ratio”, “sustainable public finances in the medium and long term”) (IMF 2006, 16f). Slashing welfare state arrangements, when properly financed, is simply not IMF policy.

The recommendations of the Washington Consensus are also implicit part of the policy advice which the European Union recommends for its neighbors in the

east and the south. There we still find countries with an uncompleted transition, be it from Soviet or from Arab Socialism (Zank 2008). So we might call the Washington Consensus also Brussels Consensus. Or Beijing Consensus.

Markets can work efficiently only when a set of functional requirements are fulfilled. Not necessarily perfectly fulfilled, but at least to reasonable degree. To those belong e.g. private production in farming, the removal of internal barriers to migration, or the opening of the borders for trade and direct investment. In a pragmatic and experimenting way, the Chinese leadership tested these sets of theoretical propositions. They avoided dictating one model from above and gave instead producers and local officials a fairly broad set of options. As Du Runsheng, one of the architects of the agrarian reform, put it, the intellectual approach was “seeking truth from the facts” (Ravallion 2008, 15). In this context, a high weigh was put to demonstrable practical success. And it was the evidence of local experiments, for instance evidently higher agricultural production under private farming than under collectivism, which crucially lowered reform resistance within the leadership. But each reform step exposed other barriers to growth because prerequisites to growth are interdependent. These other barriers had consequently to be addressed, if growth should continue. This the leadership has done, remarkably consistently. It has been a condition for such a sequence that the leadership has been seriously about economic growth. This is far from everywhere the case, numerous despots in Third-World countries have repeatedly destroyed conditions for growth, for instance for reasons of tactical political maneuvering. Suffice perhaps to mention Robert Mugabe, who violated most of the points of the “Washington Consensus”, from practicing reckless fiscal and monetary policy over destroying markets by police intervention to confiscating the property of the most productive agricultural producers. It would of course be overly simple to attribute human development exclusively to the adherence of a certain policy agenda, but the discrepancies in the Human Development Index of China and Zimbabwe are indeed striking:

**Table 4: The Human Development Index in China and Zimbabwe from 1975 to 2005.**

	1975	1990	2005
China	0.530	0.634	0.777
Zimbabwe	0.550	0.654	0.513

*Source: Human Development Report 2007/8, 235f.*

The regime in Beijing has repeatedly been criticized for human-rights violations and for not beginning a democratization process. To me this criticism seems to be justified. I want, however, point out that China’s record also on this field is relatively speaking much better than, say 20 years ago. And when compared with the years of Mao Zedong, the progress in human rights is perhaps even

more striking than China's economic growth. Suffice perhaps to mention the mass terror of the so-called Cultural Revolution, or the great famine of 1959-61 with its almost 30 million deaths (Lin and Yang, 145), the worst famine in world history and the direct produce of Mao's policy.

When it comes to the world at large, I see two major consequences of the Chinese transition. In economic terms, China has become a strong supplier and a strong demander, and on balance, this has been very beneficial for every one. Perhaps even more important, the Chinese transition has made world peace much more secure. Under Mao, China was a closed, confrontational and at times outright aggressive country, from being accomplice at starting the Korea War in 1950 to the assault on Vietnam in 1978. Virtually all neighboring countries felt seriously threatened. This picture has dramatically changed. China has become a partner for her neighbors, with close economic ties and many agreements. Due to its economic opening and the high shares of exports and imports, China has, as all other open countries, become strongly dependent on the outer world. Therefore China has a very strong interest at stability and cooperation. To sum up, China's transition has made the world richer and more peaceful.

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# **Riget i Midten og verden omkring det: Kinas nationale identitet og udenrigspolitik**

Bjørn Møller

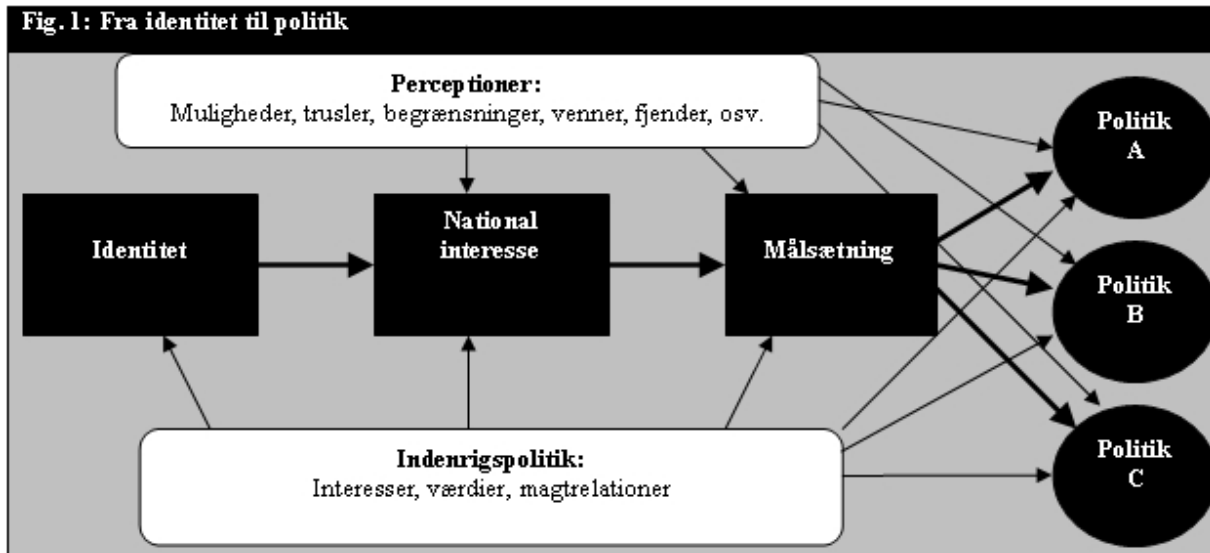
## **Identitet, National Interesse og Udenrigspolitik**

Selvom nogle af de selvudnævnte “realister” indenfor studiet af international politik som f.eks. Kenneth Waltz (1979) hævder, at stater er “funktionelt ens” og derfor kun adskiller sig fra hinanden ved deres placering og størrelse, tilsiger almindelig sund fornuft, at stater faktisk er forskellige.

Under den kolde krig gik hele den vestlige alliance f.eks. ud fra, at staternes styreform og økonomiske system spillede en rolle, og at kommunismen derfor var en trussel mod den vestlige verden. På samme måde opfatter vesten idag ultranationalismen i f.eks. Serbien og den fundamentalistiske islamisme i Iran som trusler, der bl.a. indebærer, at man ikke kan have normale forbindelser med sådanne stater. Som bl.a. påpeget af Stephen Walt (1987) opstår trusler altså ikke i kraft af andre staters militære kapabiliteter som sådan, men kun hvis man opfatter disse stater som fjendtlige. Der er m.a.o. ikke nogen vej udenom at antage, at stater faktisk er forskellige, og at stater kan forandre sig. F. eks. er det moderne, demokratiske Tyskland så integrationsorienteret, at det næsten kan betegnes som anti-nationalistisk, og det er derfor åbenlyst væsensforskelligt fra det autoritære og ultranationalistiske nazi-Tyskland (Duffield 1998) – og det kommunistiske Kina i Mao Zedongs æra var væsensforskelligt fra både det kinesiske kejserrige, det nationalistiske Kina i mellemkrigstiden, og det “nye Kina,” der er blev skabt efter formand Maos død af ikke mindst Deng Xiaping (se nedenfor).

En måde at indkorporere denne type forskelle i studiet af staters udenrigspolitik er at antage, at både identiteter og nationale interesser som alle andre sociale fænomener er socialt konstruerede. Dette er illustreret i Fig. 1, der skal vise, hvorledes identitet via interesser og målsætninger danner baggrund for konkrete politikker – med perceptioner og indenrigspolitiske forhold som formidlende variable.

Fig. 1: Fra identitet til politik



De udenrigspolitiske målsætninger hviler i sidste ende på en definition af, hvad den "nationale interesse" er, hvilket igen afhænger af samfundets og statens kollektive identitet – og de er alle socialt konstruerede over tid. Man kan således opfatte identitet og national interesse som "træge variabler," idet de ganske vist kan forandres, men sjældent fra dag til anden. På et hvilket som helst givet tidspunkt udgør de derfor en slags spilleregler eller rammebetingelser for udformningen af konkrete politikker (Weldes 1996; Wendt 1999: 224-243; Chafetz, Spirtas & Frankel 1999; Kowert 1999; Jepperson, Wendt & Katzenstein 1996).

Der er dog principielt altid forskellige identiteter at vælge imellem, ligesom der er grupper i et hvilket som helst samfund, der vil promovere bestemte identiteter – men mulighederne for at gøre dette med held afgøres dels af magtrelationerne i samfundet, dels af hvor meget disse grupper foretrukne identitet adskiller sig fra den etablerede. En religiøst defineret national identitet er f.eks. en mulighed i visse lande – tænk bare på Iran, Pakistan eller Afghanistan – men næppe i et land med en så indgroet sekulær og grundtvigiansk kultur som Danmark. Mere almindelig er opfattelsen af staten som manifestationen af et nationalt (i betydningen etnisk og kulturelt) fællesskab som i den traditionelle tyske "Blut und Boden" tradition – men som alternativ til denne identitet står det rent politiske nationsbegreb, hvor nationen (som f.eks. i Frankrig) defineres som summen af statsborgerne.

Valget mellem disse muligheder er aldrig definitivt i den forstand, at det ikke kan ændres – og der vil næsten altid være grupper i befolkningen, der sætter spørgsmålstegn ved den gældende identitet – men den er ikke desto mindre relativt varig og forandrer sig som hovedregel kun langsomt. Historien – eller rettere den dominerende fortælling ("narrativ") om hvordan man blev, hvad man

er, spiller en stor rolle i både reproduktionen og den eventuelle forandring af den nationale identitet – jvf. vores egne narrativer om f.eks. Dybbøl Møller og besættelsen. På den anden side kan en nyfortolkning af historien også benyttes som grundlag for en ændring i den nationale identitet – jfr. statsministerens forsøg på en omfortolkning og forkastelse af besættelsestidens samarbejdspolitik.

Selvom man accepterer realisternes påstand, at stater altid forfølger deres nationale interesse – enten i form af magt (Morgenthau 1960, p. 33) eller sikkerhed (Waltz 1979), er det langt fra givet, hvad denne nationale interesse er, bl.a. fordi det afhænger af identiteten, der bl.a. bestemmer, hvad der i givet fald skal forsvares: kun være selve det nationale territorium eller også en diaspora, dvs. en del af nationen (som et “forestillet fællesskab”, jvf. Anderson 1991) der befinder sig udenfor statens grænser? Identiteten og den nationale interesse bestemmer også, hvilke overordnede mål, staten skal forfølge i sin udenrigs- og sikkerhedspolitik. Skal man stræbe efter uafhængighed – dvs. enten til at vægre sig mod andre staters forsøg på dominans - eller være mere ambitiøs og tilstræbe dominans over andre, måske en stilling som global stormagt.

Alle disse valg er naturligvis også påvirket af de ydre omstændigheder – eller rettere af opfattelsen (perceptionen) af disse. Hvor fristende det end kunne forekomme, vil småstater som f.eks. Danmark – og i virkeligheden hovedparten af verdens stater – ikke så meget som overveje at stræbe efter magt over andre, end mindre noget så flyvsk som verdensherredømme. Ikke fordi vi ikke gerne ville have det, hvis vi kunne, men fordi det ligger så langt hinsides mulighedens grænser, at det ikke er værd at overveje. For lande som USA eller for den sags skyld Kina stiller sagen sig dog anderledes. Vi skal i det følgende med udgangspunkt i Kinas definition af sin egen identitet og nationale interesser analysere nogle dominerende temaer i landets udenrigs- og sikkerhedspolitik.

### **Kinas Identitet**

De fleste sinologer er enige om, at historien spiller en endnu større rolle for kineserne end for de fleste andre folkeslag. På forskellige tidspunkter kan det imidlertid være forskellige kapitler af historien, der især fokuseres på, og udvælgelsen foretages bl.a. ud fra deres implikationer for nutiden og fremtiden, som bestemte aktører ønsker at promovere. Der har tidligere foreligget autoritative versioner af denne “konstruerede historie” – f.eks. i form af beslutninger fra kommunistpartiet fra hhv. 1945 og 1981, men i dag er situationen noget mere åben, også hvad angår udviklingen siden 1949 (Weigelin-Schwierzik 2006). Specielt Kulturrevolutionen (1967-1970) er dog stadig meget kontroversiel, dels fordi mange stadig kan huske den, dels fordi der stadig gemmes mange skeletter i skabene (Gao 2002; Wang 1999).

Et historisk tema eller “narrativ,” der ofte bliver bragt i spil, er det om “riget i Midten” (*zhongguo*), der stammer tilbage fra Chou-dynastiet (ca 1122-255 f.Kr.). “I midten” er ikke så meget et geografisk eller geopolitisk begreb, men henfører til betydning og rangorden. Riget i midten var verdens centrum og lige under himlen, og dets hersker, Kejseren, derfor ”Himlens Søn” med en Gud-given ret til at regere. Andre nationer havde efter kinesernes opfattelse ikke meget at byde på, men blev betragtet som barbarer, der dog skulle være velkomne til at vise deres respekt som vasaller og til at yde tribut til Riget i Midten og Himlens Søn (Zhang 2004). Denne periode var også en kulturel blomstringstid med tænkere som f.eks. Konfutse og Laotse (grundlæggere af hhv. konfutsianismen og taoismen), der stadig holdes i hævd og influerer på selv udenrigspolitikken (Hsu 1991; Pettman 2005). Temaet om Riget i Midten er aldrig helt forsvundet, og Kina har i lange perioder følt sig og reelt også været både kulturelt, teknologisk og økonomisk overlegent, f.eks. i forhold til Europa. Tænk blot på Marco Polos (1254-1324) rejsebeskrivelser fra slutningen af det 13. århundrede, dvs. da den mongolske hersker Kublai Khan (1215-1294) regerede over Kina (Polo 1997, 64-202. For en kritik se Jackson 1998).

Selv Chou-dynastiet oplevede dog også perioder af svækkelse, f.eks. under “de stridende staters periode” (Chan-kuo perioden, ca 475-222 f.Kr.), der for moderne kinesere er blevet set som en advarsel om, hvad splittelse kan betyde. Dette, kombineret med herskerens guddommelige adkomst til tronen, har også tjent som påmindelse om betydningen af en stærk leder, der kan drage nytte af den loyalitet overfor magthaverne, der er et centralt element i konfucianismen. Herskerens “mandat fra himlen” er dog ikke betingelsesløst, men kan forskertses ved et misregimente, der giver folket ret til – dog kun i ekstreme tilfælde – at vælte regimet og indsætte et nyt.

Over for dette narrativ om storhed og dens forudsætninger står et andet narrativ om svaghed og rollen som uskyldigt offer. Dels er Kina historisk blevet løbet over ende talrige gange, både af Mongoliet og Manchuriet, hvis herskere etablerede deres egne herskende dynastier, der dog blev sinificeret i udstrakt grad. Senere kom Japan, de europæiske stater og til en vis grad USA, der alle udnyttede den kinesiske svaghed og splittelse til med våbenmagt at påtvinge kejserriget ulige og ydmygende traktater, f. eks. ved at afstå havne (med ekstraterritorial status) både ved kysten og langs de store floder og handelsveje. De første skridt i denne retning var Opiumskrigen (1839-1842), hvor England angreb Kina for at sikre sig ikke blot retten til at sælge opium til kineserne, som Kejseren havde villet forbyde, men sågar et monopol på denne lukrative handel. Ikke just det mest glørværdige kapitel i den engelske imperialistiske historie! (Krasner 2001; Grasso, Corrin & Kort 2004: 37-71; Hsü 1975: 189-276). Hertil kom egentlige militære invasioner, som Kina har oplavet adskillige af, fra mongolerne og manchuerne til japanerne, senest i optakten til 2. Verdenskrig.

Til en vis grad har denne offer-identitet affødt andre og mere heroiske narrativt konstruerede identiteter, hvor man har fokuseret på og heroiseret de gentagne oprør mod overmagten, f.eks. i form af Taiping- og Boxeropstandene i hhv. 1854-1860 og 1899-1901, hvoraf førstnævnte var umådelig blodig og i øvrigt inspireret af kristendommen (Hsü 1975: 277-315, 470-498; Boardman 1951; Kuhn 1977; Cohen 1992). Ikke desto mindre bliver i det nationalistiske narrativ begge disse fejlslagne opstande fremstillet som glørværdige og heroiske forløbere til den nationale revolution, der i 1911/12 omstyrtede kejserdømmet og bragte Sun Yat-sen (1866-1925) til magten (Hsü 1975: 550-575; Hsue 1960). Hans form for nationalisme byggede paradoksalt nok bl.a. på konfutsianismen (Gregor 1981) og var tilstrækkeligt tvetydig til, at hans minde som det moderne Kinas grundlægger den dag i dag kan holdes i hævd af både kommunisterne i Folkerepublikken og af det tidligere regeringsparti på Taiwan, Kuomintang, der blev grundlagt af Sun Yat-sen i 1912.

Disse nationalistiske narrativer om storhed, uretfærdig udmygelse og befrielse er naturligvis ikke uden indbyggede modsætninger - men et effektivt "master-narrativ" har ikke desto mindre formået at binde de forskellige ender sammen til en fortælling om storhed, fald og genoprejsning til fordums storhed, dog i to versioner. Taiwans master-narrativ var (i hvert fald indtil for nyligt) uforløst, idet de retmæssige forløbere, nu fordrevet fra fastlandet, stadig afventede det endelige slag, hvor de skulle besejre kommunisterne og indtage deres retmæssige plads som Sun Yat-sens arvtagere som hele Kinas ledere; mens det i Folkerepublikkens master-narrativ var kommunistpartiet, der havde løftet arven fra Sun Yat-sen og nu blot manglede at fuldbyrde den nationale opgave ved at genindlemme den opsætsige provins Taiwan i Kina (se nedenfor).

I Folkerepublikken er dette nationale narrativ i det 20. århundrede for, hvad der i virkeligheden blot er en kort overgang, blevet suppleret af et ideologisk - der dog var tæt sammenfiltret med det nationalistiske. Mens de øvrige narrativer søgte at konstruere en kinesisk identitet som kinesisk (dvs. partikularistisk), er denne ideologiske identitet mere universalistisk, idet den går ud på at konstruere det kinesiske kommunistparti som spydspidsen i en verdensomspændende revolution mod kapitalistisk undertrykkelse. Denne tager udgangspunkt i Mao Zedong (1893-1976) som leder af Kinas Kommunistiske Parti, der ganske vist var tæt på udslettelse, men overlevede i kraft af et massivt tilbagetog til det indre Kina i "Den Lange March" (Wilson 1977; Guillermaz 1972: 147-263). Herefter lagde det for en lang periode selve revolutionen på hylden for at hellige sig for den nationale sag ved at udgøre spydspidsen i kampen mod den de japanske invasionstropper (Hsü 1975: 694-741; Guillermaz 1972: 267-361), hvilket havde den bekvemme dobbeltbetydning både at være en national opgave og angiveligt at fremme verdensrevolutionen. Efter en kort periode af nogenlunde harmonisk samarbejde med Sovjetunionen under Stalin, hvor Kina måtte nøjes med rollen

som nr. 2, kom det hurtigt til rivalisering om rollen som lederen af den kommunistiske lejr (Claudin 1975: 271-295, 568-574).

Denne rivalisering udkæmpedes i første omgang rent ideologisk, hvor den vigtigste ammunition var påstande om, at de sovjetiske ledere var revisionister, mens Maos tanker var den ægte vare, dvs. den mest autentiske videreudvikling af Marx, Engels', Lenins og Stalins tanker. Hertil kom forsøg på at overhale USSR i et økonomisk og politisk kapløb om først at nå frem til det forjættede kommunistiske samfund. Dette fik katastrofale konsekvenser, da det, der blev lanceret som "Det Store Spring Fremad" (1958-60), slog totalt fejl og endte som en hungerkatastrofe med utallige millioner ofre for sultedøden (Peng 1987). I slutningen af 1960erne og begyndelsen af 1970erne tog rivaliseringen en ny drejning, idet USSR blev omdefinert fra at være revisionister til "socialimperialister" og hermed hovedfjenden (Dillon, Burton & Soderlund 1977). Dette åbnede meget bekvemt muligheder for et taktisk samarbejde med et USA (Chang 1987; Lampton 1995), der på dette tidspunkt var ved at nå frem til den erkendelse, at man ikke kunne blive ved med at lade som om verdens folkerigeste nation ikke eksisterede, og som derfor var ved at være moden til en normalisering af forholdet (Segal 1980).

Der var Mao. ikke længere nogen kommunistisk lejr at stræbe efter lederskabet af. Til gengæld var der hele den 3. Verden, som nu – af bl.a. Maos designerede efterfølger, Lin Piao, og især under Kulturrevolutionen (1967-69) blev udråbt som verdensrevolutionens spydspids, samtidigt med, at Kina blev defineret som en del af denne 3. Verden (Lin Piao 1965; Ginneken 1976; Ness 1993). Til sikring af den ideologiske kontinuitet kunne man heldigvis finde nogle skrifter fra 1920erne, hvori Mao selv havde peget på småbønderne som et aktiv for revolutionen (Mao Tse-tung 1927) – og den 3. Verden var jo i virkeligheden verdens småbønder i en eller anden vag henseende. Som illustration af sammenfiltringen af det ideologiske og nationale blev Lin Piao's udrensning i 1971 i øvrigt efterfulgt af en besynderlig ideologisk kampagne mod "Lin Piao og Konfutse" (Chang 1974; Goldman 1975).

Selvom hele dette ideologiske narrativ naturligvis på behørig vis refererede tilbage til de marxistiske koryfæer (om nødvendigt dog til endog meget apokryfe skrifter), så havde man dog også med omhu sørget for foreneligheden med det nationale narrativ, det stadig spillede en rolle i baggrunden, nøjagtigt som det havde været tilfældet for Sovjetunionen siden Stalins overtagelse af magten. Logikken var som følger: Hvis det hele handlede om verdensrevolutionen, og Kina/Sovjetunionen var spydspidsen og den ultimative garant for denne, ja så var det at fremme Kinas/Sovjetunionens nationale interesser en vigtig (måske endog den vigtigste) forudsætning for verdens kommunistiske fremtid. Hermed var der skabt plads i det store kommunistisk/nationalistiske narrativ til både en

taktisk alliance med USA og til endog meget usædvanlige både inden- og udenrigspolitiske krumspring, som f.eks. det at støtte den samme part i borgerkrigen i Angola som både USA, apartheidstyret i Sydafrika og det gennemkorruperte Mobuto-styre i Zaire støttede (Jackson 1995).

Formand Maos død i 1976 fik et kort og kaotiske mellemspill, først med den såkaldte "4-bande" bestående af Maos enke, Jiang Qing, samt Zhang Chun-qiao, Yao Wen-yuan og Wang Hong-wen og herefter en udpræget overgangsfigur, Hua Guo-feng (Gomes 1977; Dittmer 1978). I 1981 kom imidlertid den tidligere (oven i købet to gange) udrensede Deng Xiao-ping (1904-1997) til magten, som han beholdt til sin død i 1997, hvilket ikke blot satte en stopper for magtkampene (i hvert fald de åbenlyse), men også reelt for de efterhånden meget skolastiske ideologiske mummespil. Deng var tidligere blevet skolet for sin pragmatiske vurdering af katte (det var lige meget med farven, bare de kunne fange mus), og han gjorde nu denne pragmatik til rettesnoren for Kinas fortsatte udvikling, bl.a. med sine "fire moderniseringer" af hhv. landbruget, industrien, videnskab/ teknologi og forsvar (Baum 1994: 54-55; Faust & Kornberg 1995: 113-116; Bachman 1986; Naughton 1993).

Det er denne linje, der har været den dominerende indtil i dag, bl.a. takket være dens fantastiske succes, der sikret en lang ubrudt periode med en økonomisk vækst helt uden fortilfælde. Denne har været ledsaget af en udstrakt privatisering, så man med betydelig ret kan tale om en kapitalistisk udvikling, der blot gennemføres med et parti ved roret, der stadig kalder sig kommunistisk (Guthrie 1999: 198-218 & *passim*). Siden denne *de facto* opgivelse af kommunismen har gjort nationalismen til det vigtigste legitimitetsgrundlag for kommunistpartiets fortsatte kontrol (Zheng 1999: 46-66).

### **Konsekvenser for Udenrigspolitikken**

Af ovenstående kan man uddestillere nogle helt overordnede målsætninger, der har denne status fordi de enten er forenelige med eller truer statens og nationens identitet og nationale interesse. De kan sammenfattes til sikringen af et samlet, uafhængigt og stærkt Kina, der behandles med behørig respekt af andre stater. Der er historiske grunde til alle disse målsætninger, men de er ikke nødvendigvis altid forenelige.

Et samlet Kina har ikke altid været en realitet, men staten har i flere perioder været delt op i indbyrdes stridende dele, senest i "krigsherreperioden" i mellemkrigstiden (ca. 1916-27), hvortil kommer de sidste levn fra imperialismens og de ulige traktaters periode. Det engelske Hong Kong og det portugisiske Macao er omsider blevet forenet med moderlandet (Lo 2007), men tilbage står det tidligere japansk koloniserede Taiwan, som vi skal vende tilbage

til nedenfor. Hertil kommer Tibet, som Kina siden 1951 har formået at bevare kontrollen over, efter den fejlslagne opstand i 1956-59 (Heberer 1995). Der har været mange spekulationer om, hvorvidt Kina har yderligere territoriale ambitioner, førend det vil opfatte samlingsprojektet som fuldbyrdet. Nabolande har f.eks. været bekymrede over offentliggørelsen i 1992 af kinesiske kort, der bl.a. omfattede Mongoliet (eller "Det ydre Mongoli," som kineserne foretrækker at kaldet det) samt en række øer i det Sydkinesiske Hav (Harding 1993; Downs & Saunders 1998). Indtil nu har Kina tilsyneladende – bortset fra nogle mindre indsatser mht. Spratley-øerne (Møller 2002) og hele Taiwanpolitikken – ikke gjort meget for at indfri disse territoriale krav, men man kan på ingen måde udelukke, at appetitten gradvis vil vokse (Carlson 2003; Møller 1998). Man kunne også frygte, at Kina vil begynde at agere som moderland for den kinesiske diaspora, dvs. de mange millioner udlandskinesere i bl.a. Sydøstasien (Gungwu 1993; Thunø 2001), hvilket ville følge logisk af den ene af de to former for nationalisme nævnt i indledningen, nemlig den etniske, men ikke af den anden og mere politiske.

Bortset fra det territoriale aspekt vedrører spørgsmålet om det samlede Kina naturligvis også den indre sammenholdskraft, der bl.a. afhænger af styreformen. Der har tidligere været spekulationer om, at Kina var ved at falde fra hinanden – bl.a. som følge af kystregionernes mere intense samkvem med omverdenen (Segal 1994; White & Chang 1993), men konkrete studier af de enkelte områder synes ikke at give meget belæg for dette. Ganske vist er der visse centrifugale tendenser, f.eks. ved at de sydlige kystområder bliver rigere og mere liberale end det fattigere og mere "gammelkinesiske" nord, men kommunistpartiet synes hverken at være tilbøjelig til at afgive den overordnede kontrol eller på nogen måde at være tvunget til dette (Goodman & Segal, eds. 1994). Man kan derfor godt forestille sig en udvikling mod en mere føderal styreform med et vist selvstyre til de enkelte provinser – som Hong Kong allerede har opnået – men dette vil langt fra være ensbetydende med, at Kina falder fra hinanden.

Et uafhængigt Kina har heller ikke altid været nogen selvfølge, jvfr. de ovennævnte "ulige traktater," hvormed det formelt suveræne Kina blev påtvunget en reel afståelse af suveræne rettigheder til vestmagterne og Japan - et klassisk eksempel på, hvad Krasner (2001) har kaldt "organiseret hykleri." Så meget vigtigere er i dag de internationale normer om suverænitet og ikke-indblanding i indre anliggender, hvor Kina også i forholdet til andre stater og bl.a. i FNs Sikkerhedsråd er meget påpasselig med ikke at skabe præcedens for indskrænkninger af suverænitet – hvor meget de end måtte være enige med vesten om selve substansen i en bestemt konflikt (Gill & Reilly 2000). At værne om suverænitetsprincippet er der dog ikke noget usædvanligt i, og når Vesten i stigende grad taler om, at suverænitetsprincippet "ikke skal være helligt," er det



som regel andres suverænitet, de vestlige lande hentyder til, mens de som oftest hæger nidkært om deres egen.

Et stærkt Kina er i høj grad et spørgsmål om økonomisk styrke og vækst, som både er en forudsætning for indre sammenhold og for militær styrke. Selvom der i høj grad kan stilles spørgsmål til kommunistpartiets "procedure-legitimitet" (i hvert fra ud fra gængse kriterier om demokrati) kan et regime kompensere for mangler i denne henseende, hvis det kan opnå "præstations-legitimitet" (Huntington 1991:13; Gilley 2006). Det forekommer sandsynligt, at de i dag kun formelt kommunistiske styre kan bevare denne form for legitimitet, så længe det blot kan sikre, at hovedparten af befolkningen får det bedre og bedre år for år. Dette er lykkedes siden begyndelsen af 1980'erne, næsten uanset hvordan man måler "præstationen", f.eks. som "menneskelig udvikling" (UNDP 2005). Skulle denne gunstige udvikling imidlertid vende, kan man meget vel forestille sig, at befolkningen kan komme til den konklusion, at regimet har forbrudt sig mod "mandatet fra himlen," og derfor kræve retten til at vælge et andet.

Selvom der indgår andre elementer, forudsætter præstationslegitimitet utvivlsomt økonomisk vækst, der dog også skaber andre udfordringer for regimet. For det første betyder den eksportbaserede vækststrategi – og ikke mindst medlemskabet af verdenshandelsorganisationen WTO – at Kina må åbne sig for omverdenen, hvilket også er en forudsætning for at følge med i den teknologiske udvikling. Dette betyder dog næsten uvægerligt også, at man må sænke paraderne overfor alskens subversive ideer om f.eks. demokrati og menneskerettigheder, der kan snige sig ind f.eks. via internettet eller kinesiske studenter ophold i udlandet, (Reardon 1998; Xinbo 2001). For det andet indebærer den økonomiske udvikling et behov for ressourcer som f.eks. olie, hvilket bl.a. har afstedkommet mindre væbnede konflikter med nabolandene om de ovenfor nævnte Spratlyøer, der i virkeligheden handler om retten til udnyttelse af de undersøiske olieforekomster i det Sydkinesiske Hav (Valencia 1995; Kivimäki, ed. 2002). Hertil kommer en jagt på adgang til olieressourcer i resten af verden, ikke mindst i Afrika – der også er et vigtigt marked for kinesiske varer - hvilket undertiden har bragt landet på kollisionskurs med vesten (Jaffe & Lewis 2002; Alden 2005; Daojiong 2006).

Det ligger Kina meget på sinde at blive behandlet med den respekt, der tilkommer en stormagt - og ikke mindst "Riget i Midten." Omverdenen, og især vesten, har været med til at accentuere denne målsætning, dels gennem de ulige traktater, dels ved gennem mange år at formene Kina adgangen til FN (Quingguo 2005). Det er derfor næsten en rygmarvsrefleks af kineserne at sætte hælene i, hvis vesten f.eks. fortæller dem, hvordan Kina skal håndtere (hvad det selv opfatter som) dets indre anliggender, eller hvordan det skal håndtere dets relationer med tredjelande. Specielt kompliceret bliver det, når et tema af resten

af verden bliver opfattet som et udenrigspolitisk anliggende, mens Kina betragter det som indenrigspolitisk, således som det er tilfældet med relationerne til Taiwan, som vi afslutningsvis skal se lidt nærmere på.

### **Hvad med Taiwan?**

Lige siden Generalissimo og leder af Kuomintang-partiet Chiang Kai-shek (1887-1975) i 1949 søgte tilflugt på Taiwan efter at have tabt borgerkrigen til de kommunistiske styrker, har denne mellemstore ø med i dag knap 23 millioner indbyggere stået i centrum for en af verdens længstvarende og mest komplicerede konflikter. Selvom der især har været tale om sabelraslen til forskel fra egentlige kamphandlinger, har konflikten manifesteret sig i gentagne kriser, hvoraf især de to "Quemoy-kriser" i 1950'erne endog truede med at udløse en atomkrig (Halperin & Sou 1967; Chang 1990). Hele konflikten bringer i allerhøjeste grad identitetsspørgsmål i spil (for en uddybning se Møller 1998).

Fra 1949 og i hvert fald frem til begyndelsen af 1990erne (måske endda til i dag) har de to Kinaer paradoksalt nok været enige om én ting, nemlig at der kun er ét Kina, mens de til gengæld er fuldstændigt uenige om, hvem der har retten til at repræsentere dette noget luftige og næsten metafysiske "Kina." For regeringen i Taiwan (dengang betegnet som Formosa eller Republikken Kina) var det indlysende, at den retmæssige regering var Kuomintang, der blot midlertidigt var blevet fordrevet af kommunistiske oprørere. Regeringen i Taipei opretholdt derfor (i hvert fald indtil 1987) formelt ambitionen om at generobre fastlandet med våbenmagt – og den Kolde Krig betød, at Vesten støttede i hvert fald den diplomatiske aspekt af dette projekt, hvilket bl.a. manifesterede sig i, at Formosa-styret fortsatte med at repræsentere Kina i FNs Sikkerhedsråd og andre internationale fora samt gennem ambassader i andre lande (Garver 1997).

Ét-Kina politikken betød så, at Folkerepublikken blev næsten totalt diplomatisk isoleret. Da USA under Nixon endelig besluttede sig til at anerkende styret i Beijing som repræsentant for "Kina" betød det til gengæld, at Taiwan blev isoleret – omend dets regering med meget ringe held forsøgte bogstavelig talt at købe sig til en slags diplomatisk status, f.eks. ved at yde rundhåndet bistand til en række meget fattige afrikanske og andre stater til gengæld for anerkendelse (Yang, ed. 1997; Henckaerts, ed. 1996; Taylor 2002). Eftersom det store Kina per automatik gengældte en sådan anerkendelse med at afbryde relationerne til de formastelige modtagere af taiwanesiske bistand, varede det sjældent længe, for disse kom på andre tanker og "af-ankendte" Taiwan for igen at blive taget til nåde af Beijing.

Hvad der gjorde dette diplomatiske spil endnu mere udsigtsløst var, at Taiwan ikke formelt erklærede sig som selvstændig stat, dvs. rev sig løs fra Kina. At anerkende et Taiwan, der allerede *de facto* var selvstændigt, som en selvstændig stat, ville formentlig have været mere tillokkende for andre stater end at anerkende det som repræsentant for et fastlandskina med over en milliard indbyggere, som regeringen i Taipei tydeligvis ikke havde skygge af kontrol med. Hermed være dog ikke sagt, at diplomatisk anerkendelse ville have været noget let valg, da man jo måtte regne med kinesiske repressalier. Med den forsinkede indførelse af demokrati i Taiwan ville man imidlertid have haft en vis normativ basis for en anerkendelse, hvis f.eks. løsrivelsen havde været besluttet af en folkevalgt regering eller ved en folkeafstemning.

At Kuomintang ikke tog dette skridt, skyldtes bl.a. at partiet og dets væbnede styrker reelt havde invaderet øen og etableret et alt andet end demokratisk styre over den (Bullard 1997), der helt marginaliserede de oprindelige taiwanesere. Havde det opgivet rollen som eksilregering over hele Kina til fordel for en mere reel position som regering af Taiwan, ville det formentlig være blevet væltet til fordel for en regering, der faktisk repræsenterede den største befolkningsgruppe, nemlig de etniske taiwanesere og den store gruppe af Han-kinesere, der havde boet på øen i århundreder og følte sig mere som taiwanesere end som kinesere.

Den gradvise indførelse og konsolidering af demokrati underminerede dog styret skridt for skridt. I 1988 blev således den første etniske taiwaneser, Lee Teng-hui, valgt til præsident (Jacobs & Liu 2007) og han blev i 2000 efterfulgt af en anden, Chen Shui-ban, der ikke engang tilhørte Kuomintang, men oppositionen, det Demokratiske Progressive Parti (DPP), som i princippet er tilhænger af løsrivelse. Ikke desto mindre lovede han i sin tiltrædelsestale at afstå ikke blot fra en formel uafhængighedserklæring, men også fra andre tiltag, der af Beijing kunne opfattes som løsrivelse (Bullard 2008).

Det ser altså foreløbigt ud til, at status quo bevares. Trods sine mange ulogiske træk er den eksisterende situation da heller ikke så ringe endda. Reelt er Taiwan naturligvis selvstændigt med både en udstrakt udlandshandel og repræsentationer i de vigtigste lande, der ganske vist ikke nyder diplomatisk immunitet, men som sagtens kan underskrive kontrakter og andre aftaler. Kina tolererer også taiwanesisk deltagelse i mange internationale fora, når blot deltagerne betegnes som kommende fra f.eks. "Taipei, Kina" snarere end som repræsenterende "Taiwan" eller "Republikken Kina." Der kommer desuden mere og mere økonomisk og andet samkvem på tværs af Formosastrædet, bl.a. i form af taiwanesiske investeringer på fastlandet, der er til gavn for begge sider (Leng 1996). Det diplomatiske spil, der konstant foregår mellem de to parter skal formentlig opfattes som netop et spil, med gentagne "næsten-løsrivelses-erklæringer" fra Taiwans side og "næsten-trusler" fra Beijings. Sidstnævnte er i

øvrigt som oftest formuleret som dobbelte negationer à la “ikke at fraskrive sig retten til” at bruge magt, snarere end som utvetydige trusler, og det samme gælder de mere “muskuløse” skridt som opstilling og sågar affyring af missiler i retning mod Taiwan, men med vilje uden at ramme det (McDevitt 2004).

Identitetsspørgsmålet kan blive afgørende for, om denne langtfra ideelle, men heller ikke helt utålelige, status quo kan bevares – men det er ikke helt klart på hvilken måde. På den ene side kunne man håbe på, at de (reelt) to Kinaer kommer til at ligne hinanden mere og mere, jo mindre kommunistisk og jo mere liberalt (om end ikke demokratisk), kapitalistisk og velstående Folkerepublikken bliver, og jo mindre den finder tilbage til den fælles konfutsianske arv. Måske kan Taiwan komme til frivilligt at acceptere en genforening – især hvis de finder udviklingen i Hong Kong tilfredsstillende og accepterer dette som en model for Taiwans plads i et forenet Kina (Cabestan 1996). På den anden side kan man heller ikke udelukke – og specielt ikke, jo mere demokratisk og dermed uforudsigeligt Taiwan bliver – at presset for en løsrivelseserklæring bliver så stærkt, at den siddende regering bliver nødt til at udskrive en folkeafstemning på spørgsmålet (Zheng & Fook 2007; Ross 2006). I jo højere grad Kuomintang bliver trængt i baggrunden, kunne man f.eks. forestille sig, at taiwanerne konstruerede nye identitets-narrativer ved at finde kapitler om deres ikke-kinesiske fortid frem af historiens glemmebog (herunder perioden som japansk koloni fra 1895 til 1945). De kan herved komme til at opfatte sig som en selvstændig nation med samme ret til en stat som andre nationer (Rigger 1997; Shih 2007; Brown 2004; Hughes 1997: 95-104; Weiming 1996; Hsieh 2004). Hvis de to Kinaer kommer til at ligne hinanden ved at være nationalistiske kan der derfor opstå en konflikt ved at sammenstød mellem Folkerepublikkens inklusive og en eksklusiv taiwanesisk nationalisme (Zheng & Fool 2007).

## **Konklusion**

Vi har således set, hvordan en række gennemgående temaer om f.eks. Riget i Midten i kombination med et “offer-syndrom” præger Kinas definition af den nationale identitet og herved også konstruktionen af den nationale interesse, der langt hen af vejen udgør rammebetingelserne for de konkrete politikker i forhold til omverdenen – og ikke mindst i forhold til Taiwan. Der er dog ikke noget usædvanligt ved dette, da alle stater har en konstrueret identitet og heraf udledte nationale interesser som rettesnor for deres udenrigs- og sikkerhedspolitik.

Med nationalismen som det centrale element er Kina en mere “normal” stat i det internationale system end da det definerede sig selv på grundlag af den maoistiske ideologi, og der er ingen grund til at antage, at Kina ikke skulle kunne indordne sig de almindelige regler for staternes indbyrdes samkvem i det internationale samfund. For Taiwans vedkommende er der dog grund til en vis

bekymring, men langtfra panik – og mange gode grunde for omverdenen såvel som den taiwanesiske regering til at træde varsomt.

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## **The East Wind will not subside: Stormy Weather ahead?**

Jacques Hersh

The evolution of East Asia after the demise of “real-existing socialism” has become a primary concern of social sciences and political strategists. Indeed, if there ever were a need to disprove the thesis of “The End of History” (Francis Fukuyama) a look to this part of the world would be sufficient to convince us that we may be witnessing the beginning of a new historical evolution. In other words, a shift of the centre of economic vitality from West to East or as implied by a return to normalcy in world history. (Andre Gunder Frank: *ReOrient: Global Economy in the Asian Age*, Berkeley, CA: University of California Press, 1998).

Much thought had been given in the 1970s and 1980s to the shape of the world capitalist system as a result of the emergence of Japan as a leading economic power together with the East Asian Newly Industrialized Countries. Regardless of the fact that the Japanese economy is only second to the United States, this challenge was successfully contained by US economic and financial strategy. (Jacques Hersh, *The USA and the Rise of East Asia Since 1945*, London: MacMillan Press Ltd. and New York: St. Martin’s Press, Inc., 1993). However, in recent years, the question of the future of East Asia’s position in the world has become an even greater concern for Western strategists. The reason for this revolves around the impact China is having/will have on the international economic and political system. Because of that nation’s size, population and potential this awareness was not only a product of the 20<sup>th</sup> and 21<sup>st</sup> century. In the beginning of the 1800s, Napoleon supposedly warned about the potential consequences of a dynamic China. “China is a sickly sleeping giant. But when she wakes the world will tremble”. (William Safire, *Safire’s New Political Dictionary*, New York: Random House, 1993). He is also said to have advised that the best course for the advanced countries would be to “let China sleep.”

The 19<sup>th</sup> century stereotype portrayal of the Chinese socio-economic formation as being in a state of dormancy has the implication of depicting it as anaemic in comparison to the dynamism of the Western capitalist powers. This assumption can be ascribed to the “Orientalism” of Western thought in its appraisal of non-European pre-capitalist societies. In fact, prior to the industrial revolution in England and before the “eclipse” of China in the 19<sup>th</sup> century, Adam Smith had considered China as being ahead of Europe along the path of a similar trajectory. According to Andre Gunder Frank:

Smith... was the last major (Western) social theorists to appreciate that Europe was a Johnny-come-lately in the development of the wealth of nations: “China is a much richer country than any part of Europe,” Smith remarked in 1776. Smith did not anticipate any change in this comparison and showed no awareness that he was writing at the beginning of what has come to be called the “industrial revolution.” (*Re-Orient: Global Economy in the Asian Age* (Berkeley, CA: University of California Press, 1998, p.13; Giovanni Arrighi, *Adam Smith in Beijing - Lineages of the Twenty-First Century*, (London and New York: Verso, 2007; 25-26).

It is often forgotten that leading figures of the age of European Enlightenment such as Leibniz, Voltaire, and Quesnay, among others found inspiration in many aspects of Chinese society and political organization. They “looked to China for moral instruction, guidance in institutional development, and supporting evidence for their advocacy of causes such as benevolent absolutism, meritocracy, and an agriculturally based national economy.” (Michel Adas, *Machines as Measure of Men: Science, Technology and Ideologies of Western Dominance*. (Ithaca, NY: Cornell University Press, 1989, 79; quoted in Arrighi, 3). The historical achievements and advances of the Chinese socio-economic formation are important to understanding the relationship between East and West. This comprehension contributes also to the questioning of the Eurocentric interpretation of the so-called European miracle. Prior to the emergence of the domination of the Western wind, Asia was central to providing for the largest reproduction of people. Early on in the contact between Europe and Asia, “sixteenth-century Europeans had considered Japan and China to be the great hopes of the future,” according to the seminal work *Asia in the Making of Europe* by Donald Lach and Edwin van Kley. (Quoted in Frank, 11). The Chinese state –under successive empires—developed an administrative system of governance that facilitated the growth of economic resources and population. Before most governments in the world had even conceived of policies for preventing distress and death because of famines, the Chinese had implemented the strategies of procurement, storage, and distribution of grain in order to protect the population against eventual ravages of famine through “ever-normal granaries”. During the Qing era, the state was proactively involved through an investment programme in agricultural improvement, irrigation and waterborne food transportation. (Amiya Kumar Bagchi, *Perilous Passage – Mankind and the Global Ascendancy of Capital*, London, Boulder, New York, Toronto, Oxford: Rowman & Littlefield Publishers, Inc., 2005, 141,142). The urban centres were more developed than the corresponding contemporary European cities. The wealth of major cities and the level of craftsmanship amazed many first-time European travellers to China. In the sphere of scientific discoveries and application to production processes, China was at the forefront of modernization. The three inventions, which according to Francis Bacon changed the world: paper, gunpowder, and the magnetic compass, were of

Chinese origin. After a long time lag they spread to Europe and other parts of the world. (Joseph Needham et al., *Science and Civilisation in China*, Vol. 1, London: CUP, 1954).

Before the growth of machine-based manufactures in Britain, China and India were the two most important suppliers of manufactured goods to the world. “In 1750 China produced 32.8 percent of world manufactures, India (meaning the subcontinent of South Asia) produced 24.5 percent, and today’s developed countries together produced 27.0 percent. (Colin Simons, 1985 quoted in Bagchi, op.cit. 135). Silk manufacturing from the cocoons to the major silk-working machinery was pioneered by Chinese producers and the country was a major supplier to the world. The so-called “silk road” became a major route of export of Chinese textiles and porcelain wares to Europe and North Africa for more than two thousand years. (Ibid. 137). From the sixteenth century on, the Chinese economy became more closely connected to the formation of a global economy through the activities of Portuguese and Spanish merchants with the extension of ocean trade routes. The accumulation process that resulted from the economic relations established on the world scale after the incorporation of the Americas and Africa was essential to the later evolution of European capitalism. Without access to the resources from these continents and the products from Asia, Western capitalist development might have followed a different trajectory. Industrial capitalism was not an entirely home grown phenomenon. From different perspectives, both Adam Smith and Karl Marx recognized the importance of this historical period for the development of the world. In his magnum opus, *The Wealth of Nations*, written in 1776, Smith writes that:

The discovery of America, and that of the passage to the East Indies by the Cape of Good Hope, are the two greatest events recorded in the history of mankind. (Smith 1937: 557; Frank 1998: 13).

Contrary to his present-day followers, Adam Smith was somewhat uncertain as to the benefits or misfortunes these great events would have on human kind. (Ibid. 189). Writing after the impact of the industrial revolution had revealed itself, Karl Marx and Friedrich Engels were more explicit about the importance of the geographical extension economic relations to other continents for the establishment of an international division of labour for the development of capitalism:

The discovery of America, the rounding of the Cape, opened up fresh ground for the rising bourgeoisie. The East-Indian and Chinese markets, the colonization of America, trade with the colonies, the increase in the means of exchange and in commodities generally, gave to commerce, to navigation, to industry, an impulse never before known, and thereby to the revolutionary element in the tottering feudal society, a rapid development. ... Modern

industry has established the world-market, for which the discovery of America paved the way. (Karl Marx and Friedrich Engels, “Manifesto of the Communist Party” in *Selected Works in Two Volumes*, Volume I, Moscow: Foreign Languages Publishing House, 1958, 35; Frank *ibid.*).

But contrary to the Eurocentric interpretation of history, it cannot be emphasized sufficiently that until late in the game Europe was the inferior part in the relationship to Asia. The trade balance to China was clearly in favour of the Chinese with the Europeans covering the deficit with the silver mined in the Americas. As Bagchi puts it: “... for two centuries after the discovery of the Americas, the Europeans were unable to compete on equal terms with Asian manufactures.” (Bagchi 142). Consequently, neither Spain nor Portugal, the two powers that gained most immediately from the exploitation of the Amerindians, was able to impinge on the power of the big Asian or Eurasian empires of Ottoman Turkey, China, India, or Persia. (*Ibid.*).

Western social sciences have had difficulties coming to terms with the comparative development of Europe in relation to these non-European entities. It has been difficult for mainstream sciences to admit that the level of development in extra-European regions of the world might have been more advanced than that of the Western socio-economic formations. According to this position, the reasons for the present disparity are to be found in the superiority of inherent European capacities to innovate in relation to the other cultural spheres. In this way of thinking, the “exceptionality” of European civilization was due to the internal dynamism of European culture. In recent years, the Eurocentric interpretation of world economic history has been challenged by scholars whose aim is to explain the timing and origins of the disparity between Europe and the rest of the world in relation to the divergent paths of development. It has been documented that human development, the two most populous countries of the world, India and China, were doing just as well as the best-performing regions of Europe down to the middle of the 18<sup>th</sup> century. In terms of commercialisation, craft production and agricultural growth, China, India and Japan were not behind contemporary major European countries. With the exceptions of England and the Netherlands, there was little to distinguish most of early modern Europe from major states in Asia during the sixteenth to eighteenth centuries with regard to economic organization, property rights, or civil society –traits that according to Eurocentric historians had marked Europe out for its “manifest destiny”.(Bagchi *ibid.*, 174; Goldstone, J.A., “The Problem of the ‘Early Modern’ World” in *Journal of the Economic and Social History of the Orient*, 1998, 41 (3), 249-84).

There cannot be any doubt that the trajectory of Western Europe would have been different had it not been for the discovery of America and the subjugation

of its population and that of Africa. In economic terms Europe had been in a catching-up position vis-à-vis especially the Asian centres. The establishment of plantations of sugarcane, cotton and tobacco in the Americas with slave labour imported from Africa was critical for the development of European capitalism. The flow of precious metals extracted from mines in America was essential in settling Western Europe's accounts with Oriental countries. In the words of Bagchi: "...the colonial edge was less a product of initial or technological superiority in civil production than of advantages won on the battlefield."(Ibid. 175 ) From this perspective, the industrial revolution in Britain had been contingent on the conquest of India and the reduction of China to a subsidiary position relative to the Western powers.

What is being argued here is that the late development of Western Europe came about through the tribute of extra-European regions which contributed to the capital accumulation process of the continent and served to redress the trade imbalances with Asia.

Recognition of this process is what differentiates the three schools of international political economy that have confronted each other in interpreting the development of capitalism in the past few centuries. While liberalism assumes that market relations with little state intervention as possible lead to a harmonious world economy, economic nationalism recognizes that late development is mainly a political project of industrialization which protects the national economy against the interests of the first developers' control of the world market. The dependency school, which is an offshoot of Marxism - with its analysis of the creation of surplus value under capitalism - and Leninism - with its inclusion of the concept of imperialism, brings in the exploitation of other societies in the conceptualisation of capitalism. (For a discussion of the different perspectives see: Robert Gilpin, *The Political Economy of International Relations*, Princeton, New Jersey: Princeton University Press, 1987).

Regardless of the fact that Marxism was the most antisystemic approach to the analysis of capitalism, it has had problems in coming to terms with the Eurocentric perspective. The dilemma is reflected in the fundamental assumption depicting capitalism as the most accomplished socio-economic formation in the history of mankind. In the pamphlet *Manifesto of the Communist*, which was published in London in 1848, K. Marx and F. Engels offered a problematic understanding of the functioning of European capitalism's mode of expansion to other regions of the world:

The cheap prices of its commodities are the heavy artillery with which it batters down all Chinese walls, with which it forces the barbarians' intensely

obstinate hatred of foreigners to capitulate. It compels all nations, on pain of extinction, to adopt the bourgeois mode of production; it compels them to introduce what it calls civilisation into their midst, i.e., to become bourgeois themselves. In one word, it creates a world after its own image. (Marx and Engels, op. cit., 28).

The supposition that the competitive superiority of capitalist production is the explanation behind the European miracle became axiomatic for Euro-Marxism. This notwithstanding the fact, Marx and Engels had shown awareness that the success of capitalism was much more than the functioning of purely economic mechanisms. They recognized that the use of military power had been the midwife to breaking down opposition to the expansion of European capitalism. In an article published in 1853 in the *New York Daily Tribune*, Marx touches upon the Opium War whereby Britain broke down the resistance of China to the importation of opium in order to do away with the British trade deficit with China and ruined the Chinese society. He remarks that:

Up to 1830, the balance of trade being continually in favour of the Chinese, there existed an uninterrupted importation of silver from India, Britain and the United States into China. Since 1833, and especially since 1840, the export of silver from China to India has become almost exhausting for the Celestial Empire. (Karl Marx, "Revolution in China and in Europe", in K. Marx and F. Engels, *On Colonialism*, Moscow: Foreign Language Publishing House, no date, 16).

The narrative utilized by NeoMarxism, especially in the Dependency School version, to describe the ascent of Europe to its world hegemonic position, includes the tribute that non-European social formations paid to the process. In this respect the conquest of the Americas by the Spaniards and Portuguese, following the "discovery" of that part of the world, led to the establishment of plantations of sugarcane, cotton and tobacco utilizing African slave labour. This together with the flow of precious metals, such as silver, extracted from mines in America became crucial in settling Western Europe's deficit with Asia. The control of this flow of wealth became a source of contention between the leading contenders for hegemony. The accumulation of capital resulting from this type of triangular trading pattern was critical for the societal transition of European capitalism and later evolution. In the words of Bagchi: "The role of colonialism did not cease with the end of the phase of merchant capital in Europe. The final conquest of India and the beginning of the reduction of China to a subsidiary of European powers played important roles in the facilitating the progress of the industrial revolution in Britain." (Bachi 175). It can consequently be argued that the other side of the coin of European industrial capitalism was the triangulation of the industrialisation process in Asia. Protecting its own textile industries from cotton goods of Indian origin and denying these exports access to the European

continent, British cotton mills were able to develop without facing this competition. Duties on import of textiles were prohibitive until the end of the 18<sup>th</sup> century. Not only that but under British rule, Indian domestic production suffered reverse discrimination: they were made to pay higher duties on exports than English imports. “India was turned into the biggest consumer of products of the British cotton mills, which for a long time remained the industry employing the largest number of British workers. (Bagchi 176).

China likewise was deindustrialized after the first Opium War (1839-1842). At the turn of the 19<sup>th</sup> century, the West imported silks, porcelain, and tea. China who had a diversified economy was not seeking to import Western goods. The Western nations –foremost Britain—were, as mentioned above, redressing the balance of payment with export of silver. By forcing China to import Indian opium the outflow of silver was reversed. British commercial expansion came to depend on this trading relation: “Though the First Opium War was launched to defeat Chinese attempts to ban the opium trade, the British also wanted to ‘open’ China to Western trade and commerce on terms acceptable to them.” (Victor Nee and James Peck, editors, Introduction in *China’s Uninterrupted revolution*, New York: Pantheon Books, 1975, 5). The international division of labour accompanying the expansion and extension of European capitalism was the result of the pattern of trade established during this period. The extra-European colonies of Europe’s powers became also important consumers of the products of the industrialization process in the North Atlantic realm. “Thus colonies played a critical part in the maturing of the first axial age separating Europe and its settler colony extensions from the rest of the world.” (Bagchi 176 ).

With regard to China, the British victory in the Opium War was interwoven with a deepening internal crisis that was aggravated by the Western economic expansion in the country. Compared to previous invaders that could be absorbed in the vast nation, the Western nations not only had superior weapons but commanded a power unleashed by the Industrial Revolution which was able through a combination of military might and economic means to undermine the foundations of China’s self-sufficient agricultural economy and burgeoning industrialization as well as the country’s traditional culture and values. (Lee and Peck 4 ).

The development of European capitalism, which enabled it to expand to the rest of the world, compared to the relative late-development of Asia is paradoxical to the extent that prior to the 19<sup>th</sup> century at least, the positions were reversed. In other words it was the West that had been backward in relation to East and South Asia. This observation applies both to the level of economic activity as well as to that of societal organization. The attempt to conceptualise, what must have appeared as an anomaly to Eurocentric social sciences, has not been



successful in bridging the gap of misunderstanding. The question is of importance as it has a certain relevance to the present evolution of the different parts of the world. The divergence of trajectories that characterized the dynamism of European capitalism and the eclipse of the Asian socio-economic formations has still not been satisfactorily mapped.

Evidence suggests that European social scientists of the eighteenth century realized the advanced position of China as compared to that of Europe. When Adam Smith wrote in 1776, “China is a much richer country than any part of Europe” he was echoing David Hume who had appreciated Europe’s relative underdevelopment. (Frank 13). But following the Industrial Revolution, a new perception of European superiority came to dominate the scientific community and the accompanying theory building. In the words of Frank:

The coming of the industrial revolution and the beginning colonialism of Asia had intervened to reshape European minds, and if not to ‘invent’ all history, then at least to invent a false universalism under European initiation and guidance. Then in the second half of the nineteenth century, not only was world history rewritten wholesale, but “universal” social “science” was newborn, not just as a European, but as a *Eurocentric* invention. (Ibid. 14).

The agenda of the paradigm shift focused on the assumption of a teleological dimension to the development of capitalism for the evolution of mankind. The question to be answered in relation to non-European social formations became one of conceptualising their inherent propensity to stagnancy and focusing on the conditions preventing the dynamism of capitalist social relations from emerging. The fundamental supposition that capitalism is most in accordance with human nature derives from Adam Smith’s often quoted adage that of the division of labour being an inescapable consequence of a “certain propensity in human nature ... to truck, barter, and exchange one thing for another.” (Adam Smith, *The Wealth of Nations*, (1776), Middlesex, England, and New York: Penguin Books, 1974, 117).

If this axiom of liberalism is applied to world history then, the need arises to explain the reasons why the modern world capitalist economy emerged in Europe and not in other social formations. It is the narrative that sees the rise of capitalism as an exclusive European phenomenon that contributed to creating the foundation of what has been called Eurocentrism whose basic tenet is that this was due to historical forces generated within Europe itself. Implicitly and explicitly this scientific approach came to give legitimacy to the policies and strategies which European states followed in relation to other cultures and civilizations. Biology and implicit racism was one explanation, demography, environment and climate, rationality, technology, society including the state,

religion, etc. have been used to construct an ideologically-determined discourse in relation to non-Europeans.<sup>1</sup> Despite recognition of fundamental divergences between the West and rest, as well as diversity among different peoples and social formations, Eurocentrism nevertheless came to project a nonlinear societal development path whereby the rest of the world would duplicate the European experience. As the historical sociologist Barrington Moore put it: “There was a time in the still recent past when many intelligent thinkers believed there was only one main highway to the world of modern industrial society...” (Barrington Moore, Jr., *Social Origins of Dictatorship and Democracy*, London, 1967, 159).

### **Advanced Europe, Backward Asia!**

Two explanations that came to stand out in the body of social sciences with regard to the passage from feudalism to capitalism are 1) The Asiatic Mode of Production and 2) The importance of the cultural dimension in Europe’s transition. While the first relies on an environmentalist-materialist approach, the second puts emphasis on a culturalist explication.

1) Concerning the first, travellers to Asia in the 18<sup>th</sup> century, such as the physician Francois Bernier and the political thinkers Boulainvillier and Montesquieu portrayed these societies as centres of political despotism. In contrast to Europe, these formations were said to rely on slavery and to be characterized by the non-existence of private property –with the ruler in complete control of the land.<sup>2</sup> The interesting aspect of the conceptualisation of the Asiatic Mode of Production was that it appeared to fit in the materialist frame of reference of Marxian societal analysis by combining the natural environment and climatic conditions with the form of political organization.

In the final analysis, the explication of pre-capitalist Asian societies is based on a theory placing these formations in a status of inferiority to that of European feudalism. In the words of Blaut, “This theory has a number of variants which are known by various names, among them “the Asiatic Mode of Production,” “hydraulic society,” and “oriental despotism.” (Blaut 80-81). It is not entirely coherent to the extent that it seems split between a kind of environmental determinism and the assumption of a developed level of technology. However, in an evolutionary perspective, irrigation-based (“hydraulic”) societal formations

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<sup>1</sup> For a critical discussion of the mythology behind Eurocentrism see: J.M. Blaut, *The Colonizer’s Model of the World – Geographical Diffusionism and Eurocentric History*, New York: The Guilford Press, 1993, Chapter 2.

<sup>2</sup> For a critical discussion of the question of the transition to capitalism, see: Jacques Hersh, “Some Problems Concerning the Concept of Asiatic Mode of Production”, in *Marxistisk Anthropologi*, 1977, vol. 3, nr. 1.

are seen as inhibiting development because of the overbearing state structure and bureaucracies. According to this approach, this type of organization was directly related to the need for adjustment to the environment and climate that made irrigation necessary. Thus the identification of river-valley civilization, from Egypt to China, with “oriental despotism” was common in the 19<sup>th</sup> century. Viewed from an evolutionary angle, these types of society were thus seen as being blocked in their progression towards capitalism. This was the dominating paradigm of the scientific community in the 19<sup>th</sup> century. The model of European capitalism determined the level and tools of analysis of other type societies following the Industrial Revolution and the rise and increasing use of science together with the spread of the political philosophy of evolution and the notion of progress deriving from the French Revolution. As pointed out by Teodor Shanin there was general agreement concerning the involved methodology among social scientists. “Central to it was evolutionism – the arch-model of those times, as prominent in the works of Darwin as in the philosophy of Spencer, in Comte’s positivism and in the socialism of Fourier and Saint Simon. Evolutionism is, essentially, a combined solution to the problem of heterogeneity and change.” (Teodor Shanin, *The Late Marx and the Russian Road – Marx and the ‘Peripheries of Capitalism’*, New York: Monthly Review Press, 1983, 4). Based on the basic assumption of a structurally necessary development, it was the task of the scientific method to uncover the order and explanation of the various stages through which the diversity of forms, physical, biological and social would go through. In this optic, change was seen as a necessary part of reality while on the other hand it projected a narrative of unwarranted optimism and nonlinear determinism according to which “... the progress through stages meant also the universal and necessary ascent to a world more agreeable to the human or even to the ‘absolute spirit’ or God himself. (Ibid.).

Although Marx acquiesced to a certain evolutionism in his periodization of the history of civilization (the typology of historical development went through tribal society, primitive communism, feudalism and capitalism), he was disenchanted with the nonlinear reductionism of the evolutionist scheme. According to Shanon, Marx’s position on differentiating between feudalism in its European form and the corresponding pre-capitalist formations in the East was an attempt to define the background for surge of capitalism in Europe. “In consequence and already by 1853 Marx had worked out and put to use the concepts of Oriental Despotism and of the Asiatic Mode of Production, its close synonym, as a major theoretical supplement and alternative to nonlinear explanations.” (Shanin 5 ). This interpretation overlooks the fact that both Marx and Engels were products of their time, meaning that they were both influenced by and in opposition to the social theories in vogue. Besides their knowledge about the world outside of Europe was rather limited except for what they

learned in the press, in books and in official papers representing the colonial point of view. Consequently they did not seriously question the dominant perception of the Orient as being despotic and historically stagnant. However their position was not based on a culturalist approach, but on the natural environment as the determining element for the societal form. As Blaut puts it: "...their scepticism about European social theory, with its elitist foundations, immunized them from the usual explanations for Asian despotism and stagnation. Asians were no less rational than Europeans, and no less willing to struggle against economic exploitation." (Blaut 82). The theory of the Asiatic Mode of Production was modified by Marx and Engels and was altogether rejected by the latter in his late writings. Karl Marx, not being exclusively a social scientist, who analysed reality wanted to change it as well. In the article on the revolution in China and in Europe, he touched upon the two ideas that were to constitute the core of the various Marxist imperialism theories a half century later. On the one hand, the development of European capitalism and its expansion on a world scale was creating a single world economic system and on the other, the resulting convulsions would influence the evolution of Europe itself. (Helene Carrere d'Encausse and Stuart Schram, *Le Marxisme et l'Asie 1853-1964*, Paris: Armand Colin, 1965, 16).

After the establishment of state socialist formations, the notion of Asiatic Mode of Production disappeared from the Soviet-controlled body of social sciences. However, at the height of the Cold War, a former Komintern specialist on Asian affairs revived the concept. In his book *Oriental Despotism*, Karl Wittfogel not only resuscitated the notion of the Asiatic Mode of Production, but elaborated its scope by maintaining that movement toward capitalist modernization could only be found in feudal societies (such as in Europe and Japan) while Asiatic formations were inadaptable to modern-type transformations because in his words: "Hydraulic society is the outstanding case of societal stagnation." (Karl Wittfogel, *Oriental Despotism – A Comparative Study of Total Power*, New Haven, 1957, 420). Accordingly, this condition predetermined the political totalitarianism of the state socialist formation.

2) The culturalist explanation of the European advance and Asian backwardness owed most to the German sociologist, Max Weber. According to this interpretation of world history and specifically the development of capitalism in Europe, the main reasons are to be found in the cultural realm, and not least in religion. This thesis was expressed clearly in the book *The Protestant Ethic and the Spirit of Capitalism* published in 1905. On the occasion of the 100<sup>th</sup> anniversary of its publication Francis Fukuyama considers it to be the "most famous sociological tract ever written." Whereas the sociology of Marxism was based on a materialist interpretation of social formations, Weber puts emphasis on the cultural background as the most important explicatory element. The

difference between the two approaches is in Fukuyama's formulation: "It was a book that stood Karl Marx on his head. Religion, according to Weber, was not an ideology produced by economic interests (the 'opiate of the masses,' as Marx had put it); rather, it was what had made modern capitalism possible." (Francis Fukuyama, "The Calvinist Manifesto", in *The New York Times*, March 5, 2005).

The point of entry for Weber to the understanding the great divergences between European capitalism and Asian underdevelopment was the difference in the two cultural backgrounds. The evolution of rationality among Europeans was seen as leading to a kind of "economic ethic" – a set of values, aspirations and logical thought processes that emerged in connection with the Puritanism of Protestantism—nurturing, in the last instance, capitalism. The point is that neither European capitalism nor assume Asian backwardness are explained by an exclusive religious approach. As Blaut puts it: "Weber is not (as some think) explaining capitalism and modernity in terms narrowly of religion. He does invoke religion to explain many aspects of the supposed traditionalism of Asians, but here too a primordial irrationality is seen as underlying religion. (He writes, for instance, of the 'magical traditionalism' of Indians and Chinese)" (Blaut 103).

The idea of inherent European rationality has taken an axiomatic position in social sciences such as history in its analysis of the past or in development studies Modernization theory, whereby the capitalist development is projected the model to be emulated. A serious criticism of the culturalist theory arises when one considers the fact that in his study of the economic history of China and Japan, Weber concluded that these countries were condemned to remain backward because of their lack of the protestant ethic. The culturalist approach shows its inconsistency when applying it to East Asia. The underdevelopment of the societies of that region of the world was previously ascribed to their cultural background, while since the recent phenomenon of the East Asian Newly Industrialized Countries is ascribed to their shared cultural heritage that combines Buddhism and Confucianism and traditional strong state interventionism in the economy. What was considered to be the explicatory element for the backwardness of these societies in the past was now put forward as the explanation for their dynamism.

In the comparative study of different type societies it is necessary to attempt to develop an understanding of development based on the existing conditions. It can perhaps be said that because the conceptual tools of analysis have been developed in the European cultural sphere and thus makes it difficult to analyse societies with a different background. Perhaps Gunder Frank's critique against the great social scientists for their lack of inclusion of the concrete societal arrangements outside of the Western sphere is valid. The shortcoming however

is related more to the lack of knowledge of the concrete case that is being investigated. The saying that when you have a hammer in your hand, there is a tendency to see nails all over! Writing about the “hammer” of economics, Robert Heilbroner states in unequivocal terms that “Economics is concerned exclusively with the study of capitalism. To presume that it applies to societies that do not possess the unique characteristics of capitalism will only lessen its capacity to illuminate the society to which it properly applies.” (Robert L. Heilbroner, “The nature of economics” in *Challenge*, Vol. 38, 1995) The implication being that economics has no relevance in the study of hunting or gathering tribes nor can it be applied to noncapitalist-stratified societal orders such as kingdoms, empires, feudalities, command societies, or self-styled socialism. (Ibid. ) Where the criticism of Eurocentric social sciences is appropriate is the attempt to project the European experience as the point of departure in the analysis of the past as well as of the future. As the anthropologist Daniel Thorner has put it:

From our perspective, European feudalism of the high Middle Ages may be seen as embodying a particular form of peasant economy. Nothing is gained by trying to view all peasant economies as variations of that one rather special form. The time has arrived to treat European experience in categories derived from world history, rather than to squeeze world history into Western European categories. (Daniel Thorner, “Peasant Economy as a Category in Economic history” in Teodor Shanin (ed.) *Peasants and Peasant Societies*, Hammondsworth: 1971, 217).

### **Development as a Political Process**

A related fundamental shortcoming of mainstream Eurocentric development scholarship is its failure to take the international dimension between the core countries and what is called the periphery. Thus even though the European experience is offered as the model to be copied by the non-European societies, the theoretical body of the Modernization tradition is oblivious to the fact that Western capitalism itself has been a hindrance to the development of non-European capitalism. Given the fact that European capitalism morphed into imperialism, this advice proved to be more than naïve. It can consequently be argued that the conceptualisation of development and international relations demands an approach that includes all aspects of the processes involved.<sup>3</sup>

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<sup>3</sup> International political economy by combining the different aspects of development and international relations seems to be the best suited methodology to break down the “compartmentalization” of social sciences that accompanied the emergence of the modern capitalist state.

Like other parts of Asia, China in the 19<sup>th</sup> century became prey to the competition between imperialist powers. The unfolding of this systemic force contributed to the forging of the later evolution of this part of the world as political actors turned the imperialist danger into an opportunity for societal change! To a large extent it was the fate of China at the hands of the Western European powers and the emergence of the United States in East Asia that contributed to the surge of economic nationalism and anti-imperialism in the region. In this relation, Japan offers a classic example. The internal crisis of Japanese feudalism combined with the “opening” of the country to the West by Commodore Mathew Perry led to the Meiji Restoration of 1868<sup>4</sup>. The resulting “feudal-merchant” coalition that initiated the abolition of feudalism and the beginning of industrial capitalism realised the importance of a strong state and intervention in the economy. (E.H. Norman, *Origins of the Modern Japanese State*, Chapter III: The Restoration). Industrial strategy, protectionism and other aspects of state capitalism formed what has been called the “capitalist developmental state.” (Chalmers Johnson, *MITI and the Japanese Miracle*, Stanford, CA: Stanford University Press, 1982). During the second half of the 20<sup>th</sup> century, variants of this model were implemented by the Newly Industrialized Countries (NICs) in Eastern Asia. (See: Chalmers Johnson, “The Political Institutions and Economic Performance: The Government-Business Relationship in Japan, South Korea and Taiwan”, in Fredric C. Deyo, *The Political Economy of the New Asian Industrialism*, Ithaca and New York: Cornell University Press, Second Printing 1988) and Hagen Koo, “The Interplay of State, Social Class, and World System in East Asian Development: The Cases of South Korea and Thailand,” in *ibid.*).

Like other exemplars of late development in the world system (such as the United States and Germany) had earlier demonstrated, the Japanese elite realized that economic development is not simply a function of the unfolding of market mechanisms as claimed by contemporary British “Cosmopolitan” liberal political economy. Late industrialization required protection for infant industries from the competition of the more industrialized states. Free trade was in fact the protectionism of the strong! The German political economist, Friedrich List, accused England of hypocrisy for having first protected her textile industry from the competition of Indian cotton and silk before achieving supremacy and thereafter having projected free trade on the world. (Friedrich List, *The National*

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<sup>4</sup> The usual English translation of the Japanese term *shin* by “restoration” is somewhat of a misnomer. “Renovation” would be a more accurate translation. According to J.A.A. Stock win: “Given the root and branch character of the changes which the Japanese people subsequently underwent, the sum total of the changes may well be regarded as revolutionary.” (*Governing Japan – Divided Politics in a Major Economy*, Oxford and Malden, Mass.: Blackwell Publishers, 1999, 14 ).

*System of Political Economy*, Fairfield: Augustus M. Kelly, 1977, original English edition 1885 ).

As an important incentive for the implementation of a development strategy based on economic nationalism, the Japanese elite could observe at close range the impact of Western imperialism on China. The project of catching-up was thus dictated by the concern of protecting Japanese society from foreign domination and the fate that befell China. After a period of isolation, a breathing space, from the world economy, the political elites of late developing societies rejoined the capitalist world system from a position of strength and competed for the benefits to be derived from the international division of labour. Thus far from representing an anti-capitalist force, they in fact gave capitalism its historical dynamism that is encapsulated in the Marxist concept of “uneven development.” The upshot of the relationship between first developers and late developers historically led to challenges to existing hierarchical order and changes in the hegemonic position of the system’s leadership. The two world wars could be explained in these terms, as competitive struggles between established imperialist powers and emerging powers. Japan’s attempt to conquer Asia that resulted in World War II was an attempt to dominate the region and exclude the Western colonial powers.

The evolution of Chinese domestic politics was not unrelated to the geopolitical processes taking place in East Asia. China’s relative isolation from the rest of the world was nearing its end with the emergence of Western imperialism in the area. But far from being a dormant society, Chinese politics were in ebullition. The 19<sup>th</sup> century had been characterized by widespread corruption within the body politics, the administrative apparatus was deteriorating, peasant rebellions were taken place and the vast public works projects were beginning to break down. The imperialist intervention following the opium wars accentuated the disintegration of the society: growing addiction, smuggling and official corruption. The Manchu political establishment was revealed as powerless. Peasant unrest had broken out in dispersed and marginal ways already at the end of the 18<sup>th</sup> century and culminating in the Taiping Revolution between 1850 and 1870. Although peasant uprisings had been part of China’s 2000-year history, the Taiping Revolution was different from previous struggles. Ideas concerning the relative superiority of Western power penetrated civil society and specifically the revolutionaries. There was rebellion against both the ideological hegemony of Confucianism and societal organization. The Manchu’s defeat of the Taipings with Western assistance weakened the country which was submitted to a number of conflicts including the Sino-Japanese war. While the Manchu government collaborated with the Western powers, these gained a vested interest in their survival. But below the surface, a debate was going on among traditional Confucian scholar-officials with regard of coping with the



imperialist challenge. The dependent development which the country experienced with the foreign intrusion and incorporation in the Western capitalist system led to a paradoxical situation. The imperialist powers advanced their interests by supporting the political conservative elements in China against the forces trying to promote revolutionary change and the growth of indigenous Chinese capitalism. As students of modern Chinese history put it: “Imperialism, stimulating China’s social economy, was producing new groups and social forces which, though essential for its ongoing penetration of Chinese life, were also the basis for a growing opposition to it.” (Nee and Peck op. cit. 10).

By the early 20<sup>th</sup> century China had become a semicolony for all the international powers (including the latecomer Japan!). The unequal treaties reduced the Chinese authorities to the role of a powerless administration. In the wake of the Boxer anti-foreign uprising in 1900, a genuine fear spread among the Chinese people that their country would be partitioned and that they would disappear as an entity. A new political consciousness arose that realized the need for the creation of a modern centralized nation-state to force back imperialism and advance the Chinese nation’s regeneration. Although there was disputes and dissention among political forces in favour of drastic change, there was general agreement to look forward to the West and Japan as the models to be emulated. The idea was that China would be made over in the image of Western capitalism. For the reformers the predicament was: “how could the country free itself from foreign domination and gain independence while using the reform methods and ideology of Western capitalism?” (Ibid. 14).

This has been the dilemma of all latecomers had had to face. Seen in this light the lesson of Japan had more value as an example than the Western discourse. However, even after the establishment of the Chinese Republic, no group or class rose to power, as had been the case with the Japanese Restoration, with the capacity of directing the transformation of the country by regaining national independence and creating a strong state to resist the imperialist incursions. The 1911 revolution collapsed and the new republic floundered in the morass of warlord politics and aggression and occupation by Japanese imperialism. The peace following World War I exerted a political influence on the evolution of Chinese politics. The new generation of Chinese intellectuals and nationalist militants, had been dismayed by the results of the Versailles Peace Conference. In order to punish Germany and reward Japan for its participation in the war on the winning side the German concessions in the Shantung Peninsula were ceded to Japan. This was in fact a betrayal of China’s national sovereignty. For many Chinese, this revealed the hollowness of the idealism of President Woodrow Wilson and the hypocrisy of the Western democracies. Together with the nascent appeal of the October Revolution in Russia this exerted influence on the

formation of new generation of Chinese nationalists and socialists. The May Fourth Movement of 1919 unleashed a massive wave of anti-imperialist nationalism culminating in widespread political turbulence i.e., workers' strikes, demonstrations, riots and nationwide boycotts. The movement became a watershed in Chinese history and would affect the future evolution of the country. The success of the radical intellectuals of the May Fourth Movement translated in succeeding in putting the question of national regeneration on the political agenda.

Both the Kuomintang nationalists and the Communist Party arose out of this movement but were however unable to unite in the anti-Japanese struggle and the building of an independent national economy. Nevertheless the defeat of Japanese imperialism and the victory over the Kuomintang by the CCP opened the road to the modernization of China. On September 21, 1949, perhaps echoing Napoleon's remark on the "sleeping giant," Mao Zedong signalled China's resurgence when he declared on Tienanmin Square, "The Chinese people have stood up!" This was also a wake-up call to the world. The communist victory had political consequences and changed the prospects for the regional and global politics. The failure of the Chinese nationalists under Chiang Kai-shek to gain power was considered as a defeat by the American political class and affected the Sino-US relationship.

The dilemma facing the communist regime upon was the questions of economic development internally and the trading relations with the external world in the context of the Cold War. The slogan launched by Mao that "only socialism can save China!" reflected both a choice as well as an adjustment to the imposed realities of international relations. Paradoxically, the implemented strategy of self-centred development represented a variant of the model of economic nationalism (mobilization of internal resources and isolation from the capitalist world economy) and adherence to an alliance with the socialist countries with the expectation that they would succeed in defeating the capitalist West. During a visit to the Soviet Union, Mao made some remarks to Chinese students in Moscow on November 17, 1957 predicting an end to Western domination of the world. According to this way of thinking, the balance of forces in the conflict between the two socio-political systems was shifting in favour of socialism. "In the struggle between the socialist and capitalist camps, it was no longer the west wind that prevailed over the East wind, but the East wind that prevailed over the West wind."<sup>5</sup>

Of course the international socialist project didn't materialize as the forces of nationalism truncated the vision and practice of socialism. What took place was

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<sup>5</sup> [http://www.marxists.org/reference/archive/mao/selected-works/volume-7/mswv7\\_480.htm](http://www.marxists.org/reference/archive/mao/selected-works/volume-7/mswv7_480.htm)

that priority in all socialist states was given to their country's national interest. Given the potential and real strength of a nation the size of China, the USSR was not at ease in having such a neighbour whose struggle for independence had culminated in the formation of the People's Republic of China. It is worth mentioning that the Soviet Union had given support to Chiang Kay-shek during the anti-Japanese struggle. The Chinese Communist Party itself was not a monolithic entity. It comprised two main political projects with each their adherents. The socialist left, around Mao Zedong, was dedicated to the project of socialism in China, while another tendency envisioned a catching-up project of late development in order to accede to the core status of the world economic system. The coexistence between these two projects exploded with the Great Proletarian Cultural Revolution whose primary intention on the part of Mao had been to purify the party of the so-called "capitalist roaders" and mobilize the youth. The left in China had recognized that socialism was not predominantly the result of the development of productive forces, as a mechanical understanding of the Marxist vision promoted, but the continuous struggle "between the two lines".

Seen in a historical context, the success of Chinese socialist construction influenced the regional evolution of East Asia, which in turn would impact on the internal political struggle within the CCP. This aspect is important for understanding the present and future constellation of forces on the world scale. Much literature has been produced in analysing the so-called East Asian "miracle." The argument can be that the fear of the spread of socialism outside the Asian socialist countries contributed to the creation of the conditions for the NICs' late-industrialisation and the reconstruction of the Japanese economy as a powerhouse on the world market. The revolutionary movement in East Asia predetermined the acceptance by the United States of social reforms and economic nationalism that would lead to late development. Not only did Washington accept this evolution, but it also opened its markets to the exports of these countries in the attempt to isolate China. (Hersh 1993).

Combined with the internal "two line" political struggle in the CCP, the increasing Soviet antagonism and the pressures of the United States culminating in the war in Vietnam, the modernising nationalist faction within the party became aware of China's relative economic weakness relative to the NICs (especially South Korea and Taiwan). The Cultural Revolution - launched in order to purify the party from rightist influence -- resulted in the weakening of the leftwing of the party and after the demise of Chairman Mao, the path was opened for the imposition of a strategy of authoritarian modernization similar to what had been experienced in the cases of the NICs. This opened a new chapter in Chinese history and affected the world. A former US ambassador, Chas W.

Freeman, describes how the post-Maoist leadership reflected on what was happening:

In the late summer of 1981, Deng Xiaoping remarked in my presence that when the history of the Twentieth Century was written, Mao's revolution would be described as the prelude to the real Chinese revolution, that which Deng himself had initiated in December 1978. But Deng made it clear that his was a revolution in methodology, not a change in national objectives." (Chas W. Freeman, *Mao Zedong: Nationalist in spite of himself*. <http://www.mepc.org/whats/MaoZedong.asp>).

The "real revolution" was the reform movement away from the embedded socialism of the period until the defeat of the leftwing of the Communist party and the introduction of a "socialist market economy". This evolution was in part due to both internal causes (expectation of higher economic growth) but also a readjustment in the Sino-US relationship. From a felt need to constrain or diminish the power of the Soviet Union, symbolized in the Richard Nixon-Mao Zedong summit in Beijing, the two countries came to realize that they both could benefit from a less antagonistic relationship. As Immanuel Wallerstein notes: "The U.S. sought to tame China, to bring it out of its Maoist cocoon and into the market whirl of the capitalist world-economy. China sought to buy technology, trade, and above all time in which to strengthen its economy and its military, and enable it to become a superpower." (Immanuel Wallerstein: *China and the U.S. : Competing Geopolitical Strategies*, in Commentary No. 151, Dec.15, 2004, <http://www.binghamton.edu/fbc/151en.htm>). In other words, the two countries were willing to sleep in the same bed but having different dreams!

Influencing the relationship were the changes taking place in the world economy with the ascent of China and on the other hand the relative decline of the U.S. hegemonic position in the hierarchical system of nations. Geoeconomics and geopolitics converged in a manner probably not foreseen at the time. Economically speaking the reforms based on the release of market forces on society were impacted by the simultaneous transformation in the world of geoeconomics.

For the Chinese economy, the globalization of neoliberalism opened a window of opportunity export-led growth which China could take advantage of. As David Harvey notes: "The spectacular emergence of China as a global economic power after 1980 was in part an unintended consequence of the neoliberal turn in the advanced capitalist world." (David Harvey, *A Brief History of Neoliberalism*, New York: Oxford University Press, 2005, 121). It is highly improbable that the post-Maoist leadership expected China to become a major creditor of the U.S. debt, a large recipient of foreign direct investment (FDI), an

important world market actor –both as a leading exporter and importer of raw materials, a main polluter of the global environment, etc. Domestically, the economic growth has contributed to great inequalities between regions and groups. The internal dilemma for the political leadership is to find a way to reduce the negative impacts of the growth model that has been implemented. Although China does have a large potential internal market, the export-led economic development has become dependent access to the world economy. The way the polity resolves the contradictions will have worldwide consequences. As the economist Andrew Glyn notes: ...there is nothing inevitable about China continuing along its present trajectory. If it does, the problems of adapting to this major shift in the structure of world trade and output will be correspondingly severe.” (Andrew Glyn, *Capitalism Unleashed – Finance, Globalization, and Welfare*, New York: Oxford University Press, 2006, 90).

Geopolitically, lurching behind the disturbances on the international plan, what the world is experiencing is a crisis of the U.S hegemonic order and the gestation of a multipolar world system. Whether intentionally or not, China will become a leading actor in the promotion of the new order. The country’s size and the strength of its economy are of the utmost significance. At the time of its admittance to the World Trade Organization in 2001, China was rated as the fourth leading economies in the world. Furthermore it is calculated that assuming the Chinese economy continued its dynamism, it could surpass that of the United States and become the first economic power of the world. This could not avert having major geopolitical consequences. (Ignacio Ramonet, *Mégapuisseance*, in *Manière de voir*, nr.85, February-March 2006, 5).

The ascent of China to the core nation status will certainly influence the hierarchical order of the world system and especially menace the leadership of the United States. Assuming that the relative decline of the American geoeconomic and geopolitical positions continues the critical question whether this transformation will take place peacefully or violently. The only strong card left has in recent years been its military power. However, even this card has shown its limitation in dealing with asymmetrical conflicts as in Iraq or Afghanistan. According to history, as pointed out by imperialism theory, World System Analysis and Realism, challenges to the hegemonic position of a world power results in conflict. In US think tanks, the ascendancy of China has been considered as a strategic menace. It is forgotten now that the United States is involved in conflicts in Afghanistan and Iraq, that already in the beginning of the 1990s, the influential political scientist Samuel Huntington had warned in his thesis of “The Clash of Civilizations”, that a Confucian-Islamic connection could potentially threaten Western interests, values and power. In an interview in *Newsweek*, under the headline “Watch Out for China”, Huntington implicitly

contradicting his view of culture as the driving force for future conflicts he states that: “History shows that as countries industrialize rapidly they tend to become much more assertive.... The Chinese feel humiliated. So naturally they want to resume what they view as their natural place in the world. And that will have destabilizing consequences.” (Newsweek, November 21, 1994, 558).

Two interesting views have emerged on the future of the relationship to China among American political scientists within the Realism tradition. In a confrontation in the journal *Foreign Policy*, John L. Mearsheimer and Zbigniew Brzezinski propose two different perspectives. The first opines that the only tool we have in the discussion is theory because “we cannot know what political reality is going to look like in the year 2025.” Basing himself on the assumption that China will become a military power in the future, theory tell us to expect that she will “try to push the United States out of Asia, much the way the United States pushed the European powers out of the Western Hemisphere. We should expect China to come up with its own version of the Monroe Doctrin, as Japan did in the 1930s. (John L. Mearsheimer, “China’s Unpeaceful Rise,” in *Current History*, Vol. 105, No.690, April 2006, 162). To complete his vision of the future he sees the United States as seeking “to contain China and ultimately weaken it to the point where it is no longer capable of dominating Asia...” much in the same way as the US behaved toward the Soviet Union during the Cold War. (Ziegniew Brzezinski and John L. Mearsheimer, “Clash of the Titan,” in *Foreign Policy*, January-February, 2005, 2 and 3).

Brzezinski in contrast gives priority to reality over theory as in international relations it is mainly retrospective. Nuclear weapons in his opinion have transformed power politics and as in the case with the Soviet Union prevented direct conflict between the two superpowers. Furthermore in contradistinction to Huntington, he finds that “the Chinese leadership appears much more flexible and sophisticated than many previous aspirants to great power status.” (Ibid. 3) Mearsheimer contends that the growing economic power of China will translate into political and military power which can only develop in contradistinction to U.S. power. Brzezinski on the other hand maintains that China’s desire for continued economic growth will make conflict with the United States unlikely. (Ibid. 4 & 3). The weakness of the economic approach, which Brzezinski seems to project, is that it does not take into consideration the fact that the world will be characterized by increasing competition for access to markets, capital, and raw material in the future.

While US strategists discuss whether the ascendancy of China will lead to conflict or not, their Chinese colleagues also debate whether the United States will “allow” the rise of China and the consequences thereof. Official policy circles attempt to mask present issues and conflicts between the two countries in

the interest of a façade of good Sino-US relations. (Joshua Ramo, *The Beijing Consensus*, London: The Foreign Policy Centre, 2004, 40). The strategy followed by the Chinese political elite in its external relations lies in the process of emerging as the largest asymmetric superpower. This translates into a foreign policy paradigm based on the example of its development model, strengthening its economic interests in the world, and upholding the Westphalian system of national sovereignty. (Ibid. 37). Defending the national state system is in contrast to strategy of the United States which is pushing for a post-modern world order of uneven and unequal sovereignty through the democracy discourse and neoliberalism.<sup>6</sup> The guiding principle for Chinese strategic thinking is based on the historical experience of humiliation imposed on the country by the Opium Wars, and nationalism is the modality around which the polity can mobilize the population. At the same time the Chinese foreign affairs planners are positing a new world order. This has been conceptualised in the so-called “New Security Concept” introduced at an ASEAN meeting in 1997 and endorsed publicly by President Hu Jintao in 2004. It comprises “the Four No’s” and implicitly is a document in favour of multipolarity in the world system: No hegemonism, no power politics, no alliances and no arms races. (Ramo 41). At the same time, there is a tendency in the academic world in China to project a relationship with the United States based on harmony. Basing themselves on pragmatism as an analytical tool Chinese experts on the United States operate on what may be called wishful thinking. The idealism of a peaceful Sino-US relationship is propagated by Chinese scholars with little understanding of the dynamics of the American system. (See: Henry C K Liu: *China’s misguided ‘experts’ on the US*, Asia Times Online, <http://www.atimes.com/atimes/China/IE02Ad01.html>).

## Conclusion

Scholars belonging to the dependency tradition have in recent times analysed the movement in international political economy, the world is experiencing, as a return to normalcy, i.e. the centrality of the Asia after a few centuries of Western dominance of the world. The hierarchy of the West over the rest was accompanied by a scientific paradigm in the social sciences in Europe and the United States that proposed an interpretation of this dominance based on Eurocentrism. (Blaut 1993; Frank 1998; Arrighi 2007; Bagchi 2005).

In this paper the attempt was made to look at the economic history of the relationship between Europe and China from a developmental perspective and explain the shift that occurred with the European aggressivity and Asian

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<sup>6</sup> For a discussion of the projected differences between the old and the new world order, see: Robert Cooper, *The Post-Modern World Order*, London: Demos, 1996.

regression. The importance of economic nationalism as a determinant in the problematique of catching-up that is encapsulated in the theory of uneven and unequal development deserves greater attention on the part of international political economy. The prophecy of Napoleon concerning the “awakening” of China is in the process of being realized as the preconditions for Western hegemony in the world system are being challenged by the ascendancy of China and other Asian nations. The East wind does seem to be stronger than the Western wind, but not in the way Mao predicted. The paradox related to the return of China to its historic status as the global centre of gravity is that this will pose a greater challenge to the West than the Maoist model of development –based on a self-sufficient and self-centred economy. From a historical perspective the post-Maoist market orientation –a development welcomed in the West-- cannot but contribute to the transformation of the global economic division of labour as well as the hierarchical order in the nation-state system. The US-Sino relationship will dominate world geoeconomics and geopolitics in the coming decades. As of now, the American attempt to weaken the role of the states in all other countries is counterbalanced by the strategy of the Chinese leadership to promote state power and a multipolar state system.

Whether the transformation process leads to a zero-sum-game situation as theorists belonging to the imperialism tradition or Realism predict, or to a win-win outcome for all parties concerned as adherents of (neo)liberalism propose is a fundamental issue for the coming decades. What can be said with certainty though is that we are at an open-ended phase of history characterized by potential dangers and new possibilities. As the Chinese saying goes: “Prepare for the worst and hope for the best”.



# **The New Cultural Revolution**

## **Renegotiating identities in a market-oriented China**

Poul Duedahl

### **Introduction**

The post-Mao gold rush, the sudden moral meaning of intellect, entrepreneurship and commodities, and the fast modernization of the major cities – where consumption rather than production now shapes social life – have made consumerism an ideology of its own in China, replacing the passionate socialism once characterizing the country. Such a fundamental and rapid change has consequences for people's behavior, life-style and self-perception, and is definitely worth studying. This paper contains my initial and very provisional thoughts of what can be described as the New Cultural Revolution.

### **You Are What You Buy**

It is a stereotype, but not without a basis in reality, that the three main things every Chinese ought to own in the 1970s to pride themselves on their modern modalities was a watch, a radio and a bicycle. In the 1980s the list would include a washing machine, a color-TV, and a refrigerator, and in the 1990s the list expanded considerably and was different according to age, gender, region, and occupation.

The improving economic capabilities of the growing urban middle-class, the overwhelming amounts of glittering goods, the sudden myriad of material options, and the just as sudden lack of a common cultural doctrine emphasizing a uniform and unified national culture, have simply made it possible for millions of Chinese to pursue their own desires, passions and appetites after years with consumption being limited to the reproduction of everyday life. The economical situation has in other words been a liberating force because the commodities contributes to a feeling of extended personal freedom – a way to escape from the anonymity of the masses, and invent more individualistic notions of identity (Rofel 2007: 111-115 and Hsu 2007: 155-156).

One must of course be careful not to take the life of the upper middle-class and the new rich as representative of the whole country. It most certainly is not. The availability of goods is not paralleled with equal access to them, and for a major part of the Chinese population, the peasants and migrant-workers, prestige items still represent unfulfilled dreams out of reach. Even for those with access, there are definitely limits for their ability to buy them. This “social discourse of

objects” that is so central to commercialism has in other words become what the French sociologist Jean Baudrillard once called a “mechanism of discrimination” (Baudrillard 1981: 30).

There is also a great divide between the so-called popular or mass culture still hiding behind a certain degree of uniformity and anonymity, and what one could call an elite or avant-garde culture, where changes happens first and in a more visible manner. However, identity in a consumerist society is not so much a matter of, who you belong to, as it is a matter of identification – of what you will work hard to be a part of. And the single ideal that fascinates and attracts a majority of the population is the one formed within the borders of large and prosperous cities like Shanghai – a city that tries to re-vitalize its cosmopolitan past and sell itself as China’s fashion centre – as well as Guangzhou, Shenzhen, the country’s capital Beijing, and of course Hong Kong.

The urban lifestyle has been a major force in identity change in the post-Mao era, because the cities are where the commodities are, and because cosmopolitan identity *is* consumption. You are what you buy! This mantra is slowly converting China from a politically, economically, socially and culturally homogenous society into a complex, multidirectional society, with various, fragmented and dynamic practices for well-being and interpretations of the good life, with all the advantages and problems such a transformation necessarily causes (Dirlik 2000: 6-10 and Chen 2001: 125-127, 225-228).

Especially the appeal of the “urban white collar” identity is prevalent, and was already some years ago identified by a survey of the popular, Beijing-based magazine *Shishang (Trends)* as the most popular feature for its readers. The readers find this lifestyle desirable not only because is convenient but also because it is closely linked to social status, and reflects their own strive for positional superiority in the new social hierarchies appearing in the Chinese consumerist society (Chen 2001: 126).

The appeal of the urban life-style is also reflected in the eyewitness-reports of the growing number of migrant workers. Even if they can rarely support their families, and live in ghettos – the so-called “Chinatowns of China” that symbolizes the caste-like character of the rural-urban divide – they will still occasionally return to their villages and tell about the urban mystique. At the same time they will deliberately or un-deliberately have lost some of their local habits and peripheral identity and appear “foreign”, and they will therefore gain in symbolic and social capital what they might never gain economically.

The fascination of urban life is in total contradiction to the way urbanism used to be identified by the Communist Party, and efficiently condemned in wake of the

first Cultural Revolution as the embodiment of evil modern capitalism – and image held alive through periodic mass campaigns and social movements and rituals. Now peasants, once surrounded with deep respect, symbolize backwardness, while the city has become the center stage of invention and circulation of new commodities, and normative in cultural orientation – which make it the cradle of the New Cultural Revolution (Chen 2001: 1-9, 243-245).

The center of attention from social scientists, international corporations and Chinese citizens is a young, energetic and colorful urban generation. Not simply because a lot of money is spent on them, and that they spend a lot of money, but because this group of people, from the first post-Mao fashion show staged by Pierre Cardin in 1979, have been the most self-aware consumers and the new trendsetters. They are daily promoted and exposed through internet and commercials, in the glossy prints of lifestyle magazines, in fashion, music, art, literature, and interior design – even in food. That makes them an economically, socially and culturally powerful group. So for exporters to China this particular group is worth keeping an eye on. There are simply money waiting to be made by hiring sociologists, people with ethnographic insight, and market specialists, to trace the sprouting signs of new trends, new demands and new sign values here, when it comes to showing off wealth, status and exquisite taste (Tang 2000: 273-294).

And there are a lot of questions to be asked: Will the consumers be going in the direction of a less-is-more search for quality, exclusivity and comfort as a replacement for quantity, well-known brands and volume? Will we see an increase of people, also in the smaller cities, searching for individual rather than common preferences? Will the initial commodity fetishism and material self-realization be replaced by new status symbols such as mental well-being, self-development and reflexivity?

### **The Chinese Mirror**

Chinese social scientists as well as foreign ethnographers and market analysts have made several studies of the urban lifestyle based on observation analyses. Another thing is systematized knowledge of people's own experiences, and my lack of possibilities – and capabilities – of doing that kind of research, has made me turn to contemporary urban literature to find a mirror of the present Chinese self-perceptions. Literature contains the same value-laden language and reflections on behaviors, lifestyles and self-perceptions as the one you find as a result of questionnaires and interviews. It is even well-written, full of clever reflections, and available in translations!

Literature that reflects consumerism and urban life, rather than collective themes and rural idyll, emerged alongside China's opening towards the outside world, and it has definitely been a major focus for avant-garde writers the last 15 years or so. As long as the writers don't pose a threat to the political establishment and the social order, they can freely express their views in minor literary magazines, even if they portray the darker and more controversial sides of consumerism such as prostitution, drug-abuse and organized crime. Wide-spread publications have more frequently been banned as "spiritual pollution", but they still manage to get out in great numbers.

One of the first well-known contemporary urban writers was Wang Shuo (b. 1958). His bestseller, *Playing for Thrills*, was published in Chinese in 1989 and was the first of his novels to be translated into English. The book was a crime novel in which he provided a cityscape that was dazzling and exceedingly boring – his reflection of the new era of disorderly extravagance! The way he dealt with Chinese socialism and commercialism, was groundbreaking. Just the fact that Wang Shuo's hero, or rather antihero, was touring Beijing while drinking beer and having sex, was totally unlike anything ever published in China. His account was by no means representing the entire country; on the other hand it reflected how lives could also be lived in China, and Wang Shuo's lifelike style included a language as it was used by people in the streets (Wang 1997).

The book sparked much controversy but also paved the way for a new generation of Chinese urban writers telling the story of their consumerist urban lives. If one takes a closer look at the literature that followed, they seem to be full of names of foreign brands and expensive products that symbolizes success in life – often without glorifying or demonizing them, often with no compassion, moralizing or indignation, just telling about the busy and directionless lives in the Chinese urban areas. The literature reflects a perception of being modern, which is to consume rather than produce, to perform rather than simply practice, to be urban rather than rural, and to do things with machines rather than with one's own body. Often the main characters are self-made businessmen or self-confident young women exploring and consciously using their money or sexuality to obtain something, none of them fully satisfied with what they get. They are unconsciously expressing a desire for a more spiritual self-transformation, but they end up buying additional, expensive consumer-goods that shows that they possess at least some kind of well-being (Dirlik 2000:325-335 and Huot 2000: 185-186).

Through a couple of short stories from 1993, I will now exemplify how similar and yet how different these stories are:

The first story is written by He Dun, and describes a man whose physical commodities compensates for the lack of a socialist utopia, hence living a poor and uneventful though optimistic life because he has to save each and every penny to purchase that color-TV that was a symbol in the 1990s of putting the money on display – just to discover that the TV gives him the events, but doesn't make him any happier.

The other example is a short story by Wang Anyi, in which she describes an affair in Hong Kong between an aging and wealthy Chinese-American businessman and his a beautiful mistress, who is an immigrant from Shanghai that desperately wants to go to the United States – not only for obtaining consumer goods but also because of “the West” being a symbol of hope, compensating for the lost paradise.

As in He Dun's story, Wang Anyi deals with dreams of the good life, and she even shows how exchanges of favors – money for sex – are used in order to obtain it. But unlike He Dun, she doesn't tell if her main characters get the life they were longing for; rather she focuses on how different the expectations can be, with the Chinese woman heading for Australia several years later, leaving behind her old “foreign” lover that, in her absence, finds himself much more attracted to the sparkling city of Hong Kong! (Tang 2000: 284-292)

### **Shanghai Baby**

In this paper I will, however, focus on yet another piece of literature – the semi-autobiographical novel *Shanghai Baobei* (*Shanghai Baby*) from 1999, written by Zhou Weihui – in Europe and USA known as Wei Hui.

When the book first came out, Wei Hui, born 1973, was hailed in China as the voice of the new Chinese generation being young in the 1990s. Within half a year the book had sold in more than a 100.000 copies, but as a result of claims by Wei Hui to speak on behalf of this new generation, her book was banned by the Chinese authorities due to its intimate description of sex.

Chinese critics now described the book as “decadent”, “debauched” and “pornographic”, and the author was labeled as a “slave to Western culture”. That made its way to the world market, and *Shanghai Baby* immediately became an international bestseller with more that six million copies sold in 45 countries – making it the best selling piece of Chinese literature since Chairman Mao's so-called Little Red Book.

*Shanghai Baby* is about the life of a 25-year old, well-educated, attractive and self-confident woman with the nickname Coco – after Coco Chanel. Coco

desperately wants to be a famous writer by making a book about turn-of-the-century Shanghai and the new generation it has nurtured. “There’s nothing worth reading in the bookstores these days, just empty stories” one of the characters says, which makes Coco even more confident that there will be a space for her book on the shelves (Wei Hui 2001: 6).

Despite Wei Hui’s claim of being a representative of her generation, the main character – Coco – is aware that her circle of “artists, real and phony, foreigners, vagabonds, greater and lesser performers, private entrepreneurs of industries that are currently fashionable, true and fake *linglei* [the official term for people with an alternative life-style], and Generation X types” is probably not representative, rather the avant-garde of her generation, a part of the few that gains a lot of attention:

“My friends and I, a tribe of the sons and daughters of the well-to-do, often used exaggerated and outré language to manufacture life-threatening pleasure. A swarm of affectionate, mutually dependant little fire-flies, we devoured the wings of imagination and had little contact with reality. We were maggots feeding on the city’s bones, butter utterly sexy ones. The city’s bizarre romanticism and genuine sense of poetry were actually created by our tribe. Some call us *linglei*; others damn us as trash; some yearn to join us, and imitate us in every way they can, from clothes and hairstyle to speech and sex; others swear at us and tell us to take our dog-fart lifestyles and disappear.” (Wei Hui 2001: 235).

It is, however, this small circle of bohemian and exclusive avant-garde friends in the hectic city of Shanghai that are the front-runners of everything new and innovative. And in the book Wei Hui celebrates the busy pace in the diverse and cultured city, and depicts how the new world-weariness involves new standards of beauty, and new practices that has to be trained into the body, including daily practices of hygiene, fitness, dress, gestures, postures, manners and ways of speaking and eating, before the “legitimate” body can be publicly displayed and performing. So it is not surprising that she finds, that the present lifestyle is best reflected in the sound of high heels: “High-heeled shoes walk down mossy alleys, down streets with lined with skyscrapers ... The clack of high heels is the perfect echo of materialism ringing in the city’s ears...” (Wei Hui 2001: 187).

The reader definitely gets the impression that Coco wears high heels through most of the book, just as she knows how to smoke Mild Seven cigarettes, go to cafés and nightclubs, and dance to “yesterday’s decedent music” – pop, rock, punk, acid jazz, hip hop and techno – also if the many options can overwhelm even the most trendy Shanghai-girl:

“I agonized for a long time over what to wear. My wardrobe is divided into two distinct styles: One is androgynous, loose-fitting, and of quiet colors and makes me look like something out of a medieval painting; the other is tight-fitting, foxy clothing, like some cat-woman. I tossed a coin and went for the latter. I chose the 1960s retro look from the West – purple lipstick and eye shadow, and my leopard-spotted handbag – very chic in Shanghai just then” (Wei Hui 2001: 71).

Her description of a new China with purple-lipsticked teenagers is sensual, funny and brutally honest, and Coco is a female whose habits are flagged in the text by lists of famous foreign brand-names, labels, price tags, and imported fabrics, films, authors and songs – from Van Morrisson, Calvin Klein and the beat generation to Quentin Tarantino, Sonic Youth, IKEA, Christmas celebrations and Kentucky Fried Chicken, not to forget the Japanese brands.

But the book is not all about materialistic values – it is also about their consequences. Not only does she tell about drug-abuse, people’s obsession with money, and going to the West while leaving behind their loved ones, she also reveals sides of consumerism that have consequences for an even wider range of people. Especially the generation-gap between the post-Socialist urban youth and their self-sacrificing, diligent and concerned but also frugal, confused and rarely tolerant parents, who are still marked by decades when the social organization valorized communality, age-based hierarchy, and ideological homogeneity. A generation that finds it hard to understand why the young urbanites have independent attitudes, why they emphasize the self as something that is allowed to desire, why they demand privacy, and why they prefer to live in the moment in stead of living in the future, not to mention that their way of living can ultimately be at the cost of marriage and children. The young urbanites, on the other hand, find it hard to understand their parent’s unwillingness to accept that personal responsibility is also about enjoying life, and that love can be expressed in other ways than through slight pressure and high expectations. “The way we think is just too different. We’re separated by a hundred generation gap”, Coco declares as she moves in with her boyfriend without her parents approval (Wei Hui 2001:19), wishing that they could be just a little more selfish, worry less about her, take better care of themselves and get out more. But they cannot, and the result is that the two generations distance themselves from one another.

What Wei Hui describes here, seen from a broader perspective, is a divide made by consumerism – the divide between people that can handle the speed in which modernization occurs, and the ones it leaves behind, helpless to understand what is happening, unable or unwilling to adapt to it, and hesitating when it comes to making decisions and render judgments after decades with others doing it for you.

Another interesting aspect of the book is that it is centered round the life of a young woman. Not only for the reason that women literarily embody Chineseness as consumers, which makes it possible to transcend what is to be Chinese today, but also because the question of gender relations and gender inequalities are reflected through the “oppressed” Chinese woman’s perspective.

The book shows how consumerism has affected the views of gender, family, marriage and sexuality, because it has created a generation with the courage to confront the existing norms and push the parameters of “acceptable” behavior and the accompanying guilt. Just the fact that the book treats the once repressed and highly politicized taboo of sex gives the impression that a revolution has taken place.

How has that happened? Is the new urban youth so powerful, that the Chinese authorities are loosing their control of these once so delicate issues? Some theorists suggest that’s not the case. Instead the Chinese authorities have deliberately loosened the grip on the female body, sexuality and definitions of right and wrong, by allowing writers – to a certain extent – to describe a new and sexualized femininity. If the purpose of promoting the socialist model of womanhood, which emphasized the asexual woman, was to turn the sexual desire against the party, the promotion of the sexualized femininity should then be the opposite – to turn the focus away from potentially dangerous political passions. The argument being that the political enthusiasm expressed during the demonstration at Tiananmen in 1989 and later the Falun Gong movement was followed by a wider tolerance in the representation of the female body. This was to be seen by the increasing number of female fashion models occurring in commercials on state-controlled TV, allowed in trendy lifestyle-magazines and put on stage in large-scale public events such as the supermodel contests of which the first was held, by the blessing of the authorities, in 1991 (Chen 2001: 132-141 and Rofel 2007: 118-119).

So even though many people in China, according to Coco, still devalues the needs of women and doesn’t support the efforts to recognize their self-worth – by seeing the street-smart girl as crude and the gentle as “empty-headed flower vessels” – the women of her generation have still obtained a lot. As she puts it: “They have more freedom than women of fifty years ago, better looks than those of thirty years ago, and a greater variety of orgasms than women of then years ago” (Wei Hui 2001: 87).

It cannot surprise that Coco’s spiritual father is the American writer Henry Miller. She mentions it a couple of times, and it is definitely reflected in the way she describes every single detail of her sexual escapades with her German lover. In that respect Coco does whatever she can to break out of any common Chinese



perception of women by enjoying all sides of life. This open-minded attitude is also reflected in the description of her friends of which a few are homosexuals. But the overall idea – despite of the obvious shocking effects, and the efforts of pushing the sensibilities of the Communist Party and the general limits of tolerance – is to give an insight into a young woman's life as it can in fact be lived in the new urban China.

### **China Will Be China**

By entering the sexual sphere, the influence of consumerism seems almost total. But for everybody that likes the distinct Chinese, whatever that is, I will finish this paper by giving some sort of comfort: It isn't!

The political system, for one, has hardly changed. And the cultural empowerment that is a consequence of consumerism is after all a matter of free will, and very often the choices made by the Chinese consumers turn out to be a mix of the wide range of global trends combined with pre-Socialist perceptions of Chineseness.

### **Just go to China and have a look**

The many skyscrapers of glass, steel and concrete replacing the old hutongs and suburban wastelands in a seemingly never ending construction boom, still leave plenty of space for Chinese forms and shapes, and features like the unique Chinese roof tiles and ancient ornamentations, which creates a Chinese urban landscape not to be seen anywhere else. And in between the many American fast-food shops – where people go, not because of the food, but to be seen and to distant themselves from everything that appears antiquated – there are ten times as much space and demand for the varieties of Chinese cooking, and the bodily experience of the Chinese cities still begins with the stomach and all the local flavors.

Even though most young people don't appreciate Chinese opera, the highly popular song contests – a concept imported from the US accompanied by electric guitars and saxophones – is dominated by Chinese love songs, just as are the mainstream pop and the blooming rock scene. Even though the new supermodel contests often presents a range of sophisticated cosmopolitan women with short hair, direct glance, expressiveness, a self-secure, energetic attitude, and transcendent desires, you also find a re-invention of the “traditional oriental”, often reflected in long hair, downcast eyes and a quiet, mannered and a non-threatening, protective-conservative and sometimes even melancholic attitude.

Even though consumerism is now the dominating philosophy, some people find an analogous satisfaction in pre-Socialist Chinese philosophy as a way to add a meaningful dimension to the often superficial consumption of goods. Even though you hardly find a person today dressed like the once much romanticized soldiers, workers, and peasants, ancient Chinese textiles do in fact experience a re-vitalization to be seen in between the many Western-style shirts and denim jeans worn in the streets. Even the famous Mao-jacket has experienced a revival, just as the icon himself plays a major role in the vibrant avant-garde art scene, still in a stylized and almost socialist realism, but now in a more playful, kitschy, nostalgic and reflecting manner – as a retro figure, an important one, of a bygone era.

Even though the Party promotes Western-style nationalism for gluing people together where consumerism divides, this nostalgic project still promotes China and its distinct history. Even though the concept of “civilization” – abused in Europe to an extent that it is political incorrect – figures prominently in this nostalgic project, it is still done to characterize a process that binds the Chinese people together with Beijing as the city whose citizens should exercise a civilizing influence on the periphery by being the spiritual and moral exemplary centre. And even though Beijing is only one of the many urban ritual centers in wake of consumerism, the consumerist moral is still controlled by Chinese consumers. Because China will still be China – just changed to something almost unrecognizable compared to what is used to be one or two decades ago. All the imported brands and commodities are after all just foreign air that has been adapted for Chinese tastes, similar to what has been going on for centuries in other countries. It is consumerism “with Chinese characteristics”!

The only difference is the one of time. For several Western European countries the consumerist transformation has been an evolution so slow that you should be at least three generations old – or a historian – to notice the big differences. In China it has been a rapid New Cultural Revolution!

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# **China's System and Vision of Innovation: Analysis of the National Medium- and Long-term Science and Technology Development Plan (2006-2020)**

Bengt-Åke Lundvall and Ju Liu

China has been characterized by extremely high rates of economic growth for the last several decades. This growth has originates from a transformation of the institutional set up giving more room for regional initiative, private ownership and use of market mechanisms. Regional political resources have been aligned to globally oriented market resources and this alignment has established a very specific and unique mechanism of capital accumulation resulting in extremely high savings and investment rates.

The downside of this growth model is its intensive exploitation of human and natural resources. While the rate of capital accumulation is extremely high (40-50% of GNP takes the form of gross savings and investment) non reproducible natural and social capital are suffering in the process of growth. Social and regional inequality has reached critical levels and so have ecological imbalances. The central leadership of China are aware of these problems and recent policy documents put strong emphasis on 'harmonious development' and 'independent innovation' (Gu and Lundvall 2006). In China the transformation of the national innovation system is now regarded as a major step toward a necessary renewal of the growth model. This paper presents a general framework for the analysis of national innovation system, a historical overview over the development of China's production and innovation system and ends up with a discussion of the National Medium- and Long-term Science and Technology Development Plan (2006-2020).

We conclude that the plan represents steps forward in important respects. This is true for the emphasis on need driven innovation policy with focus on energy and environment, the stronger role for enterprises as hosts of R&D-efforts and innovation, a more active role for public procurement and a more realistic understanding of the limits of science as source of innovation. But the plan has some weaknesses and needs to be complemented with other initiatives. There is exaggerated technology optimism and the need for institutional and organizational change at the level of the enterprise is underestimated. In some cases the policy instruments and tools seem to be inadequate when related to the very ambitious targets set by the plan. Especially problematic is the absence of an explicit analysis of the regional dimension and the need to upgrade working life in terms of skills and organization. The fact that a knowledge based strategy,

if left to itself, leads to further social and regional polarization is not taken into account. Finally how the idea of ‘indigenous innovation’ will be implemented is crucial both for the success of the plan and for China’s relationships with the rest of the world.

### **The National Innovation System<sup>1</sup>**

The interest for the innovation system approach has grown remarkably over the last decade in China. The long term plan to be discussed in section 4 of the paper uses the national innovation system concept as explicit framework for presenting analysis and prescriptions. In the wake of this growing interest several of the ‘classical’ contributions (Freeman 1987, Lundvall 1992, Nelson 1993 and Edquist 1996) have recently been translated into Chinese. But as will be demonstrated in this section the concept may be given different interpretations that are more or less broad. A common weakness of much of the policy making that refers to innovation system is that it builds upon an implicit assumption that science is the major if not the only source of innovation. It is neglected that much competence-building crucial for innovation takes place within enterprises and in the interaction with customers. This kind of bias leads to policy strategies that underestimate the need to upgrade skills and to introduce elements of what may be referred to as learning organizations.

#### *Innovation system – a focusing device*

Theories in the social sciences may be regarded as ‘focusing devices’. Any specific theory brings forward and exposes some aspects of the real world, leaving others in obscurity. That is why a long lasting hegemony of one single theoretical tradition is damaging both in terms of understanding and policy-making. In the field of economics, the dominating neo-classical paradigm puts its analytical focus upon concepts such as scarcity, allocation, and exchange, in a static context. Even if these concepts reflect important phenomena in the real world, they only bring forward some aspects of the economic system. The innovation system concept may be seen as signaling an alternative focusing device since it puts interactive learning and innovation at the centre of analysis.<sup>2</sup>

Table 1 illustrates how the analytical framework connected to innovation systems relates to mainstream economic theory. The theoretical core of standard economic theory is about rational agents making choices to which are connected

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<sup>1</sup> This section draws upon Lundvall (2007).

<sup>2</sup> While the leadership in China is dominated by experts with engineering background a growing number of returnees from the US are economists with a strong training in neo-classical economics. The marriage between dogmatic Marxist economics and neo-classical economics in academic training does not make it easy for students to understand soft concepts such as social and natural capital.

well-defined (but possibly risky) alternative outcomes and the focus of the analysis is on the allocation of scarce resources. As illustrated by the following table the emphasis is different in the innovation system approach.

*Table 1: The two-dimensional shift in perspective*

	Allocation	Innovation
Choice making	Standard neoclassical	Project management
Learning	Austrian Economics	Innovation systems

The analysis of innovation systems is based upon a two-dimensional shift of focus toward the combination of innovation and learning. While standard economics is preoccupied with specifying the institutional set-up that results in an optimal allocation of existing resources we are concerned with how different institutional set-ups affect the creation of new resources. While standard economics analyze how agents make choices on the basis of given sets of information and competences, we are interested in how the knowledge – including both information about the world and know-how of agents – change in the economic process.

This double shift in perspective has implications for innovation policy. Just to take one example, a policy analysis of patent races where ‘winner takes it all’ will, as far as it neglects the learning and competence building that takes place during the race, end up with too restrictive conclusions regarding the role of government in stimulating R&D.

*The NSI-perspective is more complex – not less theoretical – than standard economics*

What has been said obviously implies a more complex theory than standard neoclassical economics where it is assumed that all agents have equal access to technologies and are equally competent in developing and utilizing them. But it would be wrong to conclude that the theory behind innovation systems is ‘less theoretical’.

Basically, the theory underlying innovation system analysis is about learning processes involving skilful but imperfectly rational agents and organizations. It assumes that organizations and agents have a capability to enhance their competence through searching and learning and that they do so in interaction with other agents and that this is reflected in innovation processes and outcomes in the form of innovations and new competences.

The methodological dictum within neo-classical economics that theory should be both general and abstract sometimes takes Occam’s razor to far leading to negligence of the concrete and historical. But the most important weakness of neo-classical theory is not that it is too abstract. *It is rather that it makes the*

*wrong abstractions.* In a context where knowledge is the most important resource and learning the most important process neo-classical theory tends to abstract from the very processes that make a difference in terms of the economic performance of firms and for the wealth of nations.

Processes of competence building and innovation are at the focal point in innovation system analysis. The focus is upon how enduring relationships and patterns of dependence and interaction are established, evolve and dissolve as time goes by. New competences are built while old ones are destroyed. At each point of time discernable patterns of collaboration and communication characterize the innovation system. But, of course, in the long term these patterns change in a process of creative destruction of knowledge and relationships. A crucial normative issue is how such patterns affect the creation of new resources and to what degree they support learning among agents.

*Standard economics favors narrow interpretation of innovation systems*

Standard economics tends to stick to the idea that only quantitative as opposed to qualitative concepts can be accepted as scientific (Georgescu Roegen 1971). One reason for the bias toward narrow interpretations of innovation systems is that it is much easier to develop quantitative analysis of R&D and patents, than it is to measure organizational forms and outcomes of organizational learning.

Standard economics will typically focus on potential market failure and on choices to be made between different alternative uses of scarce resources. In the context of innovation policy the concern will be, first, if public rates of return are higher than private rates and, second, if the rate of return of public money is higher in investing in R&D than it would be in other areas of public investment.<sup>3</sup> The very idea that there might be organizational forms that are more efficient than the ones already in use cannot be reconciled with the basic analytical framework where it is assumed that agents, including firms, are equally rational and competent.

Standard economics will tend to see the market as the ‘natural’, if not optimal, framework of human interaction and economic transaction. This leads to biased conclusions when considering how to organize the economy (Nelson 2006). The concept ‘market failure’ reflects this bias since it indicates that other institutional set-ups should be considered only when it is obvious that the market cannot do the job.

In this section we argue that during the process of diffusion there has been a *distortion* of the concept as compared to the original versions as developed by

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<sup>3</sup> Within this narrow logic the neglect of learning effects from engaging in innovation will underestimate both private and public rates of return.

Christopher Freeman and the IKE-group in Aalborg. Often policy makers and scholars have applied a narrow understanding of the concept and this has gives rise to so-called ‘innovation paradoxes’ which leave significant elements of innovation-based economic performance unexplained. Such a bias is reflected in studies of innovation that focus on science-based innovation and on the *formal* technological infrastructure and in policies aiming almost exclusively at stimulating R&D efforts in high-technology sectors.

Without a broad definition of the national innovation system encompassing individual, organizational and inter-organizational learning, it is impossible to establish the link from innovation to economic growth. A double focus is needed where attention is given not only to the science infrastructure, but also to institutions/organizations that support competence building in labor markets, education and working life. This is especially important in the current era of the globalizing learning economy (Lundvall and Johnson 1994; Lundvall and Borràs 1998; Archibugi and Lundvall 2001).

We see one major reason for this distortion in the uncomfortable co-existence in international organizations such as OECD and the EC of the innovation system approach and the much more narrow understanding of innovation emanating from standard economics (Eparvier 2005). Evolutionary processes of learning where agents are transformed and become more diverse in terms of what they know and what they know how to do are not reconcilable with the rational ‘representative agents’ that populate the neoclassical world (Dosi 1999). Actually, we regard the neglect of ‘learning as competence-building’ as the principal weakness of standard economics and the narrow definitions of innovation systems as reflecting a negative spill-over from this misdirected abstraction.

Both Mode 2 knowledge production (Gibbons et al 1994) and the Triple Helix approach focus on science and the role of universities in innovation. When they present themselves or are applied by policy makers, not as analyzing a subsystem within, but as full-blown alternatives to the innovation system approach (Etzkowitz and Leydesdorff 1995; Etzkowitz and Leydesdorff 2000), these approaches contribute to the distortion. These perspectives capture processes linking science and technology to innovation – below we refer to this as *STI-learning*. The fact that science and codified knowledge become increasingly important for more and more firms in different industries – including so-called low-technology ones – *does not imply that experience-based learning and tacit knowledge have become less important* for innovation. To bring innovations, including science-based innovations, to the market organizational learning, industrial networks as well as employee participation



and competence building are more important than ever. We refer to these processes as *DUI-learning*.

*The weak correlation between strength of the science-base and economic performance*

Over the last century there has been a certain focus on the European Paradox referring to the assumed fact that Europe is strong in science but weak in innovation and economic growth.<sup>4</sup> Similar paradoxes have been argued to exist in countries such as The Netherlands, Finland and Sweden. In a recent OECD-report a *general result* is that for the countries included in the study it can be shown that those that ‘perform well’ in terms of STI-indicators do not perform well in terms of innovation (OECD 2005, p. 29).<sup>5</sup> This indicates that what is registered is not so much a paradox as it is a systematic weakness in the theoretical analysis and the indicators upon which it is built.

We would argue that these apparent paradoxes emanate from a narrow understanding of the innovation process. They demonstrate that heavy investment in science in systems where organizational learning within and between firms is weakly developed and where there is a weak focus on user needs has only limited positive impact upon innovation and economic growth.

This can be illustrated by data on innovation performance at the firm level – see table 2. In a series of recent papers based upon a unique combination of survey and register data for Danish firms we have demonstrated that firms that engage in R&D without establishing organizational forms that promote learning and neglect customer interaction are much less innovative than firms that are strong both in terms to STI- and DUI-learning (Jensen, Johnson, Lorenz and Lundvall 2007).<sup>6</sup>

Table 2 refers to the outcome of an analysis of survey and register data for almost 700 Danish firms and it presents different variables related to the propensity to introduce new products or services. We use sector, size and form of ownership as control variables but the focus is upon a variable indicating *the mode of innovation* in the firm. We distinguish between firms that are strong in science-based learning, firms strong in organizational learning, firms that are

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<sup>4</sup> This debate has triggered strong efforts to link universities to firms in Europe sometimes going as far as seeing the ideal university as ‘innovation factory’. Dosi, Llerena and Sylos Labini (2006) raise doubts about the basic assumption behind the paradox that Europe is strong in Science.

<sup>5</sup> After comparing the performance of six countries it is stated that ‘A striking feature is the apparent missing link between indicators A-E and the overall performance indicators in F. *This suggests that priorities and biases in the STI-policy system are weakly linked to general economic performance and policies.*’ (OECD 2005, p.29, italics by us).

<sup>6</sup> The data in table 2 are from Jensen, Johnson, Lorenz and Lundvall (2007).

strong in both respects and we use those firms that are weak in both respects as the benchmark category. To construct this variable we pursue a cluster analysis grouping the firms in the four categories.

As indicators of strong science-based learning we use the R&D expenditure, presence of employees with academic degree in natural science or technology and collaboration with scientists in universities or other science organizations. As indicator of experience-based learning we take the use of certain organizational practices normally connected with learning organizations such as ‘interdisciplinary workgroups’ and ‘integration of functions’ together with ‘closer interaction with customers’ – to signal learning by interacting and a focus on user needs.

We use firms that only make weak efforts to support science-based and experience-based learning as benchmark and the odds ratio estimate indicates how much higher the propensity to innovate is among firms strong in respectively one or both of the modes of learning. The results reported in table 2 show that firms that combine the two modes are much more prone to innovate than the rest. It shows that the effect remains strong also after introducing control variables related to size and sector.

Table 2: The probability that firms develop a new product or a new service

<b>Variables</b>	Odds ratio estimate	Coefficient estimate	Odds ratio estimate	Coefficient estimate
STI Cluster	3.529	1.2611**	2.355	0.8564**
DUI Cluster	2.487	0.9109**	2.218	0.7967**
DUI/STI Cluster	7.843	2.0596**	5.064	1.6222**
Business services			1.433	0.3599
Construction			0.491	-0.7120*
Manuf. (high tech)			1.805	0.5905*
Manuf.(low and med. tech)			1.250	0.2229
Other services			0.747	-0.2923
100 and more employees			1.757	0.5635*
50-99 employees			0.862	-0.1481
Danish group			0.859	-0.1524
Single firm			0.521	-0.6526*
Customized product			1.378	0.3203
Pseudo R <sup>2</sup>	0.1247	0.1247	0.1775	0.1775
N	692	692	692	692

\*\* = significant at the .01 level

\* = significant at the .05 level

The analysis and results reported above point to the need to develop our understanding of how different forms of knowledge and different modes of innovation are combined in different national innovation systems. The analysis also explains why narrow definitions of national innovation systems that focus only upon science-based innovation are of little relevance for the economic performance of firms and national innovation systems. This is not least important when it comes to analyze the barriers and opportunities for economic development in poor countries, another challenge for innovation system research (Arocena and Sutz 2000b; Cassiolato, Lastres and Maciel 2003).

## **National systems of innovation and economic development**

While the modern version of the concept of national systems of innovation was developed mainly in rich countries (Freeman 1982; Freeman and Lundvall 1988; Lundvall 1992; Nelson 1993; Edquist 1997) some of the most important elements actually came from the literature on development issues in the third world. For instance the Aalborg version (Andersen and Lundvall 1988) got some of its inspiration concerning the interdependence between different sectors from Hirschman (1958) and Stewart (1977). Other encouragements came from Myrdal (1968). Applying the systems of innovation approach to economic development brings into focus other research issues of general interest such as the need to understand how innovation relates to sustainable development, economic welfare and the role of government in commodifying knowledge.

Most analysis of the innovation system regards it as an ex-post rather than as an ex-ante concept. The concept refers to relatively strong and diversified systems with well-developed institutional and infrastructural support of innovation activities. The perspective is one where innovation processes are evolutionary and path dependent and systems of innovation evolve over time in a largely unplanned manner. The system of innovation approach has not, to the same extent, been applied to system building. When applied to a country in transition such as China focus needs to be shifted in the direction of system construction and system promotion – something that was central in List's ideas for catching up – and to the fact that public policy is a conscious activity that needs to stimulate and supplement the spontaneous development of systems of innovation (Muchie, Gammeltoft and Lundvall 2003; Lundvall, Interakummerd and Lauridsen 2006).

Another weakness of the system of innovation approach is that it is still lacking in its treatment of the power aspects of development. The focus on interactive learning – a process in which agents communicate and cooperate in the creation and utilization of new economically useful knowledge – may lead to an underestimation of the conflicts over income and power, connected to the innovation process. In a global context where the access to technical knowledge is becoming restricted not only by weak 'absorptive capacity' but also by more and more ambitious global schemes to protect intellectual property this perspective gives a too rosy picture. The current focus on 'independent innovation' may be seen as making the global power game regarding access to knowledge explicit.

Furthermore, the relationships between globalization and national and local systems need to be further researched. It is important to know more about how globalization processes affect the possibilities to build and support national and local systems of innovation in developing countries (Lastres and Cassiolato

2005). In China the opening of the economy has taken place at a very high speed and one of the major effects has been regional polarization. It is thus clear that the innovation system approach proposed here needs to be adapted to the situation in developing countries, if it is to be applied to system building. It is also clear that what is most relevant for developing economies is a broad definition of the NSI including not only low-tech industries but also primary sectors such as agriculture. Activities contributing to competence building needs to be taken into account and narrow perspectives that focus only on the STI-mode needs to be avoided.<sup>7</sup>

#### *Welfare and inequality in the context of innovation systems*

A promising line of research is to link the perspective of Amartya Sen (1999) on welfare and inequality to the national system perspective. Sen presents a capability-based approach where development is seen as an expansion of the substantive freedoms that people enjoy. Substantive freedoms are defined as the capabilities people have to live the kind of lives they have reason to value. They include things like being able to avoid starvation and undernourishment, diseases and premature mortality. It also includes the freedoms of being literate, able to participate in public life and in political processes, having ability and possibility to work and to influence one's work conditions, having entrepreneurial freedom and possibilities to take economic decisions of different kinds. Enhancement of freedoms like these is seen as both the ends and means of development.

This way of looking at development refers to the capabilities people have to act and to choose a life they value, rather than to their level of income and possession of wealth. Poverty, for example, is in this perspective more a deprivation of basic capabilities than just low income. Human capabilities rather than resource endowments are the fundamental factors of development. Sen's approach fits well into a system of innovation approach. It is noteworthy however that learning and innovation capabilities generally do not seem to be explicitly included in this capability-based approach to development. Extending capabilities may be the result of changing the setting in which the agent operates, but even more important in the learning economy is whether the

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<sup>7</sup> Several authors analysing the situation of less developed countries have been critical to the use of the concept 'national innovation system' and have preferred to work with concepts such as national technological systems (Lall and Pietrobelli 2003) or national learning systems (Matthews 2001; Viotti 2002). To some degree we see their alternative conceptual proposals as reactions to the use of narrowly defined innovation systems with focus on STI-learning. We strongly support the idea that understanding processes of experience based learning is a key to the understanding of the specificities of national innovation systems (Jensen, Johnson, Lorenz and Lundvall 2007; Arundel, Lorenz, Lundvall and Valeyre 2007).

setting gives access to and stimulates a renewal and upgrading of the competence of agents.

We would argue that the learning capability is thus one of the most important of the human capabilities and it is conditioned by national institutions and forms of work organization. It does not only have an instrumental role in development but also, under certain conditions, substantive value. When learning takes place in such a way that it enhances the capability of individuals and collectives to utilize and co-exist with their environment, it contributes directly to human well-being. Furthermore, to be able to participate in learning and innovation at the work place may be seen as ‘a good thing’ contributing to a feeling of belonging and significance.

China has developed a strongly meritocratic system where university education has become the key and almost the only legitimate entrance point for advancing in the social hierarchy. To offer wider segments of the adult population access to vocational training with theoretical elements might be a key both to reduce inequality and to enhance the capacity to innovate within enterprises. A more balanced understanding of the importance of experience-based knowledge in the education system as in society as a whole would benefit the efforts to build ‘endogenous innovation capacity’.

*On the sustainability of innovation systems*

National Systems of Innovation may be regarded as a tool for analyzing economic development and economic growth. It aims at explaining how systemic features and different institutional set-ups at the national level link innovation and learning processes to economic growth.

But such a perspective may be too narrow. As pointed out by Freeman and Soete (1997) the ecological challenge ought to be integrated in any strategy for economic development and here we will argue that in the learning economy not only intellectual capital but also social capital is an important element in the development process. The extended perspective can be introduced as in Table 3 below.

*Table 3: Resources fundamental for economic growth – combining the tangible and reproducible dimensions*

	Easily reproducible resources	Less reproducible resources
Tangible resources	1. Production capital	2. Natural capital
Intangible resources	3. Intellectual capital	4. Social capital

The diagram illustrates that economic growth is faced with a double challenge in terms of sustainability and that there is an immanent risk of undermining not only the material basis of material production (Segura-Bonilla 1999), but also

the knowledge base. The creation of tangible capital may be threatened by a neglect of environmental sustainability. We will argue that the production and efficient use of intellectual capital is fundamentally depending upon social capital (Woolcock 1998). A development strategy that focuses only on production capital and intellectual capital is not sustainable.

This has become a key issue in China where the conflict between the current model of growth and sustainability has become obvious. But also in the rest of the world, including EU, there is a growing insight that linking innovation to environmental problems and energy shortage is fundamental for the future of the global economy. The fact that China has the potential to initiate major nationwide strategy to establish this connection offers a major opportunity for China. But as we shall see in the following section radical change in this direction might not be easy to implement from the centre. The current governance model where local/regional alliances between political and economic agents are committed to the old accumulation model needs to be transformed through the introduction of new incentives and new forms of governance.

### **China's Production system and Growth trajectory<sup>8</sup>**

Observers around the world are impressed by the rapid growth of China's economy. While outside observers tend to focus on the success story of unprecedented growth policy documents and recent domestic debates in China have pointed to the need for a shift in the growth trajectory with stronger emphasis on 'endogenous innovation' and 'harmonious development'.

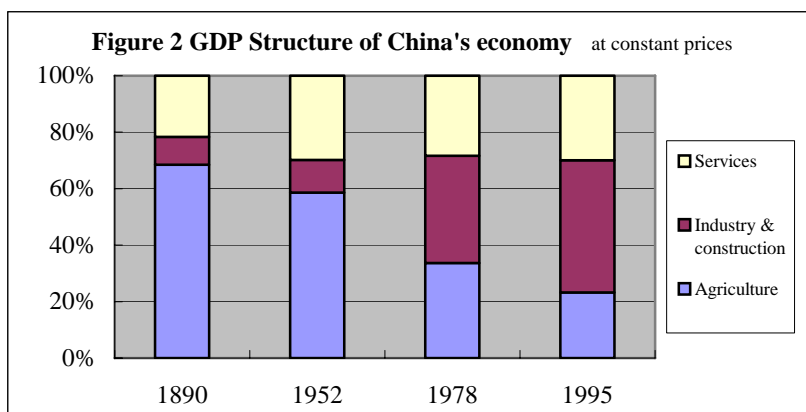
In this section we make an attempt to capture the current characteristics of China's production system and its mode of accumulation; how they were shaped by history and what major challenges they raise for the future. We show how the shift in policy toward decentralization, privatization and openness around 1980 established an institutional setting that, together with other factors such as the presence of a wide 'Chinese Diaspora', has resulted in extremely high rates of capital accumulation especially in export-oriented manufacturing.

#### *The transition of China's economy*

It is useful to distinguish between two periods in China in the second half of the 20<sup>th</sup> century. The crucial shift takes place in 1978 when DENG Xiaoping took over the political leadership after Chairman MAO and initiated economic reform and the opening of the economy to international trade. The first was a period of development under a centrally planned economic regime and the second a period with market-oriented reforms and economic transition.

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<sup>8</sup> This section as well as section 3 below draws upon Gu and Lundvall (2006b).



Source: Maddison 1998: 56, Tables 3.1 and 3.2

At the time of the revolution the economy was still dominated by agriculture; in 1952 about 60 percent of GDP was generated by the agricultural (primary) sector, as shown in Figure 2. Both the first and the second period were dominated by industrialization, rather than “post-industrialization” that took place after WWII in developed and most less developed countries. As a result, China ends up being highly “industrialized” by the end of the century. In 2003, the GDP structure of China was 12.5 per cent primary, 46 per cent secondary and 41.5 per cent tertiary. The growth in manufacturing and the relative shrinkage of agriculture went on also in the 1990s, and the value added-share of the service sectors remained almost unchanged until the second half of the 1990s.

But as we shall see below the economic structure looks quite different when the focus is employment rather than value added. The proportion of the labor force working in agriculture remains as high as 50% in the beginning of the new millennium. The growth in manufacturing value added reflects more than anything else a very high rate of accumulation of fixed capital accompanied by high rates of growth in labor productivity.

Behind the high growth rates and the restructuring of the economy in the second period lay extraordinary rates of savings and capital accumulation. In order to understand how these could be realized in a poor country like China it is necessary to look at the institutional changes that took place with the shift in the political climate.

#### *Reforms and development performance in the 1980s and 1990s*

The policies transforming the economy from a centrally planned towards a market-oriented regime may be seen as following two parallel and mutually reinforcing lines of action aiming at decentralization and privatization (Wu 2003, Chapter 2).

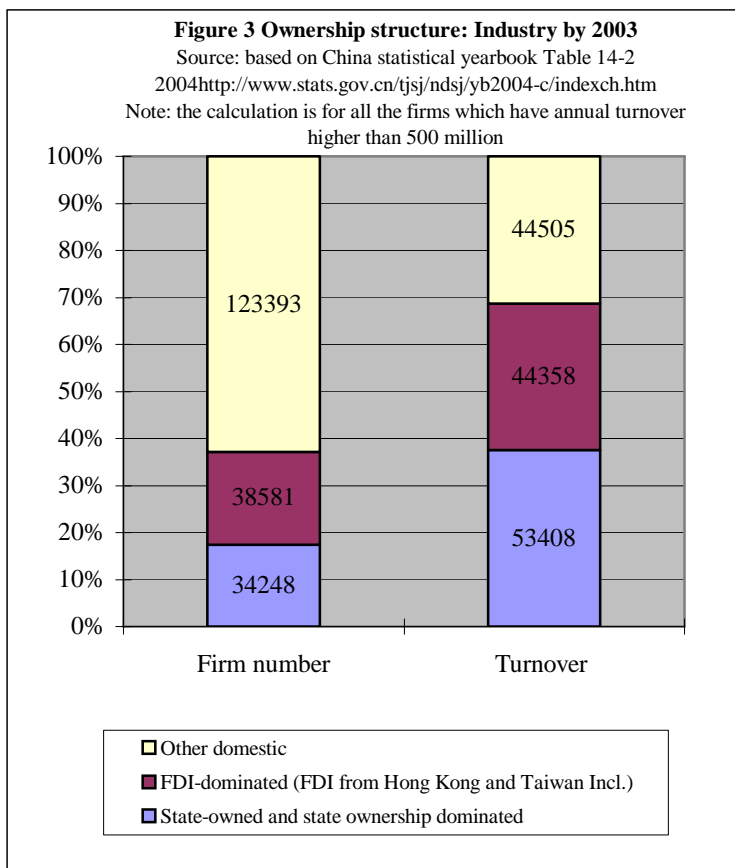


The first line of action, “bureaucratic decentralization”, began with increasing the autonomy of firms in decision-making on production planning, investment and acquisition of technology, marketing, pricing and personnel and with more autonomy to local governments in financial, budgetary and administrative issues.

The second line of action loosened the restrictions first for township and village enterprises in the early 1980s and later also for private initiatives in the mid-1990s. It included the creation of “Special Economic Zones” for FDI related investment with various favorable regulations. In provinces like Zhejiang this led to private initiatives by entrepreneurs.

But most importantly it gave the local governments bigger opportunities to engage in initiatives promoting the local accumulation of capital. They did so through establishing and expanding TVEs (Township and Village Enterprises) sometimes owned by the local governments, sometimes representing joint enterprises with private capital or through initiatives attracting private capital from local, national or international sources.

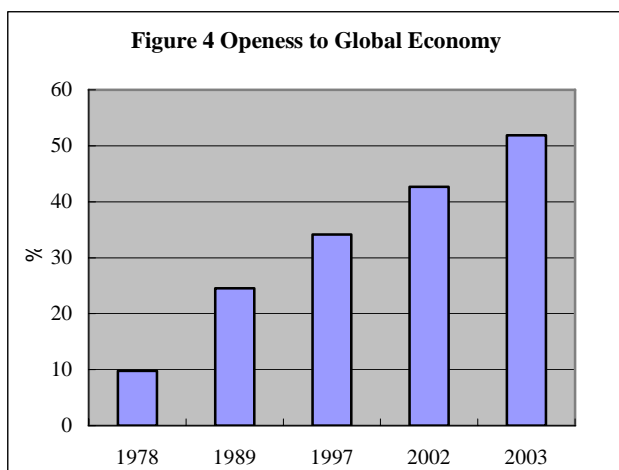
“Diaspora networks” played an important part in re-enforcing the rapid capital accumulation from foreign investment. Throughout the 1980s, the opening to FDI and international trade attracted partners mainly from the Greater China area—Hong Kong, Chinese Taipei, Singapore, and overseas Chinese from other continents. It was not until the second half of the 1990s that multinational companies from North America and West Europe came into China on a large scale



The second line of action, also called “incremental reform”, opened up new spaces for economic activities outside the entities inherited from the central planning era. As a result, the ownership structure of industrial enterprises changed rapidly. As can be seen from figure 3, by 2003, each of the three types of ownership—the state-owned, FDI related and other domestic - were responsible for roughly one third of output.

### *Export led growth*

International trade was initially pushed by favorable policies and gradually pulled by FDI and intra-trade within global value chains. Today China’s economy has reached a much higher level of openness than all other large economies in the world, developed or developing (Figure 4).



Export structures have been upgraded (Figure 5). The share of primary products, such as foodstuffs, agricultural products and mineral fuels, have been reduced from half of the total in 1980 to less than 10 percent by 2002, while the share of manufactured goods increased to more than 90 percent. In manufactured exports, electric and machinery products including electronic products, demonstrated the fastest growth rate. But light and textile products and apparel increased considerably as well.

Beyond quantitative growth, qualitative or structural change has been radical but the most strongly knowledge based activities take place in the foreign-owned firms. In industries such as computer and IT products exports are mainly manufactured in factories owned by Western and Taiwanese investors. For 2003 it is reported that 61.9 percent of high-tech export was produced by fully foreign-owned and 21.4 percent by partly foreign-owned firms; altogether FDI-related manufacturing produced more than 80 percent of high-tech export from China (China S&T Indicators 2004). This reflects overall trends of the innovation system of China characterized by easy access to foreign technology, while remaining weak in local and domestic clustering.

#### *A unique pattern of economic growth*

In about a quarter of a century China's economy has been characterized by high rates of economic growth and capital accumulation. Some of the mechanisms behind that growth pattern are unique while some have parallels with the institutional set up that promoted capital accumulation in England in the 18th century (Qian 1996).

The reforms that were initiated more than 25 years ago unleashed restrained material needs. It was explicitly argued that getting some concentration of wealth among the few was a first step toward making everybody better off; this made the strife for material wealth ideologically legitimate. Slumbering entrepreneurship was awoken to engage in production and trade both within and

outside the public sector. *The most important driver behind capital investment and economic growth was a specific local fusion of political and economic interests.*

Foreign direct investment initially emanating primarily from overseas Chinese investors and subsequently from wider sources should be added to this as an important factor. Joint ventures offer good opportunities for public and private rewards for local policy makers. The same is true for attracting direct investment in purely foreign-owned enterprises to the locality. Building infrastructure and supplying cheap labor, energy and land has become a key concern for local administrators.

The dynamics of reform has also been driven by the competition between localities to offer the most attractive framework conditions. This sometimes takes the form of offering cheap resources and lax regulations in relation to environment and workers' safety. But there are also examples of forward-looking ideas developed locally and then spread nation-wide.

#### *Limits to growth*

The development trajectory behind the high speed of growth is now confronted with barriers for further growth. Some of these are external and refer to potential trade conflicts. Others reflect domestic problems with social and ecological sustainability. There are indications of serious weaknesses of the innovation system. The call for 'harmonious development' may be interpreted as an attempt to give new direction to the recognized unsustainable growth patterns.

Gaps between the urban and the rural, between regions, and between the rich and poor in the same region are widening. Working conditions and workers' safety have been largely neglected. Negative externalities also include environmental degradation such as pollution of air and water and exploitation and wasteful use of other non-renewable resources. The current development mode entails intense consumption of non-renewable raw materials and energy sources. Especially when these inputs are under the control of local groups with vested interests there may be a tendency to set prices too low and to be lax in terms of safety regulations.

The industrialization process has not resulted in building a widespread and robust indigenous innovation capability in Chinese firms. After twenty years of being the origin of manufactured goods "made-in-China", China's economy has not been able to embark upon the track of competence upgrading. This contrasts with the catch-up history of the US and Japan where "made-in-US" and "made-in-Japan" were preludes to the two countries, within a time span of one generation, reaching the world frontier in innovativeness and competitiveness.

China remains specialized in low value-added products with profit margins trapped at meager 2-5 percent, or in some areas even lower.

Recent policy documents and the general debate have pointed to these problems and contradictions, and to the need for a shift in the development strategy with stronger emphasis on ‘harmonious development’ and ‘endogenous innovation’. What adjustments of the development strategy are needed to realize the intentions signaled by these concepts? Does the new long term plan represent an adequate response to the current problems?

Before we discuss this issue in Section 4, it is necessary to analyze the reform of the innovation system that accompanied decentralization and privatization. The analysis of the reform and its outcome points to weaknesses of the current innovation system and it helps us to specify what reforms are required in order to make innovation endogenous and to make it contribute to harmonious development.

### **The Transformation of China’s Innovation System**

China is an old civilization and historically it has made important contributions to global science and technology (such as the compass, gunpowder and paper). In the older history of China, however, science and technology as it evolved in Western Europe was not regarded as important or as carrying social status. While Confucious’ heritage gave high prestige to intellectuals, it was to those engaged in humanistic science and in political and administrative affairs. Scientific and technological knowledge was seen as based upon practical experience, rather than as a modern type of scholarship. Whereas Research and Development (R&D) establishments started to be organized in the 1920s to 1930s, China only began the process of institutionalization of modern science and technology nationwide in the 1950s.

#### *The weakness of sector institutes*

The R&D system established in the first period of development was designed in accordance with the centrally planned regime. One prominent feature was the huge size that was a reflection of the Marxist idea of science as a societal force of production and also a result of the self-reliance development strategy in the centrally planned period (see Table 4).

The second feature was the separation of industrial R&D centers from productive enterprises. The centrally planned regime had introduced particular mechanisms to link up R&D activity with production: All the R&D institutes, except those belonging to the Chinese Academy of Sciences (which was assigned to be the national top organization for comprehensive natural and

engineering science) were organized under the jurisdiction of sector specific ministries or bureaus, independently outside enterprises. The ministries or bureaus took the responsibility for planned production tasks as well. They were hence in command of both R&D and production (Gu 1999: 151-176).

The institutional setting was reflected in innovation characteristics. For example, the machinery industry of China was apt at “general purpose” machinery, and weak in technologies fulfilling particular machining tasks since these could only be developed through interactive learning and close producer-user communications (Gu 1999 127-135). The low degree of *effectiveness* of the centrally planned institutional settings was well acknowledged at the end of the 1970s. This became one important motive for the launch of reforms.

### *The 1985 reform*

The crucial event for R&D system reform came in 1985, slightly lagging the agricultural and industrial reforms, which were started in 1978 and 1984 respectively. A 1985 Decision made by the Central Committee of the Communist Party of China initiated the reforms in Science and Technology System Management. The central theme for the reform was to rearrange the relationship between knowledge producers and users and their relationships with the government. In a context where demand, supply and coordination factors were changing, reform of the S&T system was seen as essential.

The then Prime Minister Mr. Zhao Ziyang interpreted the reform as the following:

The current science and technology institution in our country has evolved over the years under special historical situations. .... One of the glaring drawbacks of this system is the disconnection of science and technology from production, a problem, which is a source of great concern for all of us....

By their very nature, there is an organic linkage between scientific research and production. .... The management system as practiced until now has actually clogged this direct linkage, so that research institutes were only responsible to the leading departments above, in a vertical relationship, with no channels for interaction with the society as a whole or for providing consultancy services to production units. ....This state of affairs can hardly be altered if we confine ourselves to the beaten track. The way out lies in a reform (Zhao Ziyang 1985).

### *The adaptive policy process and the recombination of competences*

For reforming the S&T system, a two-pronged policy was designed. On the one hand, “technology markets” were established to function as distributive

institutions for R&D outputs (Decision: Section III). On the other hand excellence-based allocation mechanisms were introduced for the allocation of public R&D funds (Decision: Section II). It was expected that by push and pull, the previously publicly funded R&D institutes would move to serve their clients via regular and multiple linkages.<sup>9</sup>

The actual process of S&T system reform, as the reforms of the overall economic system, unfolded through trial and error and entailed continuous adjustment of policies (Gu 1999). *The technology market solution*, central in the initial design, was soon recognized as being difficult to realize in its original form. The users were not capable of absorbing transferred technology, and the market was too small to secure R&D institutes with enough earnings. As a response, in 1987 reform policy began to promote the *merger of R&D institutes* into existing enterprises or enterprise groups.

In the next year (1988) the Torch Programme was launched to encourage organizations akin to *spin-off enterprises* — called *NTEs* (New Technology Enterprises) - from existing R&D institutes and universities. And by the early 1990s, reform policy included another solution to change *individual R&D institutes into production entities*. This, as well, was an adaptation to an actual evolution already realized by many industrial R&D institutes.

Adaptive policy evolving through trial and error characterized the “gradual reforms” in the process of economic transition in China. The great uncertainties associated with foreseeing the impact of major political reform made adaptive policy learning necessary. Only policy-making that was responsive and adaptive to the feed-back information on the impact could preserve the feasibility for success of any radical social innovation program (Metcalf 1995, Gu and Lundvall 2006).

#### *Remaining weaknesses*

The transformation was constructive in safeguarding and recombining technological capabilities in the context of market reform and opening to the global economy. It has supported the rapid growth in the economy as a whole. For example, a number of NTEs like Huawei, Datang and Linovo, grew to

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<sup>9</sup> Note that the Decision recognized the diversity of R&D institutes in terms of their function. It divided them into “technology development type”, “basic research type”, and “public welfare and infrastructure services type”. The reduction of public funds was mainly applied to the technology development type and it was done gradually to be complete in a time span of five years. Consequently by 1991, the 2,000 plus, out of the 4,000 in total, technology development institutes had had their public “operation fees” entirely or partly cut. Roughly the sum of the reduction accounted to slightly less than RMB 1 billion (or USD 200 m), or about one tenth of the overall government S&T budget in 1985.

become key ICT enterprises and this led to a fundamental restructuring of China's ICT industry (Gu and Steinmueller 1996/2000). The achievements are especially impressive when comparing with Russia where scientific and technological capabilities were destroyed on a huge scale. It nonetheless leaves the system with some prominent weakness.

First of all, the resulting system developed weaker domestic links and interactions than international links, although the mastery of the latter links remains rather passive, dominated by the import of foreign technology embodied in machinery and other process equipment. The *capital goods industry* has not played a role as an innovation centre for the whole economy by providing appropriately advanced production means for various users; they were instead largely integrated into the respective global value chains. In general *potential local or domestic links along and between value chains* have been slow to develop and hard to expand. Small firms in traditional manufacturing sectors, and agriculture and rural development have received inadequate support from national and regional technological infrastructure, showing a *separation between the modern and the traditional part* of the system (Tylecote, this issue).

Second, the transformation ignored the development of technological infrastructure and supportive institutions. The remarkable aspect of the reform is that the initial intention - to establish markets for technologies for existing R&D institutes and existing enterprises - was not realized. Instead other unforeseen adaptations 'saved' the reform. A general tendency was *vertical integration of R&D and design with production activities* - either through merger into enterprises or through the establishment of downstream production. This has resulted in a weak capability to provide S&T inputs and supportive services to innovation in firms; a capability that is fundamentally important for knowledge based growth (Nelson 2004, David 2003).

There were several reasons for the drive toward vertical integration. One reason was the peculiar pattern of division of labor for R&D institutes inherited from the centrally planned system in which they had already been involved in many "down-stream" activities. Weak absorptive capacity and less developed social capital were other reasons for the difficulties in establishing markets for technology.

China's technology policy has yielded impressive results in a number of areas, such as telecommunications and nanotechnology. International scientific publications have increased significantly, as have patents, the latter of which grew by around 40 % in 2005 (albeit from a low level), even if they still account for a small share of total patents registered with the World Intellectual Property Organization (WIPO). Compared to the Soviet Union the Chinese transformation of the innovation system has been highly successful. While the



scientific and technology infrastructure in Russia has been ruined by the crude transformation toward a market economy this has not been the case in China. The transformation has resulted in a strong infrastructure with stronger couplings to the production system. The policy has been pragmatic and involved on-going adjustments when original approaches did not work out as expected.

Nonetheless the major source of growth has been intensive use of physical capital, natural resources and labor. Productivity growth in the manufacturing sector has not been linked neither to an upgrading of the production structure nor to a growth in the service sector. A special problem has been the reluctance of the big state-owned enterprises to become active in terms of building R&D and innovation capacity in house. Easy access to capital and low-priced labor and - until recently - foreign technology has led to passive management strategies where imitation has been more attractive than innovation. A classical example is the Automobile sector where it is only recently that some of new players begin to build their own design and innovation capacity.

Attempts to compensate and bring innovation into the domestic economy through attracting foreign direct investments on a big scale have not been as successful as expected. China attracts more foreign direct investments than any other country in the world with the exception of the USA and the UK (UNCTAD 2005). During the past five years, hundreds of new R&D centers have been established by foreign companies in China and in several recent surveys, executives from multinational companies rated China as the most attractive country for future R&D investments (see, for example, UNCTAD 2005). China has become a large exporter of high technology products, which accounted for one fourth of China's total exports in 2005.

Nonetheless, China's strategy of attracting foreign technology and knowledge has only partially been successful. A large share of China's high tech export still consists of the import of high-tech components which are assembled in China and then exported abroad (Cong, 2004) and as we have seen no less than 80% of high technology exports emanates from firms that are wholly or partially owned by foreign capitalists. This is the background for the emphasis on 'independent innovation' in the new plan.

### **China's 2006-2020 Science Technology Development Plan<sup>10</sup>**

On February 9th, 2006, the State Council presented its strategy for strengthening China's scientific and technological progress in the coming 15 years (State Council 2006a). The plan reflects China's clear and strong ambitions to make

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<sup>10</sup> This section draws upon Ju LIU's analysis of the original planning documents and it has also been inspired by Schwaag Server and Briedne (2006).

the country one of the world's most important knowledge bases. In addition, it contains an explicit target to reduce China's dependence on foreign research and development as well as to use public procurement as a way of strengthening its domestic industry. The aim of this section is to provide a critical assessment of the plan. First, we identify and provide a summary of key components of the plan. We also examine the actors, processes and driving forces explaining its development. Second, we analyze the plan in the context of China's larger socio-economic challenges. Finally, we assess how the 15-year plan reflects some of the principal weaknesses in China's innovation policy and its innovation system. We conclude by some policy recommendations.

### **The general targets of the plan**

The plan sets eight major objectives to be reached over the 15-year plan horizon:

- Industries producing manufacturing equipment and information technology, important for the country's national competitiveness, should develop and master core technologies at world class level.
- The scientific and technological base of agricultural production should become one of the most advanced in the world, the production capabilities of agriculture should be improved and food safety ensured.
- Breakthroughs should take place in energy exploration, energy-saving technology and clean energy technology, in order to promote more efficient energy use, with energy consumption of major industrial products brought down to the standards of the advanced economies.
- Scientific and technological efforts should support modes of production pointing toward a recycling economy in major industries and key cities to support building of a resource-efficient and environment-friendly society.
- Major progress should be achieved in fighting major diseases and in epidemics prevention, for diseases such as AIDS and hepatitis. Breakthroughs will be acquired in R&D of new pharmacies, medical equipments, and apparatuses. Technological capabilities will be built up for industrial development.
- The development of S&T for national defense should support R&D of modern weapons and equipments, for informationalization of the army, and for safeguarding national security.
- Scientists and research teams should reach world class level and a number of important breakthroughs in science should be achieved. Specifically, technologies in the frontier fields of information, biology, materials and space should reach world advanced level.
- World-class research institutions and universities as well as internationally competitive R&D institutes owned by companies will be built. A relatively

complete national innovation system with Chinese characteristics will be built.

Some of the key priority areas refer to societal needs some of which emanate from the currently dominating growth trajectory. First priorities are the development of technologies that can solve problems with energy and water resources and developing environmental technologies. Furthermore, China is to promote the development of IPR-protected technology based on IT and material technologies. Biotechnology, aerospace, aviation and marine technologies continue to be prioritized sectors. Finally the plan emphasizes the importance of increasing investments in basic research, particularly multidisciplinary research.

The plan lists sixteen key projects that are to be launched. The common criteria for these projects are that they address significant socioeconomic problems, they are to be found in areas where Chinese technology already possesses sufficient competence in relevant technologies, their cost should not be too high and the results shall be suitable both for civilian and military applications. Examples of key projects are one to put a Chinese on the moon and another to develop the next generation of jumbo jets. Others focus on the development of fast processors, high-performance chips, oil and gas extraction or exploitation, nuclear power technology, water purification, development of new drugs, fighting AIDS and hepatitis, and developing the next generation of broad band technology.

The plan addresses new technologies that are likely to be significant for the next generation of high technology. Among these, biotechnology is at the top of list, followed by IT, advanced materials, production technology, advanced energy technology, oceanography, laser and space technology. These priorities are not radically different from what has been behind earlier generations of science and technology programs. But the urgency in relation to finding solutions on environmental and energy problems is stronger and the ambition to build 'independent innovation capacity' is more explicit. There are also some major differences in the tools proposed for implementing the plan. Public procurement and tax subsidies are given a stronger emphasis and in general there seems to be a new kind of mobilization around the strategy.

One of the most noteworthy and novel methods suggested in the plan is the introduction of tax incentives for small and medium-sized enterprises (SMEs). These incentives are intended to encourage companies to invest in R&D and even to establish R&D activities abroad. The latter is particularly interesting and it might be unique for China. It signals that 'independent innovation' does not aim at decoupling Chinese firms from global sources of knowledge and innovation.

### **The preparation and implementation of the plan**

It is noteworthy that the development of the new plan was coordinated at the highest political level. The prime minister, Wen Jiabao, has been actively involved in the development of the new plan and chaired a steering group which led the process (MOST 2004).. Many ministries have been involved in the drafting of the plan (Cao, 2005). The preparation and drafting of the plan, took around three years.

The process was initiated in 2003 with the commissioning of 20 strategic studies which focused on key R&D issues, both from a scientific and socioeconomic perspective. 2000 researchers were involved in the preparation of these 20 studies. Once the reports were finished, they were reviewed by the Chinese Academy of Science (CAS), the Chinese Academy of Engineering (CAE) and the Chinese Academy of Social Sciences (CASS). After that, the Ministry of Science and Technology (MOST) took 12 months to draft the plan, in consultation with other actors, such as the Ministry of Finance, China Academy of Sciences and China Academy of Engineering.

The plan was presented in February 2006 and in June 2006 the State Council presented the a “Consolidated List of the Rules for Implementation of the Supporting Policies for the Outline of the National Medium- and Long-term Planning for Development of Science and Technology Formulated by the Relevant Department” (State Council, 2006b). The list contains 99 supporting policies or tasks. For each task, one ministry or government institution is assigned a lead role or overall responsibility. Within the lead institution, a person is identified by name as bearing main responsibility for each task, with the designated person being in general at Vice-Minister Level. In addition, it is also clearly indicated which other institutions, should participate in the task and when the task is to be completed. The tasks vary in terms of scope or level of detail. Overall, however, they all aim at providing concrete policy tools or action plans for implementing the overall objectives defined in the plan.

The National Development and Reform Commission (NDRC) has been assigned lead responsibility for 29 tasks, followed by the Ministry of Finance 21, the Ministry of Science and Technology (MOST) with 17 support policies and the Ministry of Education with 9. NDRC and the Ministry of Finance have been given lead roles in implementing what could be argued to be some of the pillars of the new long-term plan. Thus, NDRC has been put in charge of strengthening innovation in SMEs and presenting a plan for special projects on promoting national independent innovation capabilities, while the Ministry of Finance has the responsibility for designing fiscal incentives for increasing R&D and innovation in enterprises, and for drafting public procurement policies aimed at promoting independent innovation.

MOST maintains the responsibility for incubators and science parks, as well as implementation measures for supporting research and development in the area of scientific technologies, both of which continue to be key areas of China's science and technology policy. However, it is clear the MOST is only one of several important players in the new long-term plan. Overall, there are several indications that the influence or weight of MOST in China's latest 15-year plan is reduced when compared with previous plans. The new emphasis on enterprises as the engine of China's innovation system is one explanation for why ministries such as NDRC and the Ministry of Finance, are given large responsibilities for implementing the plan. Two other focal areas, namely public procurement and the emphasis on independent or indigenous innovation, also point towards ministries and agencies in charge of enterprise and industrial policy as well as government purchasing regulations, again NDRC and the Ministry of Finance, taking on a greater weight when compared to earlier plans.

In the light of our discussion of different ways to define the innovation system we might argue that this shift in responsibilities among strategic agents signals a shift in the perspective on the innovation system. In mechanistic STI-dominated perspective where it is assumed that there is a simple connection from investments in science to innovation it is natural to leave the minister of science in charge of innovation policy (this is the Danish case). The latest long-term plan indicates that China is moving away from a science and technology policy towards an innovation policy where it is realized that organizations and markets need to be taken into account. In this new arena, MOST's leadership is no longer self-evident or guaranteed.

Having presented the main components of the long-term plan as well as the process that led to it we will now focus on some of the main features of the plan and on some of the policy instruments that the plan builds upon.

### **The main features of the plan**

#### *A NSI-perspective*

According to the documents presenting the plan it is the first time the concept of *national innovation system* is used to structure a mid-and-long-term plan (SOURCE). The plan defines national innovation system as a social system where government is in a guiding position, market plays a fundamental role to deploy resources, and various sources of S&T innovation link tightly and interact effectively. It is referred to 'a national innovation system with Chinese characteristics' and argued that it consists of three sub systems. The first is technological innovation system in which enterprises are main force and industries, universities, and research institutes are integrated. The second is knowledge innovation system in which scientific research and higher education

are integrated. The third is national defense S&T innovation system in which military and civilian S&T activities are integrated. To these are added regional innovation systems with various characteristics and differentiated comparative advantages. Finally there is a reference to an 'intermediate service system' where processes of socialization and networking are important.

As we read the plan almost all the attention is given to the three sub-systems and little is said about regional systems and about the intermediate service system. It is obvious that the plan sees the stimulation of R&D-efforts as the single most important step toward innovation. But the weight the plan gives to procurement shows attention to the demand side. With this exception the emphasis is on what we referred to in the first section as STI-learning. There are some references to vocational training but very few to how enterprises are managed and workplaces are organized.

### *Governance*

A general problem with any kind of planning document is that it presents intentions and instruments while the capacity to realize the plan will depend both on the degree of shared commitment and on the institutional set-up with its specific distribution of power. There are some reflections in the plan documents on how to improve governance.

To promote and improve the national innovation system building, institutional reform will take place in the country's S&T system. National S&T decision making system, macro coordination mechanism for S&T will be established and improved. General planning and macro administration of the development of S&T will be strengthened by government. S&T policies will act as the country's fundamental public policy. S&T examining and appraising system as well as S&T assessing and rewarding system will be reformed. Justice, fairness, openness, and innovation-friendliness will be embodied into the systems (SOURCE)..

Especially the last sentence is important since it does not take for given that the current system is sufficiently just, fair, open and innovation friendly. Corruption, favoritism and authoritarian rule are especially costly when it come to promote innovation.

### *The Purpose of the Plan and the Brave Target Numbers*

The plan sets some explicit and rather ambitious quantitative targets to be reached over the 15 year period. First, the proportion of R&D expenditures of GDP will be raised from 1.3% to 2.5 percent of GDP. Second, more than half of economic growth should emanate from 'technical progress' – i.e. not from the extended use of labor and capital. Third the reliance on foreign technology

should be reduced from 60% to 30%. The use of some of these numbers – especially the one on technical progress - might appear naïve since the basis for the calculation is highly uncertain and dubious. But they may also be seen as strong and clear signals for actors in the national innovation system.

The objective of raising R&D-expenditure to 2.5 % of GDP can be compared with the 3% goal set for the EU set for 2010 (the EU-goal has proven to be unrealistic). In the case of China the 2.5% requires a very steep expansion of the resources engaged in R&D (about 20% per annum) since it is assumed that GDP will grow four times between 2000 and 2020. To avoid that such high growth rates become mirages produced by false statistics rather than real change is a major challenge

### *Enterprises as main force for innovation*

As indicated by the basic definition of the ‘system of innovation’ it is assumed that the national government has a lead role but it is also argued that markets play a major role. The plan states that enterprises should be seen as being at the very core of the innovation system. But little is said on the governance, organization and management of enterprises. The focus is more on how government through tax subsidies and procurement policies can stimulate firms to invest more in R&D and engage more in developing new products and services with the public sector as customer.

According to the plan innovation-friendly tax policy will be adopted. For instance, 150% of R&D expenditure can be deducted from taxable income of the same year. Companies will be allowed to accelerate depreciation of the equipment used for R&D. Income tax will be remitted for new startups in national high-tech industrial zones for two years since they become profit-making and after these two years the income tax rate for these companies is 15% which is 10 percentage points lower than that for ordinary companies. Donations from companies, civilian organizations, social associations, and individuals for enterprise technological innovation foundations will also be deducted from taxable income. Favorable tax policies will also be given to venture capital investment companies, S&T intermediate service agencies, S&T incubators, and national university S&T parks. Stronger financial support will be given to companies for innovation. Commercial financial agencies will be encouraged to invest in innovative companies and innovation projects.

Government procurement will be used as an important tool to encourage indigenous innovation. The system of procurement of innovative products will be enhanced. The government will purchase the first vintage of innovation products created by domestic enterprises or research institutions when the innovative products have potential big markets. A control and evaluation system

giving guidelines for procuring domestic and foreign products will be set up. Normally, in the purchasing process, domestic products have priority over foreign products. Only products not available in China can be purchased from abroad. When government procures products from foreign companies, those companies that are willing to transfer technology to local companies, will be given priority before other candidates.

These two sets of instruments play a key role in raising R&D- and innovation-efforts in the enterprise sector. It is a general problem in all countries practicing tax rebates for R&D that it is difficult to control that the enterprise's expenditure is actually addressed to this purpose. In order to make tax rebates effective it is crucial that the tax system is reasonably well-functioning and reliable and this might not always be the case in China.

The procurement policy leaves quite a lot of lee-way for administrative judgment and it can be undermined of corruptive behavior in the central and especially in the local administration. Without a major effort to establish 'good governance' in the private and the public sector the two sets of instruments might not be successful.

#### *Indigenous innovation*

One of most interesting feature of the new plan is the declared intention to strengthen 'independent' or 'indigenous' innovation. Policymakers have identified a low innovative capacity as the most important explanation for why China's efforts to upgrade its technological capabilities have not yet resulted in the world-leading products 'made in China' that the Chinese government had hoped for.

Indigenous innovation is defined as a value-creating process resulting in new products based upon core technologies and upon IPR. The plan defines three types of indigenous innovation. One is the original innovation, out of which there emerge core technologies; another is integrated innovation, which refers to the process of incorporating and combining various domestically controlled technologies into new products; and the third is developing new products on the basis of advanced foreign technologies.

Several different policies aim at IPR creation and protection. Government will strongly support the IPRs of core technologies and key products. The national S&T departments, comprehensive economic departments, and other relevant departments will jointly and regularly issue a catalog of core technologies and key products of which China should obtain the IPR. The technologies and products listed in this catalog will be given strong support by national S&T plan and construction investment. IPR information service platform will be set up by



national S&T departments and IPR administration departments. According to the plan, China will actively participate in international standard establishment and will promote domestic-market-centered technological standards. The plan will support research on standards of core technologies, will guide the joint research by industries, universities, and research institutes on technological standard, and will promote integration of R&D, design, and manufacturing.

It is important to note that a key element in the definition of indigenous innovation is self-owned IPR and that the target to raise the share of patents owned by domestic firms has been given very high priority in this context. This calls for a radical change in the institutional set up and as well in the behavior in the enterprise sector in China. It goes against what might be referred to as the 'imitation syndrome'. A question is how far public regulation and legal procedures can eradicate this weakness of the system. Changing corporate culture may be seen as a more difficult and long term way of changing the actual behavior of firms in this respect.

*International cooperation for S&T development is highlighted*

While there is a strong emphasis on strengthening the domestic capacity to innovate there is no general intention to reduce the international cooperation on knowledge production. There is a strong emphasis on the potential to draw upon global sources of knowledge through international cooperation and through attracting expertise from the rest of the world.

The plan envisages that various forms of international and regional cooperation and exchange on S&T will be expanded. Research institutes and universities are encouraged to set up joint laboratory or R&D center with oversea R&D institutes. International cooperation projects under bilateral or multilateral framework of cooperative agreement for S&T will be supported. In particular a cooperative institution for S&T cooperation between mainland of China and Hong Kong, Macaw, and Taiwan will be set up. Companies are supported to "go global". Export of high-technology and products will be increased. Companies that set up oversea R&D institutes and industrialization bases will be encouraged and supported. Multinational companies will be encouraged to set up R&D institutes in China.

Scientists and S&T institutes will be encouraged to join major international scientific projects and international academic organizations. They will also be supported to participate in or lead major international or regional scientific projects. A training system will be set up to improve the capability for domestic scientists to take part in international academic exchange. Chinese scientists will be supported to hold leading positions in major international academic

organizations. Favorable policies will be offered for setting up major international academic organizations or agencies in China.

A fundamental question is how the balance between national objectives and international knowledge sharing will be established in practice in enterprise strategies. If Chinese laboratories operating abroad were to act primarily as national agents not fully committed to the local knowledge networks' knowledge sharing they would not get access to critical local capabilities (cf. the analysis by Alice Lam of Japanese biotech firms located in the Cambridge region).

#### *Dual use of scientific research in defense and civilian sector*

One of the areas where national priorities as well as secrecy are important is of course scientific and technological research for military purposes. The plan aims to form a dual-use technological and industrial base that serves both military and civilian needs. So far government investment in science and technology development has been cut into two parts, one for military use, and the other for civil use. According to the plan document, over half of all the military R&D projects overlap with civilian ones and it is argued that this has resulted in a lack of investment and a waste of human resources in both areas.

To take full use of economic and social resources the two systems will be integrated. Military research institutes will be encouraged to shoulder tasks of scientific research for civilian use. At the same time, civilian research institutes and enterprises are allowed to take part in national defense research projects. The purchase of military articles will also be expanded to more areas of civilian research organizations and enterprises.

Here the critical question refers to the implications for national knowledge protectionism. The US has used military arguments to keep secret important elements of its technology base and it has defined a very wide set of sensitive technological areas where foreigners are not welcome to join research and development efforts. Does the reference to dual use imply that China is moving in this direction extending the technological fields that will be pursued a more closed environments?

#### *Efforts to train talented people and foster world-class experts and scholars*

The plan is to speed up the development of world-class experts based on major S&T projects and construction projects, key disciplines and S&T bases, as well as international academic cooperation and exchange projects. Development of scientists of strategic importance, experts in S&T administration, leaders of different disciplines, and construction of teams for innovation are emphasized. Special policies will be issued for experts in core technological domain.

Institutions and rules for training and selecting talented people, especially top level experts, will be improved.

The role of education in developing innovative people is recognized. Postgraduate students are supported to participate in or take up the task of S&T projects. Undergraduate students are also encouraged to do S&T projects and to develop their research interest and scientific spirit. Universities are required to set up subjects of cross-discipline and emerging discipline, and to restructure their specialized subject according to the need of the national strategy for S&T development and the need of market for innovative people. Efforts to upgrade vocational education, continuing education and training should be made to stimulate the development and use of applied science.

Enterprises will be supported to train and attract S&T talents. Government will encourage companies to hire top level talents by giving favorable policies. Scientists and scholars from research institutes and universities are encouraged to innovate and to start their own businesses. They are also allowed to do part time R&D job in companies. Companies, universities and research institutes are encouraged to cooperate for technological talent training. Companies are supported to recruit foreign scientists and engineers. More effective measures will be taken to attract and employ high level personnel from abroad and to encourage Chinese students overseas to return home and work in China.

While emphasis is given to education the objectives set are related almost exclusively in quantitative terms and in relation to academic education. There are no reflections on the need to reform the university education system in ways that could promote creativity among students or link the formal knowledge to problem solving in the real world. It is mentioned that there should be efforts to upgrade vocational education, continuing education and training but it seems to be a secondary concern.

## **Discussion**

*The Plan presents adequate responses in several respects*

In the light of the frustrating outcomes of attempts to build a strong innovation capacity in Chinese controlled firms and the costs involved when licensing foreign technologies it is not surprising that the plan shows tendencies towards so-called 'technonationalism'. But it is a delicate balance between realizing the legitimate objective to build 'endogenous innovation capacity' within enterprises and protectionist approaches undermining knowledge sharing and resulting in a more closed and less dynamic innovation system.

Second it is a natural lesson from the current growth process that people carry a too heavy burden both in terms of the high saving ratios and in terms of their work effort. It is attractive to establish innovation-driven growth that results in firms producing more highly valued products with less effort. The problem here is to find the right instruments and the ones defined in the plan may be too much focused upon STI- rather than DUI-learning.

Third it is obviously a good idea to establish innovation strategies that aim at solving some of the major problems that have been created by the current growth model. Finding ways to reduce the use of energy and turning the system toward low-carbon technology use and developing technologies that are less polluting not only offer important solutions for some of China's problems it may lead to world leadership in technology fields where global demand will be growing very rapidly.

Fourth the strong role given to NDRC and the Ministry of Finance when it comes to realize the plan implies a new understanding of innovation as having other critical components than the science base. The emphasis given to public procurement shows an understanding of the importance of the demand side. This insight can be further developed into a more conscious exploitation of the Chinese domestic market. In the field of telecommunication and automobile industry there are examples of the creation of technologies that address specific needs in China and that later on can become exported to other parts of the world with a lower GNP per capita than the one found in the rich part of the world.

But while the plan represents progress and may be seen as being in some respect an adequate response to the problems that China has faced the plan remains biased in certain dimension and there are some important missing elements.

#### *Technology Bias?*

Eight of the nine men who make up China's Politbureau are engineers (the ninth is a geologist). Normally either the Prime Minister or the President of China is recruited among the Faculty of Tsinghua, China's leading university in Technology and Management. Among Chinese economists with a standard economics background this is seen as the main reason why there is so (too) much talk about innovation in China's public sphere. It is interesting to see a parallel to the strong role of engineers (MITI) in Japan's post-war industrial policy and the weak position of economists (Bank of Japan). As illustrated by the Japanese growth success the overweight of engineers may be an advantage especially for economies that are on a catching-up trajectory.

While the focus on innovation may be rational in the current context it is not sufficient to focus on 'technical innovation' in isolation from the social and

institutional environment. As argued in the first section the capacity to transform technical innovation into economic performance depends upon market orientation, human resources and organizational learning. Engineers, as well as standard economists, may tend to underestimate the importance of the wider setting of the national innovation system and the result may be exaggerated expectations regarding what technology can bring to the solution of social and economic problems.

One of the problems that the plan aims at remediating is the lack of domestic innovation capability. As already indicated this reflects that it has been too easy for the big State Owned Enterprises to mobilize low cost capital (through privileged access to funding from state-owned banks) and labor and to combine it with technology licensed or copied from abroad. To break such habits there will be a need for quite radical managerial reform giving the managers a stronger incentive to promote the economic performance of the firm. Another important factor has been lack of competition in sectors related to defense and electrical power where firms have been offered monopoly positions.

But the imitation syndrome has roots further back in history and it is reproduced in the education system. The tradition in some of the most favored disciplines was that the apprentice should be able to copy in detail the work of the Master before he/she was allowed to develop his/her own style. The current education system tends to reproduce similar patterns where students are expected to be able what they have been taught by the professor. Individuals' deviation from the collective are sanctioned and the incentives to engage in creative activities are weak. To reform the education system so that it becomes more problem oriented and so that it promotes critical thinking and creativity may be seen as one of the most important challenges for a strategy that aims at 'independent innovation'.

#### *Where are the regions?*

It is obvious that China has become very skew in terms of regional economic development and that the unevenly distributed capacity to absorb and use new technologies is crucial for the future regional development in China. To some degree the growing regional inequality was not only tolerated but even seen as a driver of uneven growth in China.

But as there is more emphasis on intellectual resources and innovation in the strategy regional inequality tends to become so strong so that it might become difficult to keeping the national system together. According to research organized by UNU Wider, China's inequality in regional innovation capability has increased from 1995 to 2004. Location, industrialization and urbanization and human capital are significant contributors to the inequality in innovation

capability. Unbalanced development in high-tech parks exerts a growing explanatory power in driving innovation disparity, which implies that institutional factor plays a direct role.

There is also a strong link between globalization and regional inequality in China. FDI may have a significant positive impact on the overall regional innovation capacity. The strength of this positive effect depends, however, on the availability of the absorptive capacity and the presence of innovation-complementary assets in the host region. The inflow of foreign direct investment has further reinforced regional inequality. It has stimulated regional economic growth in China's coastal regions but not in the inland regions.

On this background it is significant that there are few references to the regional problem in the long term plan. We found five lines in section 7 related to building regional innovation system. But there is no mentioning of the regional dimension neither in section 8 on policy measures nor in the detailed document from August 17 2006 on policy. While the plan responds to the other major challenges that originate in the growth model the regional problem is given little attention. It is also striking that there is little room for regional initiative in implementing the plan. We believe that a strong investment in knowledge infrastructure, education and efforts to modernize traditional sectors in the lagging regions may be a key not only to address the problem of regional inequality but also to implement the general objectives of the plan.

The silence on the regional dimension contrasts with the new EU-strategy where the structural and regional funds increasingly address the promotion of regional innovation systems and competence building. As indicated above, regional fusions of political and commercial interests have been major drivers behind the old growth model that the new plan tries to substitute with a new kind of growth trajectory. Therefore it is difficult to see how the ambitious objectives set in the plan can be reached without finding ways to mobilize these strong regional interests in favor of the strategy. Perhaps a stronger element of local and regional participation in decision making for ordinary citizens is a key to the necessary realignment of local interests to the new strategy?

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# Aircraft Carriers: China's way to Great Power Status?

Kim Nødskov

## **Abstract**

There are many indications that China is actively researching the design of an aircraft carrier. It is unknown whether China will initiate the actual acquisition of a carrier, but the indications that are available of their research into aircraft carriers and carrier-capable aircraft, as well as their purchases of aircraft carrier systems, makes it more than likely that the country is preparing such an acquisition. China has territorial disputes in the South China Sea over the Spratly Islands and is also worried about the security of her sea lines of communications, by which China transports the majority of its foreign trade, as well as her oil imports, upon which she is totally dependent. China therefore has good reasons for acquiring an aircraft carrier to enable it to protect its national interests. An aircraft carrier would also be a prominent symbol of China's future status as a great power in Asia.

China's current military strategy is predominantly defensive, its offensive elements being mainly focused on Taiwan. If China decides to acquire a large carrier with offensive capabilities, then she will also acquire the capability to project military power into the region beyond Taiwan, which it does not possess today. In this way, China will have the military capability to permit a change of strategy from the mainly defensive, mainland, Taiwan-based strategy to a more assertive strategy, with potentially far-reaching consequences for the countries of the region.

The Chinese have bought several retired carriers, which they have studied in great detail. The largest is the Russian-built carrier Varyag of the Kuznetsov class, which today is anchored in the Chinese Naval Base at Dalian. If they decide to acquire a carrier, they can either buy one or build it themselves. The easiest way would be to buy a carrier, and if that is the chosen option, then Russia would be the most likely country to build it. Technologically it will be a major challenge for them to build one themselves and it is likely that they would have to obtain the assistance of another country. But there are indications that China may chose this more difficult path, since it has bought four Russian carrier landing systems. China is very secretive about this, but when all the information is pieced together, then a picture is created of a Chinese aircraft carrier program, where Varyag will be made operational for training purposes. With this as the model, China will build a similar sized carrier themselves.

Based upon the experiences gained from this, China plans to build the very ambitious nuclear powered 93,000-ton carrier, described as Project 085.

If this project does become a reality, then it will take many years for China to complete it, especially because it will have to develop a very complex catapult with which to launch the fighter aircraft, not to mention the development of a nuclear power plant for the ship. The Russian press has indicated that China is negotiating to buy SU-33 fighters, which Russia uses on the Kuznetsov carrier. The SU-33 is, in its modernized version, technologically at the same level as western combat aircraft in both the offensive as well as the defensive roles. Alternatively China may chose to modify the domestically produced J-10 multi-role fighter.



Figure 1: Varyag in the Dalian Naval Base painted

If China does decide to acquire carriers, it would be operationally logical to acquire a minimum of two to three carriers to ensure an adequate and continually available combat capability. A Chinese carrier group, with the associated protection and support vessels, submarines, aircraft and helicopters, is not likely to be fully operational and war-capable until 2020, given the fact that China is starting from a clean sheet of paper.

India, who has experience of carrier operations, is currently building three carriers, which are expected to be operational by 2017. India is a competitor for regional power in Asia, and China could use this Indian project as an argument for acquiring aircraft carriers. The other countries in the region have no large carrier programs and will find themselves in a weaker position when it comes to the military balance of the region should China acquire carriers. Two to three Chinese carrier groups will be a significant military power in Asia which the United States will have to match on behalf of its allies in the region. It is therefore likely that the United States will have to continue as a security guarantor in Asia.

### **China's research of aircraft carriers**

In the US Office of the Secretary of Defense's Annual Report to Congress on the Military Power of the People's Republic of China (PRC), 2008, China is assessed to have an active carrier design and research program. And if the

Chinese leadership were to choose to do so, the PRC shipbuilding industry could start construction of an indigenous platform by the end of this decade.<sup>1</sup> If that were to happen, it would potentially change the maritime military balance in Asia and lead naturally to speculations as to how the other nations will respond to such a decision.

China is very secretive about a possible carrier program, but several statements have slipped out that confirm such a research and design program. On 10 March 2006, the Hong Kong-based Chinese paper *Wen Wei Po* quoted the Chinese general Wang Zhiyuan<sup>2</sup> for saying that in three to five years “The Chinese army will conduct research and build an aircraft carrier and develop our own aircraft carrier fleet.” He continued: “the escort and support ships for this carrier group are either being built or have already been built.”<sup>3</sup> Later, in March 2007,<sup>4</sup> first spokesman Huang Qiang and later Chairman Zhang Yunchuan of the Commission of Science, Technology and Industry of National Defense of China (COSTIND) said that they were actively researching building an aircraft carrier.<sup>5</sup> In spite of these admissions, China is still not prepared to acknowledge officially that they have an active carrier program. The purpose of this brief is to assemble the information we have about the Chinese carrier deliberations and activities based on public information, and to discuss how such a program might develop and what the potential consequences are for the region.<sup>6</sup> But first I will discuss why the Chinese would like to have aircraft carriers.

### **Why does China want aircraft carriers?**

In recent decades, China has changed its military strategic focus. Since 1949 the primary focus had been land-centric defense of mainland China. But after the end of the Cold War in 1989, the fall of the Soviet Union and the settlement of border disputes with Russia, China has changed its military focus to other potential crisis areas, such as Taiwan, the Spratly Islands and the Malacca Strait. The common denominator for these is the maritime environment, and China has

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<sup>1</sup> Office of the Secretary of Defense, “*Annual report to Congress, Military Power of the People’s Republic of China 2008*”, p.4.

<sup>2</sup> Director of the Science and Technology Committee of the General Armaments Department.

<sup>3</sup> Hearing of Richard D. Fischer Jr, Vice President, International Assessment and Strategy Center, before the US China Economic and Security Review Commission, “*PLA Leverage of Foreign Technology To Achieve Advanced Military Capabilities*”, 16 March 2006.

<sup>4</sup> *China People’s Daily*, “Building of aircraft carrier owned to strategic needs”, 25 April 2007.

<sup>5</sup> L.C. Russell Hsiao, “Is the PLA Navy making plans for a three carrier battle group?” *China Brief*, Volume VIII, Issue 1, 4 January 2008.

<sup>6</sup> For a detailed discussion of China’s carrier deliberations, see: Ian Storey and You Ji, “China’s Aircraft Carrier Ambitions: Seeking truths from Rumours”, *Naval War College Review*, Vol. LVII, No. 1, Winter 2004, pp. 77-94.

therefore invested heavily in the People's Liberation Army Navy (PLAN), with an emphasis on submarine capabilities. PLAN has a significant submarine acquisition and modernization program, and submarines have become a significant part of PLAN's capability to control the seas around China and Taiwan.



Figure 2: Spratly Islands.

China's biggest potential crisis area is the dispute with Taiwan. China claims sovereignty over Taiwan, but on the island there are significant forces working for independence. China is very determined to prevent Taiwanese independence and has made preparations for military action should Taiwan attempt to move in this direction. During previous incidents between China and Taiwan, where China demonstrated its willingness to use military force, the United States sailed two carrier groups close to Taiwan and thereby let China understand that

the United States would not stand by passively if China were to attack Taiwan.<sup>7</sup> China takes this threat seriously and is acquiring military capabilities that will enable the country to attack the American carrier groups should they attempt to protect Taiwan during a Chinese military attack. But when it comes to a potential Taiwan war, an aircraft carrier is more likely to be a liability for China than a militarily useable asset. First, Chinese fighters are able to reach Taiwan from air bases on mainland China, thus rendering a carrier-based capability unnecessary. Secondly a Chinese carrier would be very vulnerable to technologically superior American military forces, such as submarines, missile attack and air power. During the 2000-2008 presidency of Chen Shui-bian, Taiwan's policy towards China was somewhat provocative, making China spend considerable resources preparing for conflict with Taiwan. With the 2008 election of Ma Ying-jeou of the Kuomintang Party, who is likely to be less provocative towards China, it is possible that China may attempt to pursue a political solution to the Taiwan issue and spend less resources preparing for war with Taiwan. That will enable it to focus on the development of a blue water navy which China will need in the future.

China has other territorial disputes that requires a blue water navy and may explain why China wants an aircraft carrier. In the South China Sea, China claims sovereignty over the Spratly Islands, which has potentially large oil and

<sup>7</sup> This as a consequence of the controversial "Taiwan Relations Act of 1979", which by many is seen as a sort of security guarantee for Taiwan in case of a Chinese military attack.

gas reserves. China's demand for oil and gas is steadily increasing, and it needs all the natural resources it can get. Vietnam, the Philippines and Taiwan also claim sovereignty over the Spratly Islands, while Brunei and Malaysia only claim some of them. Skirmishes have occurred several times on or around the islands. In 1988 China established an observation post on one of the islands, which Vietnamese military forces tried to eject. That led to fighting between Chinese and Vietnamese forces causing the sinking of two Vietnamese military vessels, while a third was set on fire. In other words, this is a dispute where some of the parties involved, including China, do not refrain from the use of military force. More recently, on 21 January 2008, a military C-130 transport plane from Taiwan landed on a newly constructed runway on the island of Taiping, which is one of the Spratly Islands.<sup>8</sup> This led to great Chinese frustrations. The Chinese ability to maintain their self-proclaimed sovereignty over the Spratly Islands will improve significantly if they have an aircraft carrier.

Another reason why China may want an aircraft carrier is to protect its sea lines of communication. China is very dependent on free passage of its merchant traffic, especially through the Malacca Strait, through which the majority of the maritime traffic to and from China has to pass (see Fig. 3). More than 80% of China's imports of crude oil are transported by ship through the Malacca Strait, and the Chinese leaders are becoming more alert to the importance of the strait, which they perceive as a strategic vulnerability. In 2003 the Chinese President Hu Jintao declared that "*certain major powers were bent on controlling the strait and called for the adoption of new strategies to mitigate the perceived vulnerability*".<sup>9</sup>

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<sup>8</sup> L.C. Russell Hsiao, "Taiwan Lands on the Spratlys", *China Brief*, Volume VIII, Issue 3, 31 January 2008, p.1.

<sup>9</sup> Ian Storey, *China Brief*, Volume VI, Issue 8, 12 April 2006, p. 4.





Figure 3: China's Critical Sea Lanes. *Source: Office of the Secretary of Defense, Annual report to Congress, Military Power of the People's Republic of China 2008, p.12.*

Following this, the Chinese media devoted considerable attention to the country's "Malacca Dilemma," leading one newspaper to declare: "It is no exaggeration to say that whoever controls the Strait of Malacca will also have a stranglehold on the energy route to China."<sup>10</sup> Should a third country attempt to block traffic through the Malacca Strait, then the presence of a Chinese carrier could be the show of force that could ensure the freedom of passage for Chinese ships through the strait (except if the United States were involved). China's self-perceived vulnerability in the Malacca Strait may be a strategically decisive reason for China wanting to acquire an aircraft carrier.

A third reason is the future position of China as a global great power. The Chinese are very conscious about what it means to be a great power and what is required of a great power. Some Chinese say that "a nation cannot become a great power without having an aircraft carrier". Lt Gen Wang Zhiyuan, deputy director of the PLA General Armaments Department, stated in 2006 that "aircraft carriers are a very important tool available to major powers when they want to protect their maritime rights and interests. As China is such a large

<sup>10</sup> Ibid., p. 4.



country with such a large coastline and we want to protect our maritime interests, aircraft carriers are an absolute necessity”.<sup>11</sup> There are therefore many important militarily strategic reasons why China wants an aircraft carrier, not to mention the prestigious symbolic value of the carriers, which the Chinese are acutely aware of.

### **The Chinese Maritime Strategy**

On the grand scale, China is pursuing a three-step modernization strategy of its defense forces, which is described in the Chinese government’s “White Paper on China’s National Defense 2006”.<sup>12</sup> “The first step is to lay a solid foundation by 2010, the second is to make major progress around 2020, and the third is to basically reach the strategic goal of building informationized armed forces and being capable of winning informationized wars by the mid-21<sup>st</sup> century.”

At the recent National People’s Congress in Beijing, President Hu Jintao stated that “we must aim at improving the capability to win high-tech regional wars and keep enhancing the ability of the military to respond to security threats and accomplish a diverse array of military tasks.”<sup>13</sup> The White Paper describes the strategy for the development of PLAN, which is to “build itself into a modern maritime force of operation consisting of combined arms with both nuclear and conventional means of operation.” The White Paper in general emphasizes the Chinese defensive strategy, their territorial defense and the issue of Taiwan being given a high priority. The coastal regions are described as the primary maritime focus area, though in general “the Navy aims at gradual extension of the strategic depth for offshore defensive operations.”<sup>14</sup> China’s defensive strategy has so far emphasized the modernization of submarines, ballistic missiles and land-based air power, mainly focusing on a potential military operation against Taiwan. If China chooses to acquire an aircraft carrier, then this could represent a continuation of the present strategy or a change of strategy, depending on which type of carrier they get.

Fundamentally they can choose between carriers that operate with either helicopters or fighters. The basic difference is that helicopter carriers can only conduct support operations, not offensive operations. If, on the other hand,

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<sup>11</sup> Andrew S. Erickson and Andrew R. Wilson, “China’s Aircraft Carrier Dilemma”, *Naval War College Review*, Volume 59, No. 4, Autumn 2006, p. 28.

<sup>12</sup> White Paper on China’s National Defense 2006, p. 10, (<http://www.china.org.cn/english/features/book/194421.htm>).

<sup>13</sup> *China Daily* 2008-03-10, 22:46, 2008 NPC & CPPCC Session: “Hu calls for enhanced defense for world peace”. ([http://www.chinadaily.com.cn/china/2008npc/2008-03/10/content\\_6524175.htm](http://www.chinadaily.com.cn/china/2008npc/2008-03/10/content_6524175.htm)).

<sup>14</sup> White Paper on China’s National Defense 2006, s.4, (<http://www.china.org.cn/english/features/book/194421.html>).

China acquires a fighter-capable carrier, this will lead to a change of maritime strategy away from the submarine-focused defense of China to a more extrovert strategy focusing on power projection away from Chinese shores.

It is the Chinese goal to be able to gain “sea control”<sup>15</sup> out to a defensive line called “First Island Chain”,<sup>16</sup> which is a line defined by a series of islands in the East and South China Sea (see figure 4).<sup>17</sup> In the longer term, the ambition of the Chinese<sup>18</sup> is to be able to conduct a “Sea Denial”<sup>19</sup> strategy out to the “Second Island Chain”,<sup>20</sup> shown in figure 4. Presently China does this using a combination of submarines operating around the First Island Chain, ballistic missiles deployed in the Fujian-province and cruise missiles on strategic bombers and maritime vessels.

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<sup>15</sup> A strategy, in which a maritime force controls a defined maritime area rendering it impossible for an opponent to conduct effective military operations in the area.

<sup>16</sup> Michael McDevitt, “The Strategic and Operational Context Driving PLA Navy Building”, in Roy Kamphausen and Andrew Scobell, *Rightsizing the People’s Liberation Army: Exploring the contours of China’s military*, US Army War College Strategic Studies Institute, 2007, pp. 490-491.

<sup>17</sup> “First Island Chain” which stretches from Japan to Ryukyus (Okinawa), Taiwan to Pratas, circling the Spratly Islands and the stretching northeast to the Paracel islands along the coast of Vietnam in the northern part of the South China Sea. See Fig. 4. Ian Storey

<sup>18</sup> McDewitt, “The Strategic and Operational Context Driving PLA Navy Building”, pp. 490-491.

<sup>19</sup> A strategy, by which it is attempted to deny the enemy the ability to use the sea in a certain geographical area.

<sup>20</sup> Andrew S. Erickson and Andrew R. Wilson, “China’s Aircraft Carrier Dilemma”, *Naval War College Review*, Volume 59, No. 4, Autumn 2006, p. 138.



Figure 4: First Island Chain and Second Island Chain *Source: Office of the Secretary of Defense, Annual report to Congress, Military Power of the People's Republic of China 2008, p.23.*

But if China, as a future great power, wants to raise its level of ambition by demonstrating an active presence and influential power beyond the First Island Chain, then this requires having the ability to control the surface and sub-surface situation, as well as the ability to maintain air control in the area if necessary. If PLAN were to conduct successful military operations in this area, it would require the ability to achieve air superiority, as a minimum over the Chinese maritime task force, but also over the objective over which the conflict is fought. To achieve this combat aircraft are required, which is a problem if operations are conducted outside the range of land-based fighters, and this is why an aircraft carrier may be a decisive asset. If China were to possess a carrier, it would be able to maintain air superiority over the Spratly Islands or be able to demonstrate power in the Malacca Strait if anyone were to block traffic through it.

In the following, only the possible acquisition of a fighter-capable carrier will be discussed, since a helicopter carrier will have no significant strategic importance.

### **What type of carrier?**

There are in general three types of carriers. With the first type the fighter starts unassisted powered by its own engines and lands vertically, as on the English carriers of the Invincible class. Flight operations from this type of carrier require the aircraft to be able to land vertically like the British Harrier aircraft. China does not have this type of aircraft, and since this technology is very complicated it is unlikely that it will acquire this sort of carrier.

On the second type of carrier the aircraft also starts unassisted, powered by its own engines, but it lands conventionally using an arresting cable to stop it when it lands. The Russian carrier of the Kuznetsov class uses this technique.

On the last type of carrier the aircraft performs a catapult-assisted start and lands conventionally, using an arrester cable, as on the United States carrier of the Nimitz class or the French Charles de Gaulle class. The main advantage of a catapult-assisted start is that the aircraft take-off weight can be much larger than with unassisted starts. This is especially important when conducting offensive operations using heavy bombs and missiles. Technologically carriers of the Kuznetsov class are accessible to the Chinese since they would be able to buy it from Russia, but it would be more difficult and take longer to build a catapult-equipped carrier, since the technology is very complicated. And the EU weapons embargo prevents the country from buying the technology from France, which means that the Chinese will have to design and construct it themselves or possibly in cooperation with Russia.

The Chinese have studied carriers for the last thirty years. They have visited American, English and French carriers, and they have bought phased-out carriers and studied them in great detail. In 1985 a private Chinese individual bought the Australian carrier HMS Melbourne (15,000 tons), which was studied by the Chinese before it was scrapped. The carrier flight deck was dismantled and used by the PLA Naval Air Force (PLANAF) to practice on.<sup>21</sup> In 1998 a private Chinese company bought the Russian carrier Minsk (40,000 tons), which was stripped for its weapons and electronic components. It was studied and subsequently used as a tourist attraction. A similar fate befell the sister vessel Kiev, which was bought in 2000 and used for tourism. In 1998 the Chinese bought the Russian carrier Varyag of the Kuznetsov class, 67,500 tons.

The vessel, which was decommissioned in 1992 after the break-up of the Soviet Union, was only 70% complete, and was bought without an engine, rudder and armaments. Its sister ship, the Russian Kuznetsov, is operational today in the Russian navy operating SU-33 fighters and helicopters. The Kuznetsov has no

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<sup>21</sup> Ian Storey and You Ji, "China's Aircraft Carrier Ambitions: Seeking Truths from Rumours", p. 80.

catapult, which is why there is a limit to the amount of offensive weapons the aircraft can carry.

Although China denies that it is studying the design of carriers, in 2005 Varyag was seen in dry dock being painted in the classic gray paint scheme of the Chinese navy. Sources in the Russian navy say that China has bought four carrier landing systems, capable of handling heavy fighters like the SU33.<sup>22</sup> It is suggested that one system is to be studied and copied, while another is to be mounted on the Varyag, which are to be get ready for training purposes. The last two landing systems are to be used on two carriers, which China denies plans for. But the South Korean newspaper *The Hankyoreh* quotes unnamed Chinese sources close to the Chinese military that China is considering the development of two carriers under project 085, a 93,000-ton Nimitz-sized nuclear carrier, according to a Chinese Communist Party dossier.<sup>23</sup> The source also indicates that China has a project 089, a 48,000-ton conventionally propelled carrier, which, fully loaded, will have a displacement of 64,000 tons, approximately equivalent to the Varyag. In accordance with the dossier the 93,000-ton nuclear carrier is to be finished by 2020 and is to be built at the China State Shipbuilding Corporation's Jiangnan Shipyard. The size of this carrier is similar to the unfinished Russian carrier Ulyanovsk, and China may have bought the design sketches of this ship from Russia.

Such a project will undoubtedly be long term. China would have to build the complicated catapult, not to mention a nuclear reactor to propel the ship. However, China does have knowledge of using nuclear reactors. They have knowledge from their commercial nuclear power plants<sup>24</sup> as well as from their nuclear-propelled submarines. This is a very ambitious project, but Chinese industry is developing rapidly and has managed to produce high technology products in record time, as was seen with the development of the J-10 fighter. It is therefore considered that over a longer period of time Chinese industry will be able to overcome this challenge, also considering that, after all, this is an existing technology that has been used by other countries for many years.

Because the Chinese are so secretive about their plans it is hard to say exactly what is going to happen, but we can say with great certainty that China is

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<sup>22</sup> RIA Novosti, Russian News and Information Agency, "China to build two new aircraft carriers with Russian help", 27 July 2007, 18;36, <http://en.rian.ru/world/20070727/69828953.html>

<sup>23</sup> The Hankyoreh, "China to build a 93.000 ton atomic-powered aircraft carrier", 29 March 2007, [http://www.hani.co.kr/arti/english\\_edition/e\\_international/199284.htm](http://www.hani.co.kr/arti/english_edition/e_international/199284.htm)

<sup>24</sup> China has eleven commercial nuclear reactors and is building another six. Additional reactors are contemplated. World Nuclear Association, "Nuclear Power in China", 10 April 2008, <http://www.world-nuclear.org/info/inf63.html>

showing great interest in fighter-capable carriers. If the Chinese were to acquire such a carrier, they could either chose to buy it or to build it themselves. If they were to buy a carrier, they would be able to capitalize on other countries' experiences of carrier design. Russia has already plans to build new carriers herself with offensive capabilities, and China and Russia may cooperate on this project.<sup>25</sup> As long as the EU maintains its weapons embargo of China, it is unlikely that China will buy a carrier from EU, even though both France and Spain have shown interest in such a project.<sup>26</sup> If China were to buy a carrier, they would therefore be most likely to buy it from Russia, and this would also be an interesting option for the Russians, since that would provide co-funding of the Russian carrier project.

Alternatively China will have to build a carrier herself based on the experience of the Varyag. But, as mentioned earlier, this would be a very ambitious project. The Varyag is three times bigger than any navy vessel China has ever built, and there is skepticism among international scholars whether China is capable of building a carrier herself.<sup>27</sup> The acquisition of four carrier landing systems does indicate, however, that China has plans to do just that. It will be a long-term project, and it is very likely that they will require Russian assistance. When the different sources of information are compiled, a pattern of a project appears that indicates that Varyag will be made operational for training purposes and that a medium-sized carrier will be built based on the experiences of the Varyag and of similar size. On this basis, consideration is being given to building the very ambitious 93,000-ton nuclear carrier described as project 085. All three projects are ambitious, but all three seem to come from Russian carrier projects, which indicate that China is obtaining the external support that American naval experts in particular consider necessary.<sup>28</sup>

### *Aircraft*

From a military perspective, states acquire carriers because they need the ability to achieve air superiority over the maritime task force and to be able to use combat aircraft in the area of operations. Thus the choice of fighter is highly significant because, by choosing a fighter, one is also choosing the combat capability of the carrier group. If the fighter is to start unassisted without a

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<sup>25</sup> Jane's Sentinel Country Risk Assessments – Russian Federation.  
[http://www4.janes.com/subscribe/sentinel/CISS\\_doc\\_view.jsp?Sent\\_Country=Russian%20Federation&Prod\\_Name=CISS&K2DocKey=/content1/janesdata/sent/cissu/russs130.htm@current](http://www4.janes.com/subscribe/sentinel/CISS_doc_view.jsp?Sent_Country=Russian%20Federation&Prod_Name=CISS&K2DocKey=/content1/janesdata/sent/cissu/russs130.htm@current)

<sup>26</sup> Ian Storey and You Ji, "China's Aircraft Carrier Ambitions: Seeking Truths from Rumours", p. 83.

<sup>27</sup> David Shambaugh, *Modernizing China's Military, Progress, Problems and Prospects*, University of California Press, 2002, p. 271.

<sup>28</sup> Andrew S. Erickson and Andrew R. Wilson, "China's Aircraft Carrier Dilemma", *Naval War College Review*, Volume 59, No. 4, Autumn 2006, p. 21.

catapult, as from the Varyag class, there will be limitations on how much weight the aircraft can carry. But if the aircraft is capable of air refueling, then it can start with less fuel, meaning less weight, and allow the aircraft to carry a heavier weapon load. China has ten medium-sized H6 tanker aircraft and is purchasing an additional six II-78 Midas Large tanker aircraft, which will allow minimum fuel take-off from the carrier, provided that the carrier is within range of the tanker aircraft.<sup>29</sup> If, on the other hand, the plane is using catapult-assisted start, like project 085, then the plane will be able to carry a larger weapons load, and a ship of this size will be able to project a substantial number of aircraft. The American Nimitz class carrier can operate with up to 82 aircraft, encompassing fighters, support aircraft and helicopters.<sup>30</sup>

A carrier uses fighters to protect the carrier and the carrier task force, as well as to conduct the operations that carrier task forces are assigned to do, which can encompass either defensive or offensive operations. It is therefore useful if the fighter is multirole, capable of doing both offensive and defensive operations. Generally fighters that operate from carriers must have stronger wings and landing gear than other planes due to the forces they are subjected to during take-offs and landings. The Chinese have a domestically produced fighter, the J-10, which is a multirole fighter, but in its current version the J-10 has neither the strength nor the engine power to operate from a carrier. But sources indicate that China is researching how to improve the structure of the aircraft and is negotiating the purchase of more powerful engines that will permit carrier operations with the J-10.<sup>31</sup>



Figure 5: SU-33

At the Moscow 2005 air show, it was revealed that China is exploring the possibility of buying the Russian SU-33, which operates from the Russian carrier Kuznetsov. This was additionally confirmed by Russian newspapers in 2006, which were able to report that China was negotiating with Russian arms

<sup>29</sup> Sinodefence.com, the 12th of March 2008, <http://www.sinodefence.com/airforce/airlift/h6tanker.asp>

<sup>30</sup> Naval-Technology.com, Nimitz Class Nuclear-Powered Aircraft Carriers, USA, 8 April 2008, <http://www.naval-technology.com/projects/nimitz/>

<sup>31</sup> Hearing of Richard D. Fischer Jr, Vice President, International Assessment and Strategy Center, before the US China Economic and Security Review Commission, *PLA Leverage of Foreign Technology To Achieve Advanced Military Capabilities*, 16 March 2006.

dealers on the purchase of up to 50 SU-33s.<sup>32</sup> In its modernized version, this plane is equipped with modern radar, active helmet-guided missiles and precision-guided air-to-ground capabilities. This is a modern fighter equivalent to a modern American F-18 E/F, which operates from the American carriers.

In modern combat, it is necessary to obtain information about the military situation at sea and in the air. China has bought land-based airborne early-warning and control aircraft, and these would be able to support a carrier group within range of its home base. But if a carrier were to operate independently and effectively far from the Chinese mainland, it must have a carrier-based airborne early-warning capability. China has the option of buying the Russian KA-31 Radar Picket naval helicopter with an airborne early-warning capability, which is also used by Russia and India.<sup>33</sup>

### **The carrier group and logistical support**

A carrier on its own is of no use. A host of supporting capabilities is required to permit independent carrier operations. The carrier must be protected from maritime threats from submarines and surface vessels, as well as from fighter and missile attack from the air. The Chinese are very aware of this threat, given that an important part of their Taiwan strategy is based on deterring the American carrier groups from interfering in a Chinese operation against Taiwan, using mines, submarines, fighters and bombers launching long-range anti-ship missiles. China has an ongoing naval acquisition and modernization program and will be able to protect a carrier with the existing fleet. In the last two years, PLAN has taken delivery of seven new destroyers and frigates.<sup>34</sup> But if they also want to carry out the existing maritime operations they are already conducting, then it will necessary to acquire additional naval vessels of destroyer size, including anti-submarine, surface vessel attack and air defense capabilities. A carrier group has very large logistical requirements, and dedicated support facilities are needed to permit the repair and maintenance of such large vessels. But China has apparently also considered this. Satellite photos have revealed that since 2005 China has constructed a naval base close to Sanya on the island of Hainan in the South China Sea. There are two 950m piers as well as three 230m piers, which together could accommodate two or more carrier groups.<sup>35</sup>

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<sup>32</sup> Article in the Russian newspaper *Kommersant*, 23 October 2006, “Russia to deliver SU-33 fighters to China”,  
[http://www.kommersant.com/p715509/r\\_528/China\\_jet\\_fighters\\_export/](http://www.kommersant.com/p715509/r_528/China_jet_fighters_export/)

<sup>33</sup> Airforce-technology.com, “Ka-31 Radar Picket Naval Helicopter, Russia” 9 April 2008,  
<http://www.airforce-technology.com/projects/ka31/ka317.html>

<sup>34</sup> Office of the Secretary of Defense, Annual report to Congress, *Military Power of the People’s Republic of China 2008*, p. 4.

<sup>35</sup> Richard D. Fischer Jr. “Secret Sanya: China’s New Nuclear Naval Base Revealed”, 15 April 2008, *Janes Defence Weekly*,



Communication and the provision of intelligence would be essential if the carrier were to operate far from mainland China. Communication is required between the ships in the carrier group and back to headquarters at home. Since the carrier planes will have a range which exceeds the range of the carriers' own intelligence-gathering capability, it will be essential that the carrier is provided with up-to-date intelligence information about the operation from a central intelligence source. Especially target information, including pictures, requires a large satellite band width. It must be assumed that China will acquire precision ammunition for their aircraft, and precision weaponry also demands accurate target information, as accurate as the precision capability of the weapon involved, which again demands high-precision intelligence-gathering from satellites, drones, human intelligence and other sources. China has an intensive satellite program, including communications satellites and Synthetic Aperture Radar Imagery satellites,<sup>36</sup> and the country is developing a satellite navigation system, COMPASS, consisting of 5 geostationary and 30 orbiting satellites, which is planned to provide global satellite navigation coverage with precision similar to the American GPS system.<sup>37</sup> This capability will enable carrier operations far from the Chinese mainland.

China will also require a sea replenishment capability that can provide the carrier with the necessary fuel and spare parts to continue operations. China does possess this capability, but will require additional replenishment ships if the other parts of the navy also need sea replenishment.<sup>38</sup>

### **Chinese maritime operations and doctrine**

If China's ambition to become a regional great power is to be fulfilled, then it must as a minimum be able to control the seas out to the First Island Chain, but China's aspirations to be able to conduct Blue Water operations have been unfulfilled until now for several reasons. One reason is that for many years China could not afford to build large naval vessels. Secondly, the Chinese had to focus their maritime modernization process on the potential military conflict over Taiwan, which did not justify an investment in large ships. Thirdly, China was always focusing on the defense of the Chinese mainland, and since they

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[http://www4.janes.com/subscribe/jir/doc\\_view.jsp?K2DocKey=/content1/janesdata/mags/jir/history/jir2008/jir10375.htm@current&Prod\\_Name=JIR&QueryText](http://www4.janes.com/subscribe/jir/doc_view.jsp?K2DocKey=/content1/janesdata/mags/jir/history/jir2008/jir10375.htm@current&Prod_Name=JIR&QueryText)

<sup>36</sup> Sinodefence.com, "Remote Sensing Satellite 2 (JianBing 6)", 25 May 2007,

<http://www.sinodefence.com/strategic/spacecraft/yaogan2.asp>

<sup>37</sup> Sinodefence.com, "Compass Navigation Satellite System (BeiDou 2)", 3 February 2007,

<http://www.sinodefence.com/strategic/spacecraft/beidou2.asp>

<sup>38</sup> Office of the Secretary of Defense, Annual report to Congress, Military Power of the People's Republic of China 2008, p. 36.

have been influenced by Soviet maritime doctrine, China has never developed a Blue Water doctrine or tactics.<sup>39</sup>

Before China can execute effective carrier operations, PLAN will have to go through a prolonged development, education and training process. The Chinese must learn to operate the carrier on its own. They must learn to sail, maneuver, communicate, operate, defend, repair and replenish. Then they must learn how to start and recover aircraft, and the pilots must learn to operate over Blue Water, far from the shores of China. After that, they have to develop, train and optimize similar procedures on a grander scale with the whole carrier group, consisting of the carrier, support ships, submarines, fighters and helicopters. This is very complex task that has to be trained to great perfection before the carrier group is ready for war.

China starts from a very low level. In the last two years there have been reports of 5-6 episodes of Chinese maritime vessels operating around the First Island Chain and Chinese submarines operating east and south of Taiwan.<sup>40</sup> In May 2007 the Chinese Frigate Xiangfan participated in an exercise in the Malacca strait together with 12 other nations.<sup>41</sup> In other words, China is slowly expanding its area of operations into Blue Water, but it will take many years to develop proper Blue Water doctrine. Carrier operations are technically one of the most difficult types of military operation, since they encompass all the disciplines of maritime operations, air operations and very often land operations as well, which must be coordinated and synchronized, focused on the same military objective. Development of joint doctrine is a very complex process, which is often impeded by service rivalry and limited knowledge of the other services' requirements for optimizing their operations.

### **How many carriers?**

If a Chinese carrier is to have any strategic relevance, then it must be continuously available, which is why one carrier is insufficient. Carriers require regular maintenance and must stay in harbor for several months at a time. Over a two-year period an American carrier is only operational for one year. Thereafter it will be docked for maintenance and modernization for six months. Then it will be made ready for operations again. In the first three months, it will go through

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<sup>39</sup> Ian Storey and You Ji, China's Aircraft Carrier Ambitions: Seeking truths from Rumours, *Naval War College Review*, Vol LVII, No. 1, Winter 2004, pp. 88-89.

<sup>40</sup> L.C. Russell Hsiao, China's expanding naval presence troubles neighbours, *China Brief*, Volume VIII, Issue 3, 31 January 2008.

<sup>41</sup> PLA Daily, "Vessel training center of South China Sea uplifts training capacity", 9 April 2008,  
[http://english.chinamil.com.cn/site2/news-channels/2008-04/09/content\\_1197548.htm](http://english.chinamil.com.cn/site2/news-channels/2008-04/09/content_1197548.htm)

basic carrier training, which is followed by another three months of more advanced training, where the ship may be used operationally in case of an emergency. That means that over a two-year period the ship is only operational for one year.<sup>42</sup> If China is to have a continuous carrier capability, it will as a minimum require two to three carriers, depending on how advanced its maintenance technologies are.

China also has to decide how much combat power it wishes to be able to project, which should be measured in the number and types of combat aircraft. The Kuznetsov, which is the sister ship to the Varyag, can carry 28 fighters and 24 helicopters.<sup>43</sup> Of the 28 fighters, it can only be expected that 70% are operational at any one time. The remaining aircraft will be non-operational or scheduled for maintenance. This means that only 20 aircraft will be operational, and they will be able to fly only twice in 24 hours. During operations, where there is a threat to the carrier, a number of sorties will have to be allocated to the defense of the carrier group. Air defense operations are flown around the clock with a minimum of two aircraft at a time, which means that 24 out of 40 sorties will have to be allocated to air defense of the carrier group. Thus means that there are only 16 sorties available for the mission the carrier was originally tasked to do. That is not a lot, and will force the Chinese to consider whether one operational carrier is enough. During the Falklands War, Britain used two carriers, which in total flew 1561 fighter sorties, of which only 126 were offensive. The remaining 1435 sorties were air defense missions in defense of the British Maritime Task Force.<sup>44</sup> This means that, if China is aiming to possess a medium-sized carrier, then several carriers will be required to enable operations with more than one at a time.

If China acquires a Nimitz-size carrier, then it will be able to fly more offensive missions. A Nimitz class carrier has 48 fighters on board, and with 70% operational they will be able to maintain 33 aircraft operational at any time. With two sorties a day, that will amount to 66 sorties a day, of which 24 sorties must be allocated to air defense when the carrier is under threat of attack. This means that a Nimitz-size carrier will be able to conduct 42 offensive sorties a day. That would be sufficient in a conflict against an incompetent enemy with no air defense, but it will not be enough against an enemy with a professional air defense system. This indicates that China should acquire at least two to three

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<sup>42</sup> Mathew H. Hall, *Thesis on The impact of Long Term Aircraft Carrier Maintenance Scheduling of the Fleet Readiness Plan*, September 2004, Naval Post Graduate School, Monterey California, p. 25.

<sup>43</sup> [www.globalsecurity.org](http://www.globalsecurity.org), 10 April 2008, [http://www.globalsecurity.org/military/world/russia/1143\\_5-specs.htm](http://www.globalsecurity.org/military/world/russia/1143_5-specs.htm)

<sup>44</sup> Britains Small Wars, Honour Regained, The Air War, 10 April 2008, <http://www.britains-smallwars.com/Falklands/air-war.htm>

carriers to be operationally effective, even in a minor conflict. If China has ambitions to become a superpower at the level of the United States, then the carriers must be the size of a Nimitz-class carrier, as in project 085.

### **The regional military balance**

China has used its economic rise to improve and expand its relations with the states in Asia, mainly through significant increases in trade, investment in infrastructure and economic aid, hoping to create strong bonds with the countries and to alleviate anxieties over the accumulation of power that is occurring on their doorstep. However, the Chinese annual double digit increase in military spending over the last decade has forced the countries in the region to keep an eye on China's military build-up. If China acquires an aircraft carrier it is likely to cause reactions throughout the region.

**India** is concerned about the increased Chinese presence in the Bay of Bengal and the Arabian Sea, and India has found itself surrounded by less friendly nations, who all have good relations with China, such as Pakistan, Bangladesh and Myanmar. These states are located along the vital sea lanes to the Middle East and Africa that China is so dependent on, and all of these countries have agreed to let China use their deep sea ports and airfields (also known as the String of Pearls)<sup>45</sup> and, in the case of Myanmar, to establish intelligence collection facilities close to India.<sup>46</sup> Of the Asian states, only India is developing a real carrier capability. India already has an old small carrier, but it has also bought a modified Russian Kiev-class carrier (INS Vikramaditya, 45,000 tons full load), which will operate with 16 MIG29K (Fulcrum-D). INS Vikramaditya is expected to become operational in 2010. India is building an additional two air defense ships, carriers (37,500 tons) which will operate with 30 aircraft.<sup>47</sup> The two carriers are expected to go operational in 2012 and 2017 respectively. Given that this will change the military balance in Asia, this would justify the acquisition of carriers by China.

**Japan** and China have had strained relations for many years and they have three maritime territorial disputes. Firstly, they disagree on the definition of the Exclusive Economic Zone (EEZ) in the East China Sea. Secondly, China,

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<sup>45</sup> Christopher J. Pehrson, "String of Pearls: Meeting the Challenges of China's Rising Power Across the Asian Littoral", July 2006, Strategic Studies Institute, <http://www.strategicstudiesinstitute.army.mil/pubs/display.cfm?pubID=721>

<sup>46</sup> C. S. Kuppuswamy, "Myanmar-China Cooperation: Its implications for India", 28 March 2008, Independent Media (*Centre India*), <http://india.indymedia.org/en/2003/02/3096.shtml>

<sup>47</sup> Jane's Sentinel Country Risk Assessments – India. [http://www4.janes.com/subscribe/sentinel/SASS\\_doc\\_view.jsp?Sent\\_Country=India&Prod\\_Name=SASS&K2DocKey=/content1/janesdata/sent/sassu/indis130.htm@current](http://www4.janes.com/subscribe/sentinel/SASS_doc_view.jsp?Sent_Country=India&Prod_Name=SASS&K2DocKey=/content1/janesdata/sent/sassu/indis130.htm@current)

Taiwan and Japan disagree on the rights to the Diaoyutai/ Senkaku Islands, which are believed to hold large oil and gas reserves and lastly China and Japan disagree on the rights to the Okinotorishima Island, which is a rock located half way between Taiwan and Guam. Tensions have arisen regularly between the two countries over territorial issues, as in 2004 when Chinese submarines entered Japanese territorial waters<sup>48</sup> and Japanese naval vessels have fired at Chinese fishermen violating the self-proclaimed Japanese fishing rights around the Diaoyutai/Senkaku Islands.<sup>49</sup> The Japanese Maritime Self-Defense Force is of a significant size with 44 destroyers of western standard and Japan has an impressive history of using aircraft carriers before and during World War II. However, article 9 of chapter II of the Japanese constitution that was written after World War II by the United States dictates that “the Japanese people will forever renounce war as a sovereign right of the nation and the threat or use of force as means of settling international disputes”. It carries on saying that “the right of belligerency of the state will not be recognized”.<sup>50</sup> As it is currently interpreted, Japan is therefore constitutionally prevented from acquiring an aircraft carrier with offensive capabilities, which is why Japan only has helicopter carriers. But if China decides to acquire large carriers, Japan is likely to consider how it will respond. In 2007 Japan took steps towards a revision of its constitution,<sup>51</sup> and a decision on a Chinese carrier program could influence the Japanese revision. China on the other hand expressed concern over the Japanese initiative, saying that “people have begun to doubt whether Japan will continue its path of a peaceful development”.<sup>52</sup> The Chinese concern over a possible Japanese change in defense policies may be an incentive for additional strengthening of PLAN by acquiring aircraft carriers. Within the present constitution Japan’s response to a carrier decision may range from acquiring anti-ship missiles and submarines, but it cannot acquire a large carrier. Japan is currently building two helicopter destroyers (13,500 tons) capable of operating with 11 large helicopters. Because this carrier is of a similar size as the British Invincible class carrier and has a classic carrier design with a large flat top, international military experts are discussing whether it will be able to operate

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<sup>48</sup> Joseph Ferguson, “Submarine Incursion sets Sino-Japanese Relations on Edge”, 24 November 2004, *China Brief*, Volume 4, Issue 23, [http://jamestown.org/china\\_brief/article.php?articleid=2372934](http://jamestown.org/china_brief/article.php?articleid=2372934)

<sup>49</sup> Joseph Ferguson, “The Diaoyutai-Senkaku Islands Dispute Reawakened”, 4 February 2004, *China Brief*, Volume 4, Issue 3, [http://www.jamestown.org/publications\\_details.php?volume\\_id=395&issue\\_id=2905&article\\_id=23509](http://www.jamestown.org/publications_details.php?volume_id=395&issue_id=2905&article_id=23509)

<sup>50</sup> Japan Ministry of Defense, “Constitution of Japan and Right of Self-Defense”, 29 April 2008, ([http://www.mod.go.jp/e/d\\_policy/dp01.html](http://www.mod.go.jp/e/d_policy/dp01.html)).

<sup>51</sup> Association for Asian Research, “Japan Takes Steps Towards Revising Constitution”, 17 May 2007, <http://www.asianresearch.org/articles/3065.html>

<sup>52</sup> China Daily, “China Concerns over Japan Constitution Plan”, 15 May 2007, [http://www.chinadaily.com.cn/china/2007-05/15/content\\_873116.htm](http://www.chinadaily.com.cn/china/2007-05/15/content_873116.htm)

with a small number of Joint Strike Fighters in the Short Take Off and Vertical Landing version.<sup>53</sup> If Japan is unable to change the constitution, and therefore unable to acquire matching aircraft carriers, the alternative for Japan could be to enter a defense alliance with the United States, with whom China cannot compete militarily. Diplomatic sources indicate that the United States, Japan and Australia are moving to begin a joint security alliance to counter China and Russia.<sup>54</sup>

**Vietnam**, who has been at war with both the United States (1963-75) and China (1979), is seeking better relations with both major powers, trying to balance the two. Vietnam has good economic relations with China and receives economic aid and investments in infrastructure from China. But lying next to a rising giant Vietnam is concerned about an expanding Chinese sphere of influence and of being reduced to an economic appendage to China.<sup>55</sup> Vietnam and the United States have therefore establish better relations, first by normalizing diplomatic relations in 1995, then in 2004 by the US removing Vietnam from the list of “Countries of Particular Concern”.<sup>56</sup> Trade has increased between the two countries and in 2007 they entered an agreement of overcoming issues of the Vietnam war and taking small steps in terms of defense cooperation. Vietnam, which has territorial disputes with China over the Spratly Islands, does not have the financial ability counter the Chinese military buildup or to acquire carriers. But it is possible that Vietnam will respond by acquiring a mine-laying capability, long-range anti-ship missiles or submarines to counter a Chinese carrier. Paradoxically, it is also possible that an increased Chinese maritime power projection capability in the South China Sea may induce Vietnam to seek support from the United States to counter Chinese pressure.

**The Philippines**, who has no significant military force, has territorial disputes with China over the Spratly Islands. Tensions eased in 2005 as China, the Philippines and Vietnam agreed on a Joint Maritime Seismic Undertaking (JMSU), which would survey the sea around the Spratly Islands for oil and gas. The agreement was supported by vast Chinese investments in infrastructure supporting a stagnant Philippine economy. However, the Philippine government encountered heavy domestic criticism over the arrangement, with allegations of

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<sup>53</sup> Globalsecurity.org, “16DDH 13,500 ton class”, summer 2006, <http://www.globalsecurity.org/military/world/japan/ddh-x.htm>

<sup>54</sup> East-Asia-Intel.com, “U.S. eyes new Asian-Pacific security alliance with Japan, South Korea and Australia”, 17 April 2008, [http://www.east-asia-intel.com/eai/2008/04\\_16/7.asp](http://www.east-asia-intel.com/eai/2008/04_16/7.asp)

<sup>55</sup> Jane Perlez, “US Competes with China for Vietnams Allegiance”, New York Times, 19 June 2006, <http://www.nytimes.com/2006/06/19/world/asia/19vietnam.html?pagewanted=print>

<sup>56</sup> US Department of State, Bureau of East Asian and Pacific Affairs, “Background Note: Vietnam, December 2007, <http://www.state.gov/r/pa/ei/bgn/4130.htm>

corruption when distributing the Chinese aid and that the government violated the constitution when agreeing to the JMSU.<sup>57</sup> A bill is being passed through the Philippines House of Representatives which updates the Philippines archipelagic baseline claims to the Spratly Islands which will be forwarded to the UN Commission on the Limits of the Continental Shelf before May 2009. Beijing's reaction to this was that this would "exert negative impact on the healthy development of our bilateral relations."<sup>58</sup> So the Philippines and China may have agreed to do seismic surveys, but that does not mean that the territorial dispute is solved. The Philippines rest their security on a 1952 US-Philippines Mutual Defense Treaty and until 1992 the United States had forces stationed on the Philippines. After 9/11-2001 the Philippines have been very supportive of the United States' counter-terrorism campaign and in 2003 the US designated the Philippines as a major non-NATO ally.<sup>59</sup> It is therefore likely that the Philippines will look to the United States as a security guarantor if China were to intimidate them militarily over the Spratly Islands.

**The United States** has the largest and most powerful fleet in the world with 10 carriers of the Nimitz class, which are larger, more modern and carry more aircraft than any other carrier. The United States armed forces are trained in integrated joint operations across the services and the United States have Air, Navy and Marine Corps bases around the Pacific sufficient support substantial military operations. The United States would therefore easily be able to counter two to three Chinese carriers. But should China decide to acquire a carrier capability, the United States is likely to acknowledge the Chinese change to a more assertive strategy, and decide to improve their military capabilities in the region further, to ensure that the United States can continue to act as a security guarantor in the region.

If the tremendous increase in Chinese military expenditure continues over the next decade it is likely that the Chinese maritime capabilities will reach a new level, especially with a Chinese decision to acquire aircraft carriers. Such a capability will change the regional military balance substantially. A possible result of this could be a regional polarization with China on the one side and a series of states that will enter some sort of defense arrangement, at various levels of commitment, with the United States.

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<sup>57</sup> Ian Storey, "Trouble and Strife in the South China Sea Part II, The Philippines and China", 28 April 2008, *China Brief*, Volume VIII, Issue 9. p.5.

<sup>58</sup> Ibid p.7.

<sup>59</sup> US Department of State, Bureau of East Asian and Pacific Affairs, "Background Note: Philippines", April 2008, <http://www.state.gov/r/pa/ei/bgn/2794.htm>

## **Conclusion**

The Chinese “White Paper on China’s National Defense 2006” objective for its armed forces is to make major progress by 2020, and the acquisition of a carrier capability would be exactly such a major progress. Only time will tell whether China will deviate from its present military strategy, which focuses on the defense of the mainland of China coupled with a potential Taiwan crisis. If China decides to acquire aircraft carrier groups with fighters that have offensive capabilities, the country will then have a military capability that will enable a change of strategy in a more assertive direction. A Chinese carrier capability will expand its military range significantly, and China will be able to project its power abroad on an unprecedented scale. China will be able to protect its interests and put military might behind its territorial claims in the region, especially when it comes to the Spratly Islands. It will also be able to protect the vital sea lanes from Africa and the Middle East.

China has not officially acknowledged it has have an active carrier program, but the amount of circumstantial evidence that is available, makes it more than likely that it will acquire carriers. Seen from a Chinese perspective of military efficiency, the acquisition of a minimum of two to three carriers is required to enable a continuous military effective capability. Cooperation with Russia, which has experience of carriers, will ease the process, whether China buys carriers from Russia or chooses to build the carriers itself. There are many indications that China plans to build carriers in China, and when all the information is pieced together, it points towards the Varyag being made operational for training purposes. China will use the experiences gained from this to build a carrier of a similar size.

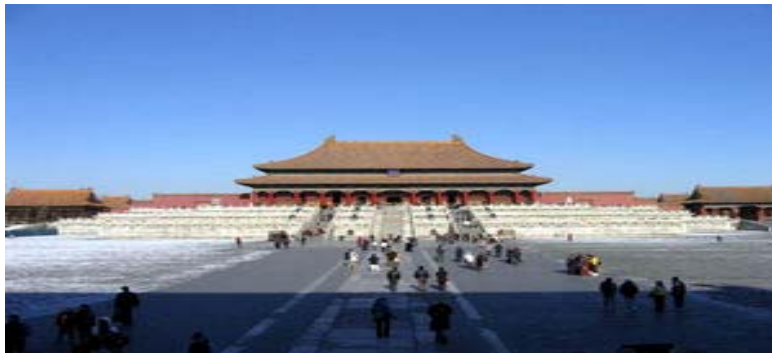
When it comes to military development and military doctrine, China looks towards the United States, and if China has great power ambitions on a similar scale, then it will be necessary for it to have carriers of the Nimitz class size. In the long term, with assistance from Russia, it is considered possible for China to build such carriers, given the tremendous development Chinese industry has gone through in recent years.

When it comes to carrier combat aircraft, China can choose either to modify the indigenously produced J-10 multirole fighter, or it can buy the Russian SU-33 multirole fighter.

A Chinese carrier group with the associated support vessels, submarines, fighters and helicopters is unlikely to be fully operational for war until 2020, given that China has to start from the very beginning.



India is currently developing three aircraft carriers that are expected to be operational in 2017. China could use this as an argument for the acquisition of carriers. The other nations of the region are not acquiring similar capabilities at the moment, and the military balance will tip out of their favor should China acquire carriers. One, two or three Chinese carriers will be a significant source of power in the region, and it is likely that the United States will have to continue to act as a security guarantor and provide security to its allies in the region.



## **International Workshop**

# ***The Rise of China and Its Impact on The Existing Capitalist World System***

**Date:** May 8-9, 2008

**Venue:** Kroghsstræde 3, rum 2.128, Aalborg University

**Hosts:**

- Department of History, International and Social Studies, Aalborg University and Development, Innovation and International Political Economy Research Group
- China-Project Network, Aalborg University
- UNESCO Chair in Problem Based Learning, Aalborg University

**Funding:**

- The C.W Obel Fond
- Aalborg University
- Nordic Institute of Asian Studies (NIAS)

**Workshop organizer and coordinator:**

Xing Li, Associate Professor, Department of History, International and Social Studies, Aalborg University, [xing@ihis.aau.dk](mailto:xing@ihis.aau.dk)

**Workshop organizing members:**

Wolfgang Zank, Associate Professor, Department of History, International and Social Studies, Aalborg University, [wzank@ihis.aau.dk](mailto:wzank@ihis.aau.dk)

Poul Duedahl, Assistant Professor, Department of History, International and Social Studies, Aalborg University, [pduedahl@ihis.aau.dk](mailto:pduedahl@ihis.aau.dk)

Xiangyun Du, Assistant Professor, UNESCO Chair in Problem Based Learning, Aalborg University, [xiangyun@plan.aau.dk](mailto:xiangyun@plan.aau.dk)



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