Suisheng Zhao
The Strategic Rivalry between China and the US: Neither Containment nor Regional Dominance Viable

Sean Starrs
China’s Rise is Designed in America, Assembled in China

Kevin G. Cai
China’s Foreign Policy Adjustment Under Xi Jinping

Angela Stanzel
Aspects of China’s Foreign and Security Policy

Fu Jun
China’s Urbanization Drive in Global Perspective

Jennifer Hsu
Future Prospects for NGOs in China

China and Globalisation in the Era of Xi Jinping
China’s World is a new twice yearly journal. It examines the many issues involved in China’s interaction with globalisation. China’s World hopes to be able to explore the various dimensions of this from as many different perspectives as possible. In this, our second issue, four articles consider different aspects of the relationship between China, the US and its neighbours in the Xi Jinping era, while two look at two crucial elements in China’s encounter with globalisation: urbanization and civil society.

04 | Editorial: Is conflict Inevitable?  
David Armstrong

09 | China’s Rise is Designed in America, Assembled in China  
Sean Starrs

21 | The Strategic Rivalry between China and the US: Neither Containment nor Regional Dominance Viable  
Suisheng Zhao

30 | China’s Foreign Policy Adjustment Under Xi Jinping  
Kevin G. Cai

42 | Aspects of China’s Foreign and Security Policy  
Angela Stanzel

49 | China’s Urbanization Drive in Global Perspective  
Fu Jun

57 | Future Prospects for Non-Governmental Organisations in China  
Jennifer Y.J. Hsu
Jennifer Y.J. Hsu is Assistant Professor in the Department of Political Science at the University of Alberta, Canada. Her research interests broadly cover state-society and state-NGO relations, the growth of civil society in China and the internationalization of Chinese non-governmental organizations (NGOs). She has published in various journals including *Journal of Contemporary China, Progress in Development Studies, The China Quarterly, Third World Quarterly* and *Urban Studies*. Her recent publications include a co-authored book *HIV/AIDS in China – The Economic and Social Determinants* and a co-edited volume *NGO Governance and Management in China*.

Kevin G. Cai is Associate Professor at Renison University College of University of Waterloo in Canada. His primary research interests include regional integration in East Asia, China’s foreign policy, cross-Taiwan Straits relations and East Asian relations. Kevin G. Cai is a Palgrave Macmillan Series Co-Editor, Politics and Development of Contemporary China.

Angela Stanzel is Policy Fellow at the European Council on Foreign Relations. Her research interests are China’s history, politics and economics and East and South Asia’s foreign and security policy. Before joining ECFR, Angela worked for the BMW Foundation and the International Affairs Office of the Koerber Foundation in Berlin. Prior to that, she worked in Brussels for the German Marshall Fund of the United States (Asia Programme) and in Beijing the German Embassy (cultural section) as well as for several event and marketing firms. Alongside China’s history, politics and economics, her research work focuses on East and South Asia’s foreign and security policy.

Suisheng Zhao is Professor and Director of the Center for China-US Cooperation at Josef Korbel School of International Studies, University of Denver and Editor of the *Journal of Contemporary China*.

Fu Jun is Professor and Executive Dean in the School of Government at Peking University and Vice Chair of the World Economic Forum’s Global Agenda Council. His main research fields are Comparative Public Policy and International Political Economy and he has published numerous books and articles in both fields.

Sean Starrs is Assistant Professor at the Department of Asian and International Studies at the City University of Hong Kong and Research Affiliate at the Center for International Studies at the Massachusetts Institute of Technology. He studies global political economy, the nationality of capital in an era of global value chains, the rise of China, and American hegemony. He has published in *International Studies Quarterly* and *New Left Review*, among others.

Suisheng Zhao is Professor and Director of the Center for China-US Cooperation at Josef Korbel School of International Studies, University of Denver and Editor of the *Journal of Contemporary China*.

Jennifer Y.J. Hsu is Assistant Professor in the Department of Political Science at the University of Alberta, Canada. Her research interests broadly cover state-society and state-NGO relations, the growth of civil society in China and the internationalization of Chinese non-governmental organisations (NGOs). She has published in various journals including *Journal of Contemporary China, Progress in Development Studies, The China Quarterly, Third World Quarterly and Urban Studies*. Her recent publications include a co-authored book *HIV/AIDS in China – The Economic and Social Determinants* and a co-edited volume *NGO Governance and Management in China*.
Is Conflict Inevitable?

David Armstrong
Since our first issue in July there have been a number of subtle but significant changes in the discourse surrounding China’s role in the world. These may, broadly, be assessed under three general headings: a possible hardening of the US position regarding China, increasing concern inside and outside China about a Chinese economic downturn and a more assertive, if not aggressive, Chinese posture towards its neighbours under Xi Jinping.

Taking these in turn, on 5 October this year a new Trans-Pacific Partnership (TPP), comprising the USA, Japan and ten other Pacific Rim countries was announced following years of secretive and often contentious negotiations. On 6 October the Financial Times reported President Obama’s statement on the TPP, including his assertion: “When more than 95% of our potential customers live outside our borders, we can’t let countries like China write the rules of the global economy. We should write those rules”. This is, of course, a particularly interesting remark in the context of this journal’s focus on issues relating to China and globalisation since it indicates an American concern with the possibility that globalisation might proceed in ways less favourable to the USA than has hitherto been the case: shifting its nature from “Americanisation” towards “Sinicisation”. A closely related incident came in March 2015 when the UK became the first Western state to join the Asian Infrastructure Investment Bank (AIIB) that was being established by China. The UK was quickly followed by other US allies, including France, Germany, Australia and Italy. Another close US ally, Israel, was also one of the founding members of the AIIB and indeed 2015 has seen numerous signs of a much closer trade and investment relationship between China and Israel.

Yet, although there is unquestionably a strong element of rivalry and competition in these separate developments, it is also important to remember that globalisation is not and never has been simply a part of a single state’s strategic design. While the US has certainly been the leading player in the many processes that make up globalisation, there is a dynamic to the phenomenon of globalisation that is entirely independent of any of the countless number of state and non-state players involved. Indeed even the competitive element in the relationship between the TPP and AIIB can itself be seen as one of the many forces at work in the overall process of globali-
There is at the very least a strong case for the argument that it has been Japanese policy under Prime Minister Shinzo Abe more than any Chinese moves that has created a more confrontational atmosphere between the two states.

The Chinese economy is deeply integrated with the global economy and forms an important driving force of the economy of Asia and even the world at large.

So far as worries about the Chinese economy are concerned, the picture is mixed. Negative signals have included a decline in China’s growth rate to a ten year low, a collapse of the Shanghai stock market in June 2015, a great devaluation of the Yuan in August, a major increase in public and private sector debt, massive over-investment in the construction and real estate sectors and a sizeable outflow of capital - $225 billion in the second quarter of 2015. On the other hand, the government’s own five year plan for 2011-2015 envisaged a reduction of growth rates to what was seen as a more sustainable 7% as part of a long term economic strategy aimed at restructuring the economy away from the manufacturing sector and a reliance on exports towards building up the service sector and focusing more on the domestic market, where the great increase in incomes of many millions has inevitably led to a build-up in demand. Here too one can detect a cautious embrace of globalisation by the government, including a greater acceptance of market forces and of the need for further liberalisation of the Chinese economy. Xi Jinping’s drive against corruption may be seen as part of this strategy, although there are, of course, more negative interpretations of that policy which depict it as part of an ongoing power struggle. It is also true that the government’s panicky response to the stock market crash, with its denunciations of “malicious sellers”, more closely resembled earlier Maoist perspectives than the actions of a government that was completely relaxed about the working out of market forces. On balance, however, the more optimistic interpretations of both policy and practice remain the most probable versions of the future course of the Chinese economy.

Finally, the Xi Jinping government’s first years have been accompanied by a more assertive – some would say aggressive- posture. Two confrontations are particularly relevant here – the islands in the South China Sea that are disputed by China, Vietnam, the Philippines, Taiwan, Malaysia and Brunei and the islands in the East China Sea disputed by China and Japan, called Diaoyu by China, Senkaku by Japan. In both cases China advances a historical claim and in both cases the United States has taken various steps to build on President Obama’s decision to rebalance American foreign policy away from the Middle East and towards the Pacific – a decision interpreted by many as part of a strategy to contain China.

There is at the very least a strong case for the argument that it has been Japanese policy under Prime Minister Shinzo Abe more than any Chinese moves that has created a more confrontational atmosphere between the two states. Japan’s purchase of some of the islands from a private owner in 2012 and its announcement in 2013 of its biggest increase in defence spending in more than 20 years as well as Abe’s controversial 2013 visit to the Yasukuni Shrine, which honours Japan’s war dead including convicted war criminals were all seen by China as provocative moves, although Abe argued that the defence spending decision was simply a response to China’s military build-up. China’s announcement in 2013 of an Air Defence Identification Zone, under which all aircraft flying in the Zone had to identify themselves, was in effect ignored by both the USA and Japan but could also be seen as
a highly provocative gesture.

Equally, if not more, serious developments have been taking place in the South China Sea. China has steadily been building up its military presence in the area, including creating several artificial islands by dredging and piling sand on reefs. These islands have ports, military buildings and airstrips. In July 2015 China released a design for building Very Large Floating Structures (VLFS), which are made up from putting together at sea several smaller floating structures to create a much larger floating platform that can be used for various military purposes, including acting as a huge (if much slower) aircraft carrier. While the United States has avoided taking sides on the territorial claims it has strongly protested against what it sees as potential threats to free navigation in the area. In November 2015 it also announced a $250 million contribution to several of the smaller states in contention with China, with most going to the Philippines. It has also been building up its own presence in the region, most recently by new agreements with the Philippines and by moving closer to its onetime enemy, Vietnam including giving it $40 million of the $250 million. Also in November Vietnam and the Philippines announced a “strategic partnership” with the aim of improving their military cooperation.

The most pessimistic scenario for the next few decades sees a gradual shift in the balance of power between the USA and China in favour of China leading inevitably to major conflict, as has happened on numerous occasions over the centuries. Given the near certainty of an inexorable increase in China’s military presence in the South and East China seas, combined with an ongoing shift in America’s priorities towards its Pacific interests, some would see only one possible outcome: a major war. The more optimistic scenario combines the argument that globalisation has brought about a different kind of world politico-economic structure from the incessant great power rivalries of the past with the observations of several recent studies of China that, in effect, accept China’s own proclamations about its “peaceful rise”. On the one hand, economic interdependence is too great for any major power to risk the huge financial penalties that war and a collapse of trade and investment would bring. On the other hand, China, so it is argued, has been following an updated version of its traditional view of its place in the world, somewhat aloof in certain respects so long as its wishes and interests are observed and occupying a position in its own region in which its hegemony is maintained not by manipulating a balance of power and using force but by earning the respect and gratitude of its neighbours. This does not mean that tensions, confrontations and even some incidents involving actual conflict will not occur, but an all-out war is extremely unlikely.

The first four articles in this issue continue our discussion of key aspects of these three problem areas. Sean Starrs argues that too many interpretations of China’s economic rise derive from
Kevin Cai and Angela Stanzel both consider issues relating to the more assertive policies of Xi Jinping. Cai, after discussing the significant adjustment of China’s foreign policy since Xi’s accession towards a more assertive approach in defence of China’s interests, while attempting to maintain a peaceful and cooperative environment overall, identifies two main challenges for China. The first would arise from a dynamic in which rising tensions in the region lead towards other states aligning themselves against China. The second relates to the reaction of the current dominant power in the region: the United States. Stanzel speculates about possible domestic motivations in Xi’s assertive posture, such as the need to create popular confidence in his capacity to deal with China’s huge domestic challenges, including fighting corruption, combating the environmental crisis and improving social standards while managing a fundamental shift in China’s economic strategy. She considers the possibility of China assuming a greater role outside its own immediate region, especially in the Middle East and Africa and sees this as a potential opportunity for Europe, which doesn’t see China as a direct strategic threat.

Suisheng Zhao directly addresses the fundamental question we raise in the editorial: whether major conflict is inevitable in situations where the position of one established power is declining relative to that of a rising power. While not dismissing this possibility entirely, he argues that while containment of its rival cannot be a viable option for the US, neither can regional dominance be for China. The article concludes with an interesting quotation from the woman who is still most likely to be the next President of the United States: “China and the United States cannot solve all the problems of the world together. But without China and the United States, I doubt that any of our global problems can be resolved... There is no intrinsic contradiction between supporting a rising China and advancing America’s interests. A thriving China is good for America, and a thriving America is good for China.”

Fu Jun focuses on one of the major domestic consequences of China’s engagement with globalisation: its urbanization drive. After discussing the related processes of industrialisation and urbanisation in China, the article considers possible futures and the need to tackle three major products of urbanisation: the growing divisions between the urban and agricultural populations, the lack of a genuine land market and the environment.

Finally, Jennifer Hsu discusses one of the most fascinating and complex outcomes of China’s engagement with globalisation: the rise of its civil society, with nongovernmental organisations now numbering in the hundreds of thousands. She considers the current environment for both domestic and international NGOs operating in China, focusing in particular on the general regulatory structure, the government’s changing stance towards NGOs and the implications of the Overseas NGO Management institution for both international and domestic NGOs.
China’s Rise is Designed in America, Assembled in China

Sean Starrs

Designed by Apple in California, Assembled in China
— Stamped on the back of all Apple iPads, iPhones, and MacBooks
Abstract

China is the first major country to begin its rapid rise in the era of globalization — yet many observers who study the rise of China continue to interpret Chinese national accounts, such as world share of exports, manufacturing, and most of all GDP, as if we still live in a pre-globalization age. That is, with production and value chains now globalized, it becomes more important to investigate who ultimately controls and owns that production rather than discerning its geographic concentration. This essay demonstrates that this is especially the case for China’s role as the world’s largest exporter, and that it is foreign corporations — especially American — that ultimately own and profit by far the most from the bulk of the internationally oriented sectors in China. This is because, like Apple’s iPhone, China’s rise is assembled in China but designed in the United States.

The rapid rise of China’s national accounts over the past quarter century has been spectacular. In 1980 China’s exports accounted for less than 1% of the world’s total, but by 2013 they accounted for 10.1%, surpassing the United States with its 9.8% share to become the largest in the world, according to the World Bank. Similarly, China’s share of world GDP in 1980 was 1.7%, and after declining to 1.59% by 1990, began to rise rapidly, surpassing Germany in 2007 with 6.1%, Japan in 2009 with 8.5%, and reaching 13.3% in 2014, second only to the United States’ share of 22.4% in that same year (albeit still below Japan’s peak of 17.5% in 1994). This more than doubling of China’s share of world GDP over the past decade has been fuelled by an historically unprecedented export and national investment boom in especially infrastructure and real estate, sucking in raw materials and related commodities from the rest of the world, such that China is now the number one export destination for 42 countries (19 in Africa alone).

These huge expansions in national accounts can be seen with the naked-eye on the ground in every mega-city in China, from the most modern avant-garde architecture and super-tall skyscrapers to highly efficient metro transportation systems and newly paved boulevards to rows upon rows of new high rise apartment complexes — not to mention the high-speed trains and airports that connect them all. These transformations have facilitated the largest rural mass migration in human history, and the explosion of the urban middle class. There are different definitions of what it means to be middle class,
but according to the McKinsey & Co. report *Mapping China’s Middle Class*, in 2012 there were approximately 182 million households with an annual income of over US$9,000, of which 36 million households had an annual income of over US$16,000, and about 7.7 million made more than US$34,000 a year. This explosion in wealth — even if highly concentrated as hundreds of millions remain poor — has fuelled a consumption boom such that China is now the world’s largest market in a number of sectors, from automobiles to smartphones and luxury goods to computers. A less salubrious side of this massive urbanization and industrialization is that China now emits more carbon dioxide than Europe and the United States combined, and thick air pollution is visible in all of China’s mega-cities.

Given these gigantic transformations in the Chinese political economy and their multitudinous repercussions across the globe, it is not surprising that they have been accompanied by more general prognostications of the global dominance of Chinese economic power — if not already then certainly sometime in the twenty-first century. Concomitantly, these prognostications usually go hand-in-hand with declarations of the relative decline of the incumbent global hegemon, the United States. While some of the more extravagant claims made in the immediate aftermath of the 2008 Wall Street crash have since largely subsided — such as China becoming the world’s only superpower — many still believe that China’s capacity to challenge American hegemony will only increase in the foreseeable future, eventually leading to a more multipolar world order.

The foundation for these claims remain China’s ever-expanding national accounts, but there are also a slew of new Chinese-led initiatives such as the Asian Infrastructure Investment Bank (AIIB), New Development Bank (otherwise known as the BRICS Bank), and the Silk Road Fund. While not yet fully operational, the AIIB is especially seen as a Chinese challenge to American hegemony since the latter explicitly lobbied its allies to not join but many did anyway (starting with the United

---

*China is now the world's largest market in a number of sectors, from automobiles to smartphones and luxury goods to computers.*
Kingdom in March 2015). More broadly, many claim that these various Chinese initiatives present a serious alternative to the incumbent international organizations created under the auspices of the United States in the aftermath of World War II. Some say the Chinese currency will also present a challenge to the global dominance of the US, especially in the East and South China Seas, previously seen by some as an “American lake”. Underlying all of these claims is the assumption that China’s economic power will continue to grow, especially vis-à-vis the United States.

Contrary to these prognostications, however, I argue that there is a fundamental misunderstanding in the nature of the rise of China. China is the first major country to fully begin its economic ascent in the 1990s (as mentioned above, China’s global economic weight actually declined in the 1980s), which happened to be during the midst of the end of the Cold War and the consolidation of globalization as a new era in world order. Therefore, if we are to understand the nature of the rise of China, we must understand what globalization is, especially the manner in which the United States not only leads globalization, but is its primary author. The roots of globalization at the turn of the twenty-first century lie in post-1945 American foreign policy and its pursuit of a more or less liberal international economic order. After post-war reconstruction, this allowed American business to expand production linkages through foreign direct investment first in Western Europe from the 1950s and 1960s, then in East Asia from the 1970s and 1980s. Also by the 1980s, Japanese business expanded production linkages throughout East Asia and in the United States itself (as well as Western Europe). By 1995, after 40 years of GATT (General Agreement on Tariffs and Trade) negotiations and decades of the increasing globalization of economic linkages between the Triad of North America, Europe, and Japan,
the initially shot-down 1944 American proposal for an International Trade Organization finally came to fruition with the creation of the World Trade Organization (WTO). Related to these processes, by the 1990s foreign capital came pouring into China, and its 2001 entrance to the WTO spurred even faster growth in its national accounts relative to the rest of the world. By 2004 China was already the world’s largest exporter of electronics.

So what are the implications of globalization for the rise of China? For this we have to understand how the globalization of production changes the nature of economic power in world order. Japan is the classic example of a country that arose in the era before the consolidation of globalization in the 1990s. As Japanese capital was being reconstructed in the 1950s and revived by the 1960s, production by the top Japanese corporations surged. And because Japanese corporations invested in production that was largely contained within the borders of Japan and then exported their goods abroad, there was a concomitant surge in Japanese national accounts such as GDP, exports, foreign currency reserves, and the overall wealth of the society. Akin to the advertising slogan from the 1950s, “What’s good for General Motors is good for America”, when Japanese corporations such as Matsushita Electric (Panasonic), Mitsubishi, Sony, and Toyota grew, so did the wider Japanese economy — and perhaps equally importantly, vice versa (when Japan grew so did the top Japanese corporations). It is because production was largely nationally contained that many analysts interpreted a rising world share of national accounts as synonymous to rising national economic power.

By the early 1980s, the international competitiveness of Japanese corporations (and the concomitant world share of Japanese national accounts) grew so rapidly that the Ronald Reagan administration of the United States began to pressure Japan to impose “voluntary export restraints”. By 1985 with the Plaza Accord, the United States successfully pressured Japan to revalue and appreciate its “undervalued currency”, thereby threatening Japanese export competitiveness. It was in large part this increasing American pressure that led Japanese corporations to regionalize production in East Asia in the 1980s to take advantage of much cheaper labor, joining some American and European corporations that already started outsourcing some production to Southeast Asia beginning in the 1970s. Thus, already by the end of the Cold War there were complex regional production networks binding Northeast and Southeast Asia together with moving more and more final assembly to China, in order to export to consumers largely in North America and Western Europe. The most important sectors for these regional production networks continue to be automobiles, electronics, and electrical and heavy machinery, including aerospace and shipbuilding. In the 1990s, these East Asian regional production networks were largely driven and/or controlled by dominant American and Japanese corporations, with some South Korean and Taiwanese firms eventually added to the mix, most prominent of which is Samsung Electronics and Hyundai. By the first decade of the twenty-first century, China consolidated its position at the center of many of these transnational production networks as final assembler, becoming “workshop of the world”.

Being workshop of the world in the era of globalization is quite different to being a global center of production when Japan was rising in the 1960s and 1970s, let alone when Britain was “workshop of the world” in the mid-nineteenth century.

But being workshop of the world in the era of globalization is quite different to being a global center of production when Japan was rising in the 1960s and 1970s, let alone when Britain was “workshop of the world” in the mid-nineteenth century (the original use of this term).

As we can see from the discussion above, in the era before globalization when production was largely nationally contained, there was a positive correlation between rising national capital and rising national accounts. But since production was transnationalized especially in
Globalization and therefore national accounts both overestimate Chinese economic power and underestimate American economic power in world order. This is because the globalization of production is assembled in China but designed in the United States.

East Asia, this correlation, and more broadly economic power, becomes more complex. With the globalization of production, we can now no longer assume a priori who controls and ultimately profits the most from production in any given national territory. Rather, it must be investigated whether particular production networks are domestically or foreign owned, and if the latter, then by which nationality. And as China is the first major country to rise in the era of globalization, with its development driven to a large extent by foreign capital (especially in the 1990s and 2000s, before the 2008-2009 global financial crisis when the Chinese growth model became more investment-driven), the implications of the globalization of production are especially important for understanding the nature of the rise of China.

A good example of these changes is the most profitable consumer good so far of the twenty-first century: the iPhone. China has been by far the world’s largest exporter of iPhones since its inception in 2007. By 2014, China is also the second largest national consumer market for iPhones (and may soon be the largest). But we cannot draw the same conclusions as when for example Japan in 1980 was both the world’s largest consumer and exporter of the Walkman. This is because in the latter, the production and sale in and export from Japan of the Walkman was controlled by a Japanese firm, Sony. But in the era of globalization, the production and sale in and export from China of the iPhone is not controlled by a Chinese firm, but by an American firm, Apple. This ultimate ownership allows Apple to reap the lion’s-share of profit from the sale of iPhones, no matter where or by whom they are produced or sold around the world.

With the iPhone 6 Plus, for example, according to a study by IHS, the bill of materials for Apple is $211.10 while it retails for $749 in the United States. Of the $211.10 bill of materials, the vast majority is accounted for by American, Japanese, South Korean, and Taiwanese firms for advanced components such as the battery, camera, processor, touch screen, and Wi-Fi connector. Actual assembly of the iPhone 6 Plus only costs Apple $4.50. And while this $4.50 assembly is performed in southern China, Apple subcontracts two Taiwanese firms, Hon Hai Precision Industry (otherwise known as Foxconn) and Pegatron. So it is not even a Chinese firm that assembles and exports the iPhone, but two Taiwanese firms operating in China. One of them, Foxconn, is China’s largest private employer, with about 1.4 million workers, and is the largest electronics assembler in the world. Foxconn assembles not just for Apple but for many American and Japanese firms, such as Amazon, Cisco, Dell, Hewlett-Packard, Microsoft, Motorola, Nintendo, Sharp, Sony, and Toshiba. Yet despite this impressive roster of some of the world’s top electronics and IT firms, because final assembly is at the low end of the value chain in transnational production networks, Foxconn’s profit in 2014 was $4.3 billion while Apple’s alone was ten times larger, at $44.5 billion.

Apple can capture the vast majority of the profit from the iPhone because it owns the brand, customer service and repair, design, marketing, research and development, the coordination of the production and distribution network, and often even the retail — all of these operations are at the high end of the value chain. Indeed, it is these lead high-end firms like Apple that plan, control, and direct these vast global value chains in the first place. And China’s demand for capital goods, cars and other goods, which are produced by advanced economies helped to stimulate these industries and to create or preserve jobs there.
as we shall see below, the world’s top corporations — core actors in globalization — continue to predominantly be headquartered in the United States, despite (or perhaps because of) the decades-long decline in the world share of American national accounts.

And it’s not just China’s final assembly and export of iPhones that is ultimately controlled by foreign capital, but this point generalizes to the majority of China’s role as workshop of the world. Figure 1 shows that over the decade since 2005, the share of Chinese final assembly exports conducted by wholly owned foreign enterprises has remained steady above 60%. If we include joint-ventures between foreign and Chinese firms (for example, all foreign auto firms must form a joint-venture with a Chinese firm in order to operate in China), then this proportion remains over 80%. The role of state-owned enterprises in China’s processing and assembly exports has collapsed from more than 40% two decades ago to less than 6% today. And while private Chinese firms have increased their share from 0.01% in 1995 to 11.65% in 2014, it is still much too early to prognosticate whether private Chinese firms can establish their own brands, production
networks, and value chains in order to meaningfully challenge the dominance of foreign firms operating within China — let alone abroad.

Taking another perspective, we can see a similar story by category of China’s top manufactured exports and discern who in the world ultimately profits. Table 1 shows China’s top five manufactured export categories by dollar value in 2013, according to the WTO (different organizations and agencies classify the various goods and services differently). I have corresponded these export categories with the relevant sectors in the Forbes Global 2000, which is an annual ranking of the world’s 2,000 largest publicly traded corporations as ranked by a composite index of assets, market value, profit, and sales. I choose the Forbes Global 2000 list because I think it is the most comprehensive, and it represents the movers and shakers of global capitalism. In 2015, their combined assets of $162 trillion is more than double world GDP of $78 trillion. From the 2014 list (compiled in April so it mostly involves the year 2013), we can calculate the profit-shares of all sector-relevant firms aggregated by national domicile. Apple’s iPhone falls in the first category, telecommunications equipment, and we can see in Table 1 that China’s exports account for 38% of the

China’s exports account for 38% of the world’s exports in telecommunications equipment, yet Chinese firms only account for 6% of the profit of all sector-relevant firms in the Forbes Global 2000.

Table 1

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Telecommunications Equipment (SITC Division 76)</td>
<td>$252.8bn</td>
<td>38%</td>
<td>Communications Equipment; (Apple, Huawei, Samsung Electronics added; ZTE listed in Hong Kong but counted as China)</td>
<td>6.0%</td>
<td>59%</td>
<td>7.4% ($49.7bn)</td>
</tr>
<tr>
<td>2. Electronic Data Processing &amp; Office Equipment (SITC Division 75)</td>
<td>$223.8bn</td>
<td>41%</td>
<td>Business Products &amp; Supplies (Printers); Computer Hardware (Minus Apple; Dell Added); Computer Storage Devices</td>
<td>3.5%</td>
<td>65%</td>
<td>9.1% ($49.6bn)</td>
</tr>
<tr>
<td>3. Clothing (SITC Division 84)</td>
<td>$177.4bn</td>
<td>39%</td>
<td>Apparel &amp; Accessories (Minus Accessories); Apparel &amp; Footwear (Minus Footwear)</td>
<td>Zero</td>
<td>46%</td>
<td>1.3% ($5.9bn)</td>
</tr>
<tr>
<td>4. Chemicals, Incl. Pharmaceuticals (SITC Section 5)</td>
<td>$119.6bn</td>
<td>6.0%</td>
<td>Diversified Chemicals; Pharmaceuticals; Specialized Chemicals</td>
<td>0.8%</td>
<td>40%</td>
<td>10% ($208.4bn)</td>
</tr>
<tr>
<td>5. Integrated Circuits &amp; Electronic Components (SITC Group 776)</td>
<td>$117bn</td>
<td>22%</td>
<td>Electronics; Semiconductors (Minus Samsung Electronics)</td>
<td>1.3%</td>
<td>47%</td>
<td>7.7% ($41.5bn)</td>
</tr>
</tbody>
</table>

world’s exports in telecommunications equipment, yet Chinese firms only account for 6% of the profit of all sector-relevant firms in the Forbes Global 2000. On the other hand, while American exports in telecommunications equipment only account for 7.4% of the world’s exports, American firms account for 59% of the profit-share. There is a similar pattern in the rest of China’s top five manufactured exports, most strikingly in clothing. There is not a single profitable Chinese firm in textiles that is large enough to make the Forbes Global 2000, despite China’s exports making up 39% of the world’s. Exports of clothing from production in the United States is miniscule compared to the rest of the world, at 1.3%, yet American firms reap 46% of the profit-share — even when the top two firms in the world, Inditex (owner of Zara) and H&M, are both European (Spanish and Swedish, respectively).

To really drive home this point about how globalization changes the nature of production and how we should interpret national accounts — and therefore national economic power — Table 2 gives a wider perspective with the most important broad sectors from the Forbes Global 2000 for China and indeed the world. Since many observers’ prognostications of the future economic dominance of China is usually counterpoised to the relative decline of the United States, Table 2 shows both the American and Chinese profit-shares, as well as the rest of the top three in the world. For comparison’s sake, I present two years, 2006 and 2014, as well as 2010 if there has been large fluctuation in profit-shares. I also present the number of firms, nations, and the total profit of each of the sixteen sectors that together make up the commanding heights of global capitalism. Note that Forbes.com uses a different classification system from the WTO, so Telecommunications in Table 2 refers to mainly services firms, such as AT&T, China Mobile, and Vodafone, rather than the telecommunications equipment sector of Table 1, which would fall under the broader sector of Electronics in Table 2.
### Table 2


<table>
<thead>
<tr>
<th>Sector</th>
<th>Year</th>
<th>Number of Firms/ Nations</th>
<th>Total Profit ($bn)</th>
<th>#1 (%)</th>
<th>#2 (%)</th>
<th>#3 (%)</th>
<th>Notes on China</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aerospace &amp; Defense</td>
<td>2006</td>
<td>17/7</td>
<td>14.7</td>
<td>US 86</td>
<td>UK 11</td>
<td></td>
<td>Netherlands 10</td>
</tr>
<tr>
<td></td>
<td>2014</td>
<td>20/7</td>
<td>26.6</td>
<td>US 86</td>
<td>France 12</td>
<td>UK 9</td>
<td></td>
</tr>
<tr>
<td>Auto, Truck &amp; Parts</td>
<td>2006</td>
<td>45/12</td>
<td>56.5</td>
<td>Japan 47</td>
<td>Germany 17</td>
<td>US 13</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2010</td>
<td>19/8</td>
<td>9.78</td>
<td>US 42</td>
<td>Japan 17</td>
<td>South Korea 16</td>
<td>#4: 9%</td>
</tr>
<tr>
<td></td>
<td>2014</td>
<td>58/12</td>
<td>130.7</td>
<td>Japan 33</td>
<td>Germany 26</td>
<td>US 15</td>
<td></td>
</tr>
<tr>
<td>Banking</td>
<td>2006</td>
<td>293/26</td>
<td>296.5</td>
<td>China 19</td>
<td>US 14</td>
<td></td>
<td>Japan 7</td>
</tr>
<tr>
<td></td>
<td>2010</td>
<td>172/47</td>
<td>281.8</td>
<td>China 33</td>
<td>US 15</td>
<td></td>
<td>Japan 7</td>
</tr>
<tr>
<td></td>
<td>2014</td>
<td>276/58</td>
<td>580.7</td>
<td>China 33</td>
<td>US 15</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chemicals</td>
<td>2006</td>
<td>59/18</td>
<td>39.9</td>
<td>US 31</td>
<td>Japan 13</td>
<td>Germany 12</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2014</td>
<td>53/22</td>
<td>81.6</td>
<td>US 33</td>
<td>Germany 16</td>
<td>Saudi Arabia 9.3</td>
<td></td>
</tr>
<tr>
<td>Computer Hardware &amp; Software</td>
<td>2006</td>
<td>38/9</td>
<td>49.9</td>
<td>US 65</td>
<td>Japan 5</td>
<td>Germany 4</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2014</td>
<td>56/12</td>
<td>136.8</td>
<td>US 89</td>
<td>Germany 3.2</td>
<td>Taiwan 1.5</td>
<td></td>
</tr>
<tr>
<td>Conglomerates</td>
<td>2006</td>
<td>31/15</td>
<td>50.2</td>
<td>US 57</td>
<td>Bermuda 8</td>
<td>Netherlands 7</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2010</td>
<td>39/17</td>
<td>53.1</td>
<td>US 45</td>
<td>Hong Kong 13</td>
<td>Germany 7</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2014</td>
<td>38/18</td>
<td>68.6</td>
<td>US 49</td>
<td>Hong Kong 11</td>
<td>Germany 9.3</td>
<td></td>
</tr>
<tr>
<td>Construction</td>
<td>2006</td>
<td>66/20</td>
<td>35.12</td>
<td>US 34</td>
<td>France 15</td>
<td>UK 10</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2010</td>
<td>73/29</td>
<td>35.7</td>
<td>Spain 16</td>
<td>France 16</td>
<td>China 9</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2014</td>
<td>64/19</td>
<td>43</td>
<td>China 27</td>
<td>US 14</td>
<td></td>
<td>Japan 14</td>
</tr>
<tr>
<td>Electronics</td>
<td>2006</td>
<td>92/12</td>
<td>84.8</td>
<td>US 50</td>
<td>South Korea 16</td>
<td>Japan 15</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2010</td>
<td>46/11</td>
<td>42.7</td>
<td>US 44</td>
<td>Taiwan 18</td>
<td>Japan 12</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2014</td>
<td>55/19</td>
<td>112</td>
<td>US 37</td>
<td>South Korea 28</td>
<td>Taiwan 7.5</td>
<td></td>
</tr>
<tr>
<td>Financial Services</td>
<td>2006</td>
<td>154/27</td>
<td>139.9</td>
<td>US 45</td>
<td>Switzerland 11</td>
<td>Netherlands 10</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2010</td>
<td>91/30</td>
<td>87.2</td>
<td>US 52</td>
<td>Sweden 11</td>
<td>Switzerland 11</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2014</td>
<td>98/25</td>
<td>253.6</td>
<td>US 80*</td>
<td>Sweden 4</td>
<td>Japan 2.7</td>
<td></td>
</tr>
<tr>
<td>Forestry, Metals &amp; Mining</td>
<td>2006</td>
<td>99/30</td>
<td>84.6</td>
<td>US 13</td>
<td>Japan 9</td>
<td>Russia 8</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2010</td>
<td>109/28</td>
<td>87</td>
<td>China 15</td>
<td>UK 15</td>
<td></td>
<td>Brazil 10</td>
</tr>
<tr>
<td></td>
<td>2014</td>
<td>72/20</td>
<td>70.6</td>
<td>Australia 26</td>
<td>China 20</td>
<td></td>
<td>US 8.4</td>
</tr>
<tr>
<td>Heavy Machinery</td>
<td>2006</td>
<td>63/16</td>
<td>29</td>
<td>US 39</td>
<td>Sweden 21</td>
<td>Japan 16</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2010</td>
<td>61/15</td>
<td>28</td>
<td>US 21</td>
<td>Switzerland 16</td>
<td>Japan 14</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2014</td>
<td>62/14</td>
<td>49.4</td>
<td>US 41</td>
<td>Japan 18</td>
<td>Sweden 10</td>
<td></td>
</tr>
<tr>
<td>Oil &amp; Gas</td>
<td>2006</td>
<td>102/31</td>
<td>277.9</td>
<td>US 38</td>
<td>Netherlands 10</td>
<td>UK 9</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2010</td>
<td>95/32</td>
<td>254.2</td>
<td>Russia 21</td>
<td>US 19</td>
<td></td>
<td>UK 9</td>
</tr>
<tr>
<td></td>
<td>2014</td>
<td>114/30</td>
<td>372.7</td>
<td>US 31</td>
<td>Russia 21</td>
<td>China 9</td>
<td></td>
</tr>
<tr>
<td>Pharmaceuticals &amp; Personal Care</td>
<td>2006</td>
<td>37/10</td>
<td>82.2</td>
<td>US 51</td>
<td>UK 15</td>
<td></td>
<td>Switzerland 12</td>
</tr>
<tr>
<td></td>
<td>2014</td>
<td>69/17</td>
<td>145.5</td>
<td>US 53</td>
<td>Switzerland 15</td>
<td>UK 9.5</td>
<td></td>
</tr>
<tr>
<td>Real Estate</td>
<td>2006</td>
<td>45/9</td>
<td>21.3</td>
<td>Hong Kong 45</td>
<td>US 31</td>
<td></td>
<td>Canada 8.1</td>
</tr>
<tr>
<td></td>
<td>2010</td>
<td>35/7</td>
<td>14.7</td>
<td>Hong Kong 42</td>
<td>China 20</td>
<td></td>
<td>Japan 13</td>
</tr>
<tr>
<td></td>
<td>2014</td>
<td>74/12</td>
<td>73.2</td>
<td>Hong Kong 37</td>
<td>China 18</td>
<td></td>
<td>US 18</td>
</tr>
<tr>
<td>Retail</td>
<td>2006</td>
<td>122/19</td>
<td>76.6</td>
<td>US 68</td>
<td>UK 11</td>
<td></td>
<td>Japan 4</td>
</tr>
<tr>
<td></td>
<td>2010</td>
<td>108/24</td>
<td>81.6</td>
<td>US 61</td>
<td>UK 8</td>
<td></td>
<td>Canada 3</td>
</tr>
<tr>
<td></td>
<td>2014</td>
<td>122/28</td>
<td>111.3</td>
<td>US 60</td>
<td>UK 4.4</td>
<td></td>
<td>Australia 4.3</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>2006</td>
<td>62/37</td>
<td>98.5</td>
<td>US 21</td>
<td>Japan 9</td>
<td>Hong Kong 7</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2014</td>
<td>55/35</td>
<td>169.4</td>
<td>UK 21</td>
<td>US 18</td>
<td></td>
<td>Hong Kong 13</td>
</tr>
</tbody>
</table>

* In 2014, Fannie Mae (US) made record profit of $84bn due to largely one-off circumstances. Without Fannie Mae, US profit-share in Financial Services is 69%.

In 2014, Chinese firms lead in Banking and Construction. Chinese firms also have a combined top three presence in the three sectors of Forestry, Metals & Mining, Oil & Gas, and Real Estate. All five of these sectors in which China has a top three presence correspond to China’s investment-driven growth model, especially in infrastructure and real estate. Almost all of these top Chinese firms are state-owned enterprises with heavily protected domestic oligopolies with very few operations abroad (with the partial exception of Chinese firms in natural resource extraction). None of these behemoth state-owned enterprises can be characterized as globally competing head-to-head with the world’s top corporations to advance the technological frontier, yet these firms constitute the bulk of the non-foreign ownership of profit from production and investment conducted in China. Moreover, as many Western firms recovered from the depths of the Great Recession in 2009-2010, the Chinese profit-share actually declined (even as Chinese GDP continued to grow) in the five sectors of Auto, Truck & Parts, Chemicals, Financial Services, Heavy Machinery, and Real Estate, coupled with a fall in the rankings for Chinese firms in the three sectors of Forestry, Metals & Mining, Retail, and Telecommunications. Hence, due to China’s role at the low end of the value chain and the nature of globalization driven by the United States, among other factors, it is unlikely that either the export-driven (as outlined in Table 1) nor the investment-driven (as outlined in Table 2) Chinese growth models will succeed in creating globally competitive lead firms that can challenge American economic dominance in the foreseeable future.

Following from this, with American firms leading in ten sectors — and often comfortably so, by multiples of its nearest rival — coupled with a top three presence in all sixteen sectors representing the pinnacle of global capitalism, Table 2 clearly demonstrates the continued dominance of lead American firms. This American economic dominance is despite half a century of relative decline (albeit unevenly) in the world share of American national accounts and the concomitant reconstruction and revival of Western Europe and Japan by the 1960s and 1970s, then the rise of the “four Asian tigers” in the 1980s and 1990s, then the rise of the BRICS and most of all China in the 2000s. That is, in 1960 American GDP accounted for around 40% of world GDP, which declined to 22% by 2014. But as I have stressed in this essay, in the age of globalization, it is more important to investigate who ultimately profits from the production and sale of goods and services rather than where their production or sale is geographically located. Of course, the latter is not irrelevant, as the relocation and expansion of so much production to China such that it is now workshop of the world is surely significant in world order, especially vis-à-vis emerging markets — not to mention for the Chinese people. But in the age of globalization we must be careful not to assume that there is any longer a simple positive correlation between rising national accounts and rising national economic power.

The economic power of the United States remains dominant in the world. In fact, we are arguably closer to Henry Luce’s vision of “the American century” than at any other time since he pronounced its potential in 1941. Henry Luce saw an opportunity to expand American influence around the globe after the end of World War II, including American business. In the mid-1940s, this is precisely what the American state set out to do — promoting and protecting a more or less liberal international economic order centered upon the United States — such that seven decades later the world is now more open to American business than ever before, including in former and/or current geopolitical adversaries (depending on the shifting winds of current events), China and Russia. The rise of China especially cannot be understood without acknowledging its deep integration in transnational production networks and global value chains that continue to be dominated by lead American firms. The challenge...
is for China to establish globally competitive lead firms with their own globally competitive brands, production networks, and value chains.

The experience of Japan’s rapid rise and then stagnation over the past few decades should be relevant for China, as Japanese firms are still the only ones to have collectively presented the most serious challenge to American firms at the technological frontier, especially in the 1980s and 1990s. That Japan has so far come the closest but has ultimately failed to supplant the United States, except in some sectors such as automobiles, should temper some of the more extravagant claims that China will surpass American economic power in the foreseeable future (remember that observers said the same about Japan in the 1980s). No country or even region (namely the European Union) has been able to supplant American economic power since the dawn of the American century in 1945. Moreover, since around 2013 China’s economic growth is beginning to slow at a much lower level of economic development than when Japan slowed in 1990. It is also uncertain whether China can escape what some call the “middle-income trap”, the apparent glass ceiling that most emerging markets have faced once they reached middle-income status, such as Malaysia and Thailand.

Globalization has played a crucial role in the rise of many middle-income countries, especially China, but it is also arguably a significant barrier to break the apparent glass ceiling to join the exclusive club of wealthy advanced industrial nations. This will be the case for as long as Western (including Japanese), and in particular American, corporations continue to dominate the very transnational linkages that constitute globalization and allow the bulk of the profit to flow back to the Triad of North America, Western Europe, and Japan. In fact, according to Credit Suisse’s Global Wealth Report 2015, the American share of millionaires in the world — as a proxy for the world’s dominant investors and owners of capital — is a whopping 46%, despite the United States “only” accounting for 22.4% of the world’s GDP. This is because American capital disproportionately owns not only the economic activity occurring within the territory of the United States, but also around the globe, including in China. The Chinese share of world millionaires is 6th largest at 4% of the world, despite having the world’s second largest GDP at 13.3%. Henry Luce would be proud. Thus, globalization and therefore national accounts both overestimate Chinese economic power and underestimate American economic power in world order. This is because the globalization of production is assembled in China but designed in the United States.
The Strategic Rivalry between China and the US: Neither Containment nor Regional Dominance Viable

Suisheng Zhao
Abstract

After President Xi Jinping proposed a new model of big power relations to free China and the US from the so-called “Thucydides trap” with the established power and the emerging power colliding inexorably, President Obama made a positive response. Sino-US strategic mistrust, however, continues to worsen and their rivalry has intensified. China remains suspicious of US containment manoeuvres and the US is uneasy about the prospect of Chinese dominance in the Asia-Pacific. This paper argues that containment is not a viable option for the US and regional dominance cannot be a viable objective of China either. Neither the US nor China can be the single dominant power in the region. China and the US have to work together and maintain a delicate balance of power to prevent their rivalry from boiling over into a new Cold War.

Containment is not a Viable Option for the US

Rising to great power status in a region that is not only militarily dominated by the US, but is also replete with US allies and strategic partners, China has exhibited considerable insecurity about US containment. The US strategic rebalance toward the Asia-Pacific only compounds such anxieties. Indeed, some Americans have argued for containment of China’s assertive behavior and are willing to do whatever it takes to maintain US global as well as regional primacy in spite of the fact that, as Mearsheimer argues, the result of this great power rivalry is a tragedy. The zero-sum containment of China, however, is not a viable option for the following reasons.

First, although the US successfully carried out a containment strategy against the Soviet Union by “minimal social or economic interactions” during the Cold War, the US-China relationship is much more complicated. As Henry Kissinger indicates, “The economy of the Soviet Union was weak (except for military production) and did not affect the global economy. China, by contrast, is a dynamic factor in the world economy. It is a principal trading partner of all its neighbors and most of the Western industrial powers, including the United States. A prolonged confrontation between China and the United States would alter the world economy with unsettling consequences for all.”1 Indeed, as each other’s second-largest trading partners, their trade in goods in 2013 reached $562.2 billion while the trade between the US and the former Soviet Union was only about $4 billion at its best. China holds more than $1 trillion in US treasury bonds. Chinese students are the largest international student source—more than 200,000 students—in US universities and the Obama administration launched a program of sending 100,000 American students to China. This is a very different economic and security landscape than what confronted the architects of a strategy to contain the Soviet Union, making it more difficult, if not impossible, for the US to contain China.

Second, while none of China’s neighbors want to live under China’s shadow and most regional powers have been publicly or privately pleased to see the stronger U.S. commitment to the Asia-Pacific region, very few of them can afford to antagonize China because an increasingly powerful China is a matter of geopolitical inevitability. Their interests are better protected by maintaining good relationships with both powers so that they can continue to trade freely with China while benefiting from the US security umbrella. An escalation of the rivalry between the US and China could destroy regional stability and prosperity. While many Asia-Pacific states “have welcomed America as a hedge against growing Chinese power, their economies have become increasingly dependent upon China and they don’t want to be a party to any potential conflict between these two giants.”2 Even countries, such as the Philippines and Japan, that believe it is in their best interest to make the U.S. a rival to China, have tried to engage China in their own ways. Taking a tough position in the territorial dispute with China, Japanese Prime Minister Shinzo Abe has repeatedly requested meetings with Chinese Presi-


dent Xi to talk about their troubled relations in spite of China’s rejection. Therefore, the US is not in the position to forge a strategic coalition in concert with Asian countries to contain China.

Third, facing a world that is becoming increasingly diffused in power distribution, American power ultimately depends on the health of its own domestic political and economic performances. The US has yet to overcome the political gridlock that has prevented meaningful governmental action and needs to get its fiscal house in order if it is to sustain its Asian presence over the long run. The impact of sequestration in the summer of 2013, which fell disproportionately on defense spending, already affected regional views of American credibility. The budget battle that led to a government shutdown in October 2013 and forced President Obama to cancel his Asia trip to attend the three most important regional summits—the APEC Leaders Meeting, US-ASEAN and East Asia Summit and the U.S.-ASEAN Summit—became an indication of the United States’ incapability of sustaining high-level engagement in the region, further diminishing US credibility and reinforcing the image of US decline. The no-show at the important summits because of political paralysis at home only highlighted the long-predicted limitations of Washington’s re-balancing to East Asia.

Fourth, the strategic rebalance is under-resourced on the military front. Having fought two wars in the first decade of the 21st century that led to sharply contracting defense budgets, the US is hardly prepared to step into another major conflict in the Pacific. It is far from clear whether the Obama administration could afford its forward deployment in the region for the long term to deliver on its promises. Assessing the budgetary constraints, a Congressional Research Service report pointed out that plans to restructure US military deployment in Asia and minimize cuts in the Navy may run up against more restrictive funding constraints than plans yet assumed. A January 2014 US Defense News Leadership Poll found that 62 percent of respondents said “no” when asked if the rebalance was affordable. Reflecting this concern, Katrina McFarland, assistant secretary of defense for acquisition, said that, due to cuts to the defense budget, the Pentagon’s plans to pivot to Asia “can’t happen.” As

**China and the US have to work together and maintain a delicate balance of power to prevent their rivalry from boiling over into a new Cold War.**

After more than a decade of wars in Iraq and Afghanistan, isolationism has gained ground in the US

skepticism grows toward the sustainability of the high-level military engagement widely held in the region, it can only become more difficult for the US to carry out a strategy to contain China.

Fifth, the US cannot afford to play a larger role in Asia and severely reduce the resources necessary to maintain America’s global role. The Obama administration has preferred to use the term “rebalance” over “pivot” because of the unintended consequence of the initial use of “pivot,” which suggested “a complete movement away” from the Middle East and other parts of the world and therefore caused concerns. Although the administration may not want the Middle East to continue dominating American foreign policy to the extent it did over the past decade, the second term Obama administration has been sucked back into Middle East conflicts, including Israeli-Palestinian peace talks, nuclear negotiations with Iran, Syria’s civil war, the rise of the so-called Islamic State and the Iraqi sectarian war. Secretary of State John Kerry’s first overseas trip after taking office in February 2013 was to Europe and the Middle East to reassure that the rebalance did not mean U.S disengagement from these regions. He visited the Middle East three times before visiting Japan, Korea, and China in April 2013. Moscow’s annexation of Crimea in 2014 that attracted global attention to President Vladimir Putin’s trial of strength with the West added another urgent problem to a burgeoning global list of distractions from the intended “rebalance” to Asia. With ongoing crises in Ukraine and the Middle East, there has been a sense that Washington’s rebalancing strategy is losing its momentum, despite strong pledges from the administration that the US remains committed to the region.

Sixth, after more than a decade of wars in Iraq and Afghanistan, isolationism has gained ground in the US. A Pew poll in 2013 found that for the first time since it began to measure U.S. public opinion in 1964, a staggering high 52 percent of respondents said they agreed with the statement that “the U.S. should mind its own business internationally and let other countries get along the best they can on their own.” That number had historically ranged between about 20 and 40 percent. When asked if they agreed that the US should “not think so much in international terms but concentrate more on our own national problems,” 80 percent surveyed said they agreed, an all-time high. More than half of Americans, 53 percent, say that the United States was “less important and powerful as a world leader than it was ten years ago,” the highest proportion of respondents to say as much since Pew started asking the question in 1993. The rising American isolationism already had a real impact on U.S. foreign policy. In the fall of 2013 President Obama planned to launch limited strikes against Syria for its use of chemical weapons against civilians, yet overwhelming public and Congressional opposition killed the plan. Reinforcing Americans’ views that the country shouldn’t be active abroad is the growing impression that the United States just isn’t as capable. One observer found that while a bullish US economy was a hot topic at the 2014 Davos World Economic Forum,

Hillary Clinton urged Beijing and Washington “to find an answer, a new answer to the ancient question of what happens when an established power and a rising power meet.”
the most important emerging theme was America’s slow retreat from its role as global policeman because of the emergence of American isolationism and reluctance to use its military muscle. The US went through similar, inward-looking periods after World War I and the Vietnam War although international events compelled America to plunge back into global affairs shortly thereafter. But this observer suggested that “this time, the shift towards non-intervention is structural rather than cyclical – reflecting a US that is quietly adjusting to the rise of other major powers, in particular China.”

These issues together would make a containment strategy extremely difficult, if not impossible. Therefore, the Obama administration has responded positively to President Xi’s call for building a new model of Sino-US relations because it resonates with the long-standing US effort to integrate China into the existing international system. During the very first year of the Obama administration, deputy secretary of state James Steinberg proposed a similar vision, known as “strategic reassurance,” i.e., while the US must make clear that it is prepared to welcome China’s arrival as a prosperous and successful power, China must reassure the rest of the world that its development and growing global role will not come at the expense of security and well-being of others. His rationale was that “History shows that actions by established powers to resist or contain rising powers often contradict their stated purpose of preventing conflict, and cause what they are trying to avert.” Therefore, “we have an especially compelling need to work with China.” While the concept of “strategic reassurance” was dropped quickly in Washington because it caused confusion about whether the US China policy was changing toward one-sided engagement, the Obama administration has continued to look for “a comprehensive vision of the two nation’s respective regional and global roles in the era of interdependence and growing Chines strength.”

As a direct response to President Xi’s call, Secretary Hillary Clinton urged Beijing and Washington “to find an answer, a new answer to the ancient question of what happens when an established power and a rising power meet.” Tom Donilon, Obama’s national security adviser, stated that the Obama administration joined Beijing in rejecting the premise “that a rising power and an established power are somehow destined for conflict” and would work with China “to build a new model of relations between an existing power and an emerging one. Xi Jinping and President Obama have both endorsed this goal.” Making her first major speech on US Asian policy in November 2013, Susan E. Rice, the successor to Donilon as Obama’s national security adviser, confirmed that the United States was seeking “a new model of major power relations. That means managing inevitable competition while forging deeper cooperation on issues where our interests converge.” Amid criticism that the...
administration was overvaluing the need to “reassure” China at the expense of American and allied interests, President Obama, speaking to the 2014 US-China Strategic and Economic Dialogue stated that “We are committed to the shared goal of developing over time a “new model” of relations with China defined by increased practical cooperation and constructive management of differences…. we remain determined to ensure that cooperation defines the overall relationship.” 7

Dominance in the Asia Pacific is not a Viable Option for China

While many Chinese suspect the US containment, many Americans are afraid of China rising to seek regional dominance and push the US out of Asia. The United States fought the Pacific War against Japan and the Cold War against the Soviet Union to prevent such an outcome. They therefore see the rise of Chinese power as threatening a fundamental American interest in the world’s most dynamic region. Indeed, Chinese scholars have debated if China should adopt its own “Monroe Doctrine” to establish a sphere of influence in the Asia-Pacific. De-Americanization (去美国化) has become a popular term in China and has begun impacting China’s foreign policy. The strategic choice for China is clear. It may either seek regional hegemony and drive the US out of Asia in a potentially violent power rivalry as some hawkish Chinese commentators advocate, or work with the US to maintain a balance of power in the region to prevent unwanted strategic rivalry and ensure that competition between them is peaceful. The first choice is appealing to Chinese popular nationalists but is extremely costly, if not unrealistic at least in foreseeable future because of the following considerations.

First, in spite of all the problems in the US economy and politics, the US is as resilient as China and remains the most powerful nation in the world. Although the US strategic rebalance may have lost steam in the second term of the Obama administration and the size of the Chinese economy may overtake that of the US, China is still far from being in a position to dislodge American power any time soon and may never replace the role of the US. As realists, Chinese leaders ultimately have to come to the power reality, i.e., while it has become difficult for the US to hold its primacy in the region, it is equally, if not more difficult for China to step into America’s shoes as the single dominant power.

Second, achieving dominance in the region cannot be a serious Chinese objective in the early 21st century because of the presence and influence of other regional powers. While China is rising, many surrounding states are also on the rise and may not be keen to accept a Chinese-dominated regional order. China’s rising power itself, therefore, has motivated some of its neighbors to pursue balancing activities, including realignment with the US and with each other. It doesn’t serve Chinese strategic interests to have tensions with many neighbors simultaneously. China has to win the support of its Asian neighbors in order to balance the American influence, or at least preempt the balancing motives of its neighbors. China’s long-term interests are to have a relation-

ship with its neighbors as well as the US based on trust, mutual respect, cooperation and the rule of international law.

Third, China benefited immensely from the international system created under US leadership after WWII, underpinning stability and economic growth in the region. As one Chinese commentator admitted, although China did not participate in setting the rules of international economic engagement built by the United States and its Western allies over many decades, “China became the largest beneficiary by taking maximum advantage of globalization… A large part of the world has prospered under such an arrangement (American global leadership)… These nations are essentially free riders, of which China is the biggest and most successful one.”

Although it is uncomfortable with the United States becoming more militarily and strategically engaged in its home region, Beijing has benefited from the security role that the US has played in the Asia-Pacific. Residing in a neighborhood with complicated power competition and historical animosities, Chinese leaders have to be measured and judicious. China often expresses concern over the US–Japan alliance to contain China. Yet the US–Japan alliance is part of the regional security architecture that has underpinned the stability in East Asia and prevented a potential remilitarization of Japan. Without the US nuclear umbrella, Japan might have developed nuclear weapons a long time ago, prompting South Korea and even Taiwan to develop their own nuclear weapons. “Imagine what the regional security picture would look like to China if Japan were strategically independent from the United States.” From this perspective, one Chinese scholar suggested that “Chinese policymakers and analysts should not believe their own jingoistic rhetoric about a US in decline. Even if it’s true, a weak America isn’t good news for China.” Although Beijing may not like some of the rules and norms made under the US leadership, Beijing’s interests will be served best by working with the US and its neighbors to construct a regional order based on norms and rules rather than challenging the rule-based regional order.
To ensure its further rise, China must put its own house in order first. Until China can resolve these internal problems, its future rise faces uncertainties.

Fourth, China faces immense internal constraints in its rise. Self-preservation, stability and continued economic growth are its primary concerns. As Kishore Mahbubani suggested, the internal challenge “is a far bigger issue for China’s leaders than sovereignty over some barren rocks in nearby seas.” 11 Although China was a relative rocks in nearby seas.” 11 Although China was a relative

self-righteousness and lack of empathy do not help to contain the China-US strategic rivalry. Leaders in both Washington and Beijing have to strive to maintain a balance of power. The key is to oppose the attempt of any single power at domination in the region. Both countries have to dem-

To ensure its further rise, China must put its own house in order first. Until China can resolve these internal problems, its future rise faces uncertainties.

As a result, President Xi has affirmed the continuing validity of the judgment that sees the first 20 years of the 21st century as a period of strategic opportunity in which a benign external environment would allow China to eventually achieve the “Great Revitalization of the Chinese Nation” and the “Chinese Dream” and called for a dialogue to build a new model of great power relations between China and the US. The new model is another façade on the old rhetoric of peaceful coexistence, i.e., China and the US could coexist peacefully if they can make their strategic aspirations compatible. In other words, Beijing promises not to challenge US global dominance and, in return, the US respects China’s core national interests. 13 Since the end of the Cold War, the three administrations of Chinese leadership from Jiang Zemin to Hu Jintao and now to Xi Jinping have all expressed the same intention of building a cooperative and constructive relationship with the US: the most important bilateral relationship and also the most frustrating foreign policy challenge for China as the two countries have a complicated mix of cooperative and competitive elements.

Conclusion: The Delicate Balance of Power and Strategic Restraint

The Asia-Pacific region has become a testing ground to see if China and the United States can build a new model of great-power relations. The stakes for both China and the US are high but these two countries have failed to agree on how to prevent their relationship from falling into the “Thucydides trap.” There are always those in each country who believe the other country has to make substantial changes. While some Americans have criticized China for its increasingly assertive and have urged China to avoid following the expansionist road of old imperialist powers, many Chinese believe building this new relationship depends overwhelmingly on the US changing the way it works with China and adapting to the new reality of China’s rise. No country is individually responsible for problems in its international affairs and strategic mistrust is unavoidable because the US-China relationship has always been characterized by various degrees of friction that no amount of sophisticated diplomacy can easily solve. Yet, self-righteousness and lack of empathy do not help to contain the China-
onstrate a strategic restraint and eventually adopt the strategy of Mutually Assured Restraint (MAR), which means allowing China to take the steps it holds are necessary for self-defense, without extending them to the point that they threaten other nations or the international commons. It means allowing the United States to take the steps it holds necessary for self-defense, while living up to its obligations to its allies in the region and maintaining the international order. The two powers have to develop a clearer understanding and a greater mutual acceptance, or at least acknowledgement, of each other’s legitimate interests and role in the region.

A significant convergence of strategic interests between the US and China has developed as “power is more equally distributed between them and each needs to cooperate with the other to address problems it deems critical to its own future.” 14 Although the G-2 concept of strategic bipolarity is a fantasy, it is an acknowledge-


ment of the central importance of Sino-US relations and the need for these two countries to manage their relations cooperatively. Leaders in Beijing and Washington have to continue engaging each other on points of mutual interest while working separately to secure their interests through bilateral consultation and multilateral institutions. The interests of both countries would be best served when and if they work together to seriously dedicate their power and wealth to create an enduring regional balance of power rather than to win diplomatic or military contests with each other. As former Secretary of State Clinton indicated, “China and the United States cannot solve all the problems of the world together. But without China and the United States, I doubt that any of our global problems can be resolved… There is no intrinsic contradiction between supporting a rising China and advancing America’s interests. A thriving China is good for America, and a thriving America is good for China.” 15
China’s Foreign Policy Adjustment Under Xi Jinping

Kevin G. Cai

Abstract

Beijing has been undergoing significant adjustment of its foreign policy since Xi Jinping took office. Beijing’s new foreign policy is designed not only to maintain a peaceful and cooperative environment in the Asia-Pacific region for its continuing economic development but also to defend and promote its core national interests. The Chinese leaders are facing major challenges in pursuing this new foreign policy objective.

Since Xi Jinping succeeded Hu Jintao as General Secretary of the Chinese Communist Party (CCP) at the 18th Party Congress in November 2012 and as the State President at the 12th National People’s Congress in March 2013, Beijing has made significant adjustment of the nation’s foreign policy in some most important policy areas. The adjustment of Chinese foreign policy under Xi Jinping reflects the changed thinking of the new Chinese leadership on how to more effectively pursue the nation’s objectives in China’s relations with the outside world under the changed conditions in both the domestic and external settings. Apparently, Beijing’s foreign policy adjustment is far from complete yet, and it will still be subject to further changes with changing domestic and international conditions.

This paper is intended to examine and explain the new orientation of Beijing’s foreign policy under Xi Jinping. The discussion is organized into three sections. Section 1 provides an overview of Beijing’s major foreign policy adjustments since Xi Jinping came into office. Section 2 attempts to explain the major factors and forces behind China’s foreign policy adjustment under Xi Jinping. The concluding section looks at the major challenges facing Beijing in its foreign policy and its external relations in the coming years.

Beijing’s New Foreign Policy Orientation under Xi Jinping

After assuming power and initiating economic reforms in the late 1970s, Deng Xiaoping dramatically moved away from the mindset and orientation of Mao’s foreign policy of the 1960s, which had been designed not only to support global revolutions against imperialism but also effectively isolate the nation itself from the Western world. The post-Mao Chinese leadership discarded Mao’s utopian ideas and communist ideology as sources of foreign policy and began to adopt pragmatic measures to pursue more practical objectives in foreign policy. Particularly, Deng Xiaoping initiated a foreign policy of keeping a low profile in foreign affairs, dubbed “tao guang yang hui” (韬光养晦), which was designed to help China acquire a much needed peaceful external environment so that the nation could concen-
trate on economic development and achieve the national objective of building a strong nation. From the 1980s through the late 2000s, tao guang yang hui served as a guiding principle of Chinese foreign policy. The major external policies of Beijing during this period, including China’s U.S. policy and policies toward neighbors and territorial disputes could well be explained by this low profile foreign policy. Consequently, the tao guang yang hui foreign policy helped the nation integrate with the regional and global economy and achieve rapid economic growth in a relatively secure and stable regional and global environment.

By the early 2010s, however, with changed domestic, regional and international conditions, Beijing began to find it growingly imperative to initiate foreign policy adjustment, a process that was started in the late years of Hu Jintao, but was fully unfolded after Xi Jinping took office as the new leader of the CCP and the state in late 2012 and early 2013. While Beijing’s foreign policy adjustment is still under way, some key elements of the new orientation of China’s foreign policy in general and East Asia policy in particular can clearly be discerned from its rhetoric as well as its actual policy measures and initiatives on a number of bilateral, regional and global issues.

A most explicit and significant change in Beijing’s foreign policy is the adjustment of Deng Xiaoping’s tao guang yang hui principle in some important foreign policy areas, particularly as related to the territorial disputes in the East and South China Seas. In contrast to its past practice of refraining from taking any tough and assertive response to such territorial disputes, Beijing under Xi Jinping’s leadership has started to show its determination to defend what it deems as its territorial integrity when its territorial interests are seen as being openly and directly encroached upon. So when Tokyo moved to nationalize Diaoyu/Senkaku Islands in September 2012, Beijing responded immediately tit for tat by sending Chinese maritime law enforcement ships into the waters of the islands for surveillance, a practice that thereafter became routine, which was later followed by air surveillance and, even more significantly, by the establishment of its Air Defense Identification Zone (ADIZ) in the East China Sea in November 2013. Beijing’s reactions, although directly triggered by Tokyo’s nationalization of the islands, clearly indicate that China would no longer follow tao guang yang hui on disputed Diaoyu/Senkaku Islands when what Beijing
sees as the bottom line of the issue is crossed. Beijing’s policy adjustment is also reflected in China’s more determined and unyielding rhetoric and moves toward the territorial disputes with the Philippines and Vietnam in the South China Sea. Following what Beijing sees as the escalating moves of the Philippines and Vietnam regarding territorial disputes in South China Sea, China started to take more resolute and assertive actions as reflected in its oil drilling in May-July 2014 and more recently in its expansion of the island construction in the waters under its control in disputed South China Sea. This new orientation of Beijing’s foreign policy is also clearly shown in Xi Jinping’s frequent talks and visits to PLA units after taking office, in which he has made it clear to the outside world that China would not compromise on the issues relating to China’s state sovereignty and territorial integrity and that the PLA would be well prepared for defense of these “core national interests” of the country.

While Deng Xiaoping’s tao guang yang hui foreign policy has largely been dropped in this respect, China’s relationship with the U.S. continues to be Beijing’s uppermost concern in its foreign policy in general and East Asia policy in particular, hence, remaining top on the nation’s foreign policy agenda under Xi Jinping. This is not only because the U.S. is China’s most important economic partner, but fundamentally because the U.S. remains the most significant hurdle that China faces in pursuing its major foreign policy objectives. It is no exaggeration to say that Beijing’s utmost consideration in formulating its foreign policy, East Asia policy in particular, is, in pursuing the nation’s foreign policy objectives, how to overcome the constraints imposed by the U.S. as the sole superpower in the world today. Otherwise, China’s foreign policy would be much less complicated. This said, however, with its growing economic and military power over the past decade, Beijing has been gradually improving its relative position in dealing with Washington, which paves the way for Beijing to begin to take more active initiatives in its relations with Washington following Xi’s taking office. It is within this context that Xi Jinping took an important move by officially presenting to U.S. President Obama the concept of “a new pattern of great-power relations” between China and the U.S. during their first summit meeting at Sunnylands in California in early June 2013. Since then, the idea of “a new pattern of great-power relations” has been repeatedly picked up by Chinese officials and state media. By proposing a new pattern of great-power relations, Beijing obviously hopes to avoid “an old pattern of great power relations” in which a rising power ends up with challenging the existing power, which leads to perpetual conflict and war. Beijing’s hope to construct a new pattern of great-power relations with Washington implies that the Chinese leadership by no means intends to challenge the U.S. superpower status at both the global level and the regional level in the Asia-Pacific. Instead, Beijing primarily hopes to define, regulate and stabilize its relations with Washington and have Washington respect its core interests in the Asia-Pacific region through such a new pattern of great-power relations. In pushing Washington for mutual respect of each other’s interests in the Asia-Pacific region, Beijing particularly emphasizes that the Asia-Pacific is big enough to hold both the U.S. and China.

China under Xi Jinping continues to promote strategic partnership relations with Russia primarily as a counterweight against Washington’s pivot and rebalancing policy toward the Asia-Pacific.

It is in this sense that Beijing’s foreign policy in other major areas continues to be designed to help overcome or minimize the constraints imposed by the U.S. Most importantly, China under Xi Jinping continues to promote strategic partnership relations with Russia primarily as a counterweight against Washington’s pivot and rebalancing policy toward the Asia-Pacific. Precisely because of this strategic consideration, Xi Jinping paid his first state visit to Russia rather than any other country after taking office. Besides, Xi Jinping also continues to pay attention to China’s relations with developing countries and in a period of half year after assuming the Chinese presidency in March 2013, he visited developing countries in all of the major regions. Most recently, in his address to the UN General Assembly on September 28, 2015, Xi Jinping declared that China would forgive the debts of the poorest countries and establish an assistance fund of initial $2 billion to help developing countries implement a sweeping global sustainable development program over the following 15 years. Obviously, political considerations are well behind Beijing’s diplomacy with developing countries. Particularly, Bei-
Beijing’s diplomacy toward Latin America and the Caribbean, as well as Southeast Asia is viewed as a direct response to Washington’s “pivot and rebalancing” to the Asia-Pacific.

What is even more significant is that using its growing economic power and expanding wealth following the nation’s rapid economic growth over the past three decades as a leverage, Beijing under Xi Jinping’s leadership is increasingly active and vigorous in proposing and participating in various regional and global initiatives of economic cooperation as a new, and likely quite effective approach to counter Washington’s Asia pivot and rebalancing policy. Through these innovative and vigorous initiatives, Beijing is offering a number of Asia-Pacific countries a huge amount of highly attractive economic benefits and opportunities. These initiatives are obviously designed to neutralize the policies of many of these countries toward the U.S.-Chinese rivalry, hence, minimizing the effects of Washington’s policy of pivot and rebalancing toward Asia, which in Beijing’s eyes is intended to contain China and Chinese influence in the Asia-Pacific region.

Among Beijing’s most important initiatives in this respect are the founding of the Asian Infrastructure Investment Bank (AIIB) and the launching of the “One Belt, One Road” policy. The AIIB, which was officially launched on October 24, 2014 with a Memorandum of Understanding (MOU) being signed by 21 original founding members, is designed to finance infrastructure projects of Asia-Pacific countries. As of June 29, 2015, 50 of the 57 Prospective Founding Members (PFMs) had signed the Bank’s Articles of Agreement. The AIIB is scheduled to be fully operational by the end of 2015. Seen as a China’s “World Bank” for the Asia-Pacific region, the AIIB has a registered capital of $100 billion, half of which comes from China while the other half comes from other member countries. In addition to the AIIB, Beijing has also launched a so-called “One Belt, One Road” initiative of establishing the Silk Road Economic Belt and the 21st Century Maritime Silk Road in support of the economic development of the countries in a vast region from Southeast Asia to Central Asia and beyond. As an important step of this initiative, which is dubbed “China’s Marshall Plan,” Beijing has set up the Silk Road Fund with a contribution of $40 billion. Besides, during the Beijing APEC summit in November 2014, Xi Jinping further put forward the “Asia-Pacific dream” concept and proposed the creation of a free trade area of the Asia-Pacific, a proposal that has received positive response from APEC member countries. At the global level, as a crucial member of the BRICK, China has played a very important role...
in the establishment of a BRICS-initiated New Development Bank (formerly called BRICS Development Bank), which will be headquartered in Shanghai, and Contingent Reserve Arrangement. Obviously, all these initiatives, while helping promote Chinese influence in the region and beyond, are clearly intended to weaken the dominance of the U.S. in the regional and global economy and the U.S. dominated International Monetary Fund, World Bank and Asian Development Bank, which, more significantly for Beijing, would in turn help minimize the effects of Washington’s Asia pivot and rebalancing policy on China. It is interesting to note that this new foreign policy strategy of Beijing seems to work quite effectively for China. A most illustrative example is the creation of the AIIB. Although Washington was strongly opposed to Beijing’s initiative of the AIIB (obviously for fear that the AIIB would challenge and weaken the U.S. influence and dominance in international monetary affairs), most U.S. allies in Western Europe and the Asia-Pacific (including Britain, France, Germany, Italy, Australia, South Korea, etc.) have finally ignored Washington’s opposition and decided to join China-initiated AIIB, leaving only the U.S. and Japan as the two lonely powers outside this new institution.

In a further analysis, China’s signing of a free trade agreement with South Korea on June 1, 2015 and successful completion of negotiation of a free trade agreement with Australia in November 2014, two important allies of the U.S. in the Asia-Pacific, can also be seen as Beijing’s efforts to weaken the effectiveness of Washington’s policy of pivot and rebalancing toward Asia. It is in this sense that the economic carrots are now more and more frequently and skillfully used by Beijing as one of the major diplomatic weapons to overcome the constraints imposed by Washington, and the rapidly increasing economic power and wealth of the nation make it possible for Beijing to adopt this diplomatic weapon more effectively.

While Beijing’s foreign policy adjustment and new foreign policy initiatives under Xi Jinping are quite visible and significant, there is also clear continuity in Beijing’s foreign policy in some important areas. Such continuity of China’s foreign policy is most importantly reflected in Beijing’s continuing reiteration of and emphasis on the principle of state sovereignty not only to defend
China’s territorial integrity and national unity but more importantly to safeguard its political system, which is literally placed by the Chinese communist leadership at the top on the list of the country’s core national interests. Besides, it is also important to note that despite its more assertive reactions to the territorial disputes in the East and South China Seas, Beijing under Xi Jinping’s leadership continues to emphasize peaceful development (in place of “peaceful rise”), reiterate cooperation and joint prosperity with neighboring states, and avoid taking a leading role in international affairs and interfering in domestic affairs of other countries.  

As for the North Korea issue, there has also been adjustment in Beijing’s North Korea policy. While China remains North Korea’s major ally, Beijing under Xi Jinping is obviously becoming increasingly critical of Pyongyang’s policies on a number of issues, particularly on the North Korean nuclear issue. An important sign of Beijing’s increasing concern about North Korea’s nuclear ambitions, for example, is that on September 24, 2013, China took an unprecedented move by publishing a long list of equipment and chemical substances to be banned from export to North Korea for fear that these goods could be used in its increasingly sophisticated nuclear weapons programs. This export control represents the strongest move that Beijing has ever taken toward North Korea. While Beijing’s tougher policy toward the North Korean nuclear issue primarily derives from its concern over its own national security, it also implies that Beijing is making efforts to cultivate a more cooperative relationship with Washington on those matters that concern both countries.

Obviously, after Xi Jinping took office, Beijing critically and carefully revisited and reevaluated its foreign policy of the previous three decades and on the basis of such an evaluation, a new foreign policy strategy has been deliberately formulated, which is designed not only to promote the nation’s economic development and cooperative relations with the outside world but also to more actively and resolutely defend China’s core national interests when such interests are seen as openly and directly infringed upon by other states. As a crucial part of this new foreign policy strategy, Beijing’s U.S. policy has accordingly been reformulated in an attempt
to have Chinese-U.S. relations to be defined, stabilized and institutionalized and to have China’s core national interests to be respected by Washington, while at the same time, cultivating a more cooperative relationship with the U.S. on the one hand, and introducing and implementing a number of regional and global initiatives in an attempt to overcome the constraints imposed by the U.S. on China on the other. As such, Xi Jinping’s foreign policy has moved away from the previous one that was solely driven by economic development to a more balanced one that promotes not only economic development but also the defense of national security interests and political interests in the nation’s external relations.

Explaining Beijing’s Foreign Policy Adjustment

Generally speaking, Beijing’s foreign policy adjustment since Xi Jinping came to office is the result of the changed conditions in both the domestic and international settings. Domestically speaking, Deng Xiaoping’s tao guang yang hui foreign policy was proposed and pursued at a time when China was in the early stage of modernization and when the nation was still quite weak economically and vulnerable militarily. Under such circumstances, it made every sense for Beijing to maintain a low profile in international affairs. However, by the early 2010s, the nation has obtained much increased power and influence following its rapid economic growth and military modernization, which gives Beijing more confidence in dealing with other powers over various bilateral, regional and global issues. In terms of the international setting, the external environment in the East Asian region was generally favorable for China to concentrate on economic development with minimal explicit external challenges to its foreign policies over sensitive issues like territorial sovereignty in the East and South China Seas in the 1980s through the early 2000s, largely because a rising China was not quite seen as a real or imminent threat yet by others in the region. By the early 2010s, however, the rise of Chinese power, particularly its military power, became all the more evident and real, which inevitably made its neighbors growingly nervous and alarmed. It was within this context that there have been growing “deliberate” moves by some East Asian states on highly sensitive issues of territorial disputes probably for fear that if their territorial claims could not be secured right now, they would be even more difficult to defend if China’s dominant position were solidly established in the region in the near future. For Beijing, however, these moves of some of the neighboring states are clearly seen as “crossing the bottom lines” and directly challenging its previous policy of keeping these issues shelved for joint development in the disputed areas.

It was within such circumstances that the tao guang yang hui low-profile policy was increasingly seen by Beijing as posing a dilemma in handling the issues of territorial disputes with some of its neighbors. In Beijing’s view, while China was trying to avoid conflict with neighboring states and refraining from taking assertive actions at the time when its territorial interests were infringed upon, some of its neighboring states had stepped up their moves to take advantage of Beijing’s tao guang yang hui and encroach upon China’s interests. Consequently, Xi Jinping, once in office, has had to move toward a more assertive approach to defend what China sees as its core national interests, while rising Chinese power and influence helps bring Beijing increasing self-confidence in dealing with these external challenges.

In a further analysis, Beijing’s East Asia policy adjustment should be unavoidable also because in Beijing’s eyes, the nation has long been strategically confined to its immediate coastal areas due to its military weakness. Therefore, it could hardly be logical and realistic to expect that China, with its rising military power, would continue to tolerate such a strategic constraint that has long been imposed on it by external powers. As such, it is only a matter of time that China would try to improve its own
national security by pushing the strategic pressure imposed by the U.S. and its allies away from its immediate coastal waters. The territorial dispute over Diaoyu/Senkaku Islands with Japan has simply provided a perfect opportunity for China to explicitly claim its concern for its national security. It is in this sense that the territorial dispute over Diaoyu/Senkaku Islands with Japan is pursued by Beijing not only as an issue of sovereignty over these disputed islands but also as an issue of improving its national security in the immediate waters of China’s coast. Beijing’s establishment of the ADIZ in the East China Sea can precisely be seen as an important move in this respect to help improve China’s security in the adjacent waters within the first island chain in the East China Sea with its significance inevitably going well beyond the sovereignty claims over the disputed islands. This is also true of Beijing’s moves in the South China Sea. The intercept of an U.S. anti-submarine aircraft by a Chinese fighter jet off the coast of China in the South China Sea on August 19, 2014 is a recent indication of Beijing’s determination to strengthen its security in the adjacent waters. More significantly, Beijing’s determination to strengthen its security and to defend its national interests is further explained by its recent expansion of the island construction in the waters under its control in the disputed South China Sea, a huge project that would substantially improve and strengthen China’s security in the South China Sea once completed, an area that is growingly important for China’s security and economic interests.

In a more broad sense, Beijing’s new foreign policy orientation can also be well explained by the concept of “China dream” that Xi Jinping put forward after he took office. The China dream concept primarily refers to a vision of collective prosperity for the Chinese people and great rejuvenation of the Chinese nation, involving both the domestic and external dimensions. While domestically the most important element of the China dream is to maintain the unchallenged leadership position of the CCP in the country while continuing to pursue further reforms and creating a more prosperous nation for the Chinese people, externally the China dream clearly implies a vision of making China a global power in the process of peaceful development and global cooperation.

On the other hand, however, it is also important to note that while China’s foreign policy is quite pragmatic today, it is still substantially influenced by its deep-rooted victim mentality of being mistreated, derived from its experience of humiliation brought by Western and Japanese imperialism from the Opium War and the Japanese invasion and expansion in the 19th century through World War II. Many of Beijing’s foreign policies can well be explained by both pragmatism and the continuing victim mindset of the post-Mao Chinese leadership. The victim mindset is also clearly behind the China dream concept, which is obviously designed to move the nation out of the century-long experience of humiliation and regain the great power status for China. This victim psychology is today further strengthened especially by Japan’s unrepentant attitude toward its imperialist history and legacy. This mindset is also reflected in China’s suspicion that other states, Japan in particular in the region, oppose its rise. This mindset may well explain why China is now less conciliatory on the territorial disputes with Japan over Diaoyu/Senkaku Islands, which touches the very nerve of China’s bitter feeling of Japanese imperialism from the late 19th century to World War II, and also with the Philippines and Vietnam over the islands in the South China Sea. This is

Beijing’s new foreign policy orientation can also be well explained by the concept of “China dream” that Xi Jinping put forward after he took office.

because China’s loss of territories to Western colonial powers and Japan in the 19th century and first half of the 20th century was the result of the nation’s weakness. As China is now gaining strength, it could no longer accept what had been imposed on it in the past and it had to defend what it sees as historically belonging to China, although many observers of other countries do not see things this way, rather they see it more as growing assertiveness of China’s policy toward its neighbors. Obviously, if such victim mentality continues, it would be difficult for Beijing to develop a viable East Asia policy as a great power in the region, despite its persistent emphasis on the nation’s peaceful rise.

In this respect, it might be interesting and helpful to compare Beijing and Washington in their respective attitudes toward Japan’s revisionist view of history in general and the Yasukuni Shrine in particular. While the anger and sensitivity of Beijing (Seoul as well in this respect) over Japanese leaders’ visit to the Yasukuni Shrine and frequent revisionist comments on Japanese imperialist history can well be explained by its (their) victim mentality and bitter memory of Japanese atrocity during the Japanese imperialist era, Washington’s relatively “indifferent” attitude toward the Yasukuni Shrine and even Tokyo’s deliberately portraying of itself as the “victim” of the atomic bombings at the end of World War II can largely be attributed to the fact that the U.S., as the conqueror of Japan as a result of World War II, maintains a strong sense of superiority over Japan rather than being troubled by a victim mindset. This sense of superiority therefore allows Washington to take it relatively easy with Tokyo’s revisionist efforts and attitude toward the war, an indifferent attitude that could hardly be shared by the Chinese (and other peoples as well in the region). Moreover, this “indifferent” attitude of Washington toward Japan’s attempt at historical revision is further strengthened by the very reality of Japan as a most important ally of the U.S. in the Asia-Pacific. Finally, it is also important to note that the personality and leadership style of Xi Jinping is another important factor behind Beijing’s foreign policy adjustment since he took office, although the Chinese leadership of today is generally collective in nature as compared with

---

1 Although Washington for the first time ever openly expressed being ‘disappointed’ after Japanese Prime Minister Shinzo Abe visited the Yasukuni Shrine on December 26, 2013, this “disappointment” is obviously far from the “anger” as expressed by Beijing (and Seoul as well) in terms of feelings.
Mao’s era and, to a less extent, to Deng’s era. Particularly, Xi Jinping seems to be more self-confident in conducting great-power diplomacy and to possess courage and determination in pursuing China’s national interests, the personal qualities that were obviously missing in Xi Jinping’s predecessors other than Mao Zedong. Moreover, in forging a new relationship with the U.S., Xi Jinping is also quite pragmatic and practical, paying more attention to the substance of Chinese-U.S. relations rather than diplomatic protocol and symbolic formalities, as reflected in Xi Jinping’s meetings with Obama in an informal setting at Sunnylands in California in June 2013.

3. Prospect

Since Xi Jinping came to power, Beijing’s foreign policy has been substantially adjusted. However, the process of Beijing’s foreign policy adjustment is far from complete yet, as the Chinese leaders are still searching for a more effective way to achieve its dual major foreign policy objective, that is, maintaining a peaceful and cooperative environment while at the same time defending and promoting China’s core national interests, important among which are national unity, territorial integrity and sovereignty, and security in the nation’s adjacent waters and areas.

As such, it can well be expected that Beijing will continue to try to cultivate a cooperative relationship with Washington and maintain a peaceful and cooperative environment in the Asia-Pacific region, as creating a prosperous and powerful nation through continuing economic development is still China’s primary national objective, which is far from being accomplished yet and which no Chinese leaders could ever afford distracting from. So Beijing will continue to emphasize peaceful and cooperative development as the main theme of its foreign policy and practice utmost caution in dealing with such tough and volatile issues as territorial disputes with Japan, the Philippines and Vietnam, preventing these disputes from evolving into a crisis whenever possible. Beijing’s conclusion with Tokyo of a four-point agreement in principle on bilateral relations between the two countries on the eve of the Beijing APEC summit in November 2014 is an example of Beijing’s efforts to try to keep the strained relations with some of its neighboring states under control. This four-point agreement consequently paved the way for a summit meeting between Chinese President Xi Jinping and Japanese Prime Minister Shinzo Abe on November 10, 2014 during the APEC summit in Beijing, the first ever summit meeting between the two countries in two years. On April 22, 2015, Xi Jinping met Abe again in Indonesia during a gathering of Asian and African nations to celebrate the 60th anniversary of the Bandung Conference. Beijing is also trying to keep its strained relations with Hanoi under control through various appeals and efforts. This is most recently reflected in Xi Jinping’s state visit to Hanoi on November 4-5, 2015. In doing so, Beijing particularly refers to the common interests that China and Vietnam share in maintaining the same communist ideology and political system.

But on the other hand, however, while trying to maintain a peaceful and cooperative environment in the region, Beijing is now also more determined than before to defend what it views as its core national interests. This newly emphasized element of China’s foreign policy is clearly reflected in Beijing’s both rhetoric and moves in defend-
ing its territorial and security interests in the East and South China Seas. Most recently, it is also evidenced in Beijing’s release of its 2015 national defense whitepaper, “China’s Military Strategy” on May 26, 2015. This document explicitly claims that by adopting a new “active defense” strategy, China is now prepared to protect its fundamental interests in its immediate waters of the ocean, shifting from primarily protecting the nation’s land in the past. 9

Beijing’s new foreign policy orientation is dubbed by some Chinese analysts as a policy of “tao guang yang hui, you suo zuo wei” (韬光养晦，有所作为), that is, “keep a low profile, but do something when need be.” Obviously, this is a much more complex and sophisticated policy, albeit a more balanced one from the Chinese perspective. As a matter of fact, it would be a quite uneasy, if not totally impossible, job to have the two parts of this foreign policy manipulated and pursued in an effective and balanced way, as these two elements, seen by Chinese leaders as equally important, are not always mutually reinforcing. More often than not, pursuing one would very likely undermine the other of this dual foreign policy objective. In this respect, Beijing’s growingly high-profile policy with respect to disputed territories in the East and South China Seas has already brought two major challenges, which, if not handled properly, would unavoidably undermine Beijing’s policy objective of maintaining a peaceful and cooperative environment in the region for its continuing economic development.

The first major challenge comes from within the region. A high-profile change in dealing with territorial disputes in the East and South China Sea has been bringing backfire in the region, causing rising tensions between China and some of the neighboring states that are involved in these territorial disputes, Japan, the Philippines and Vietnam in particular, thus weakening Beijing’s efforts to maintain a peaceful environment in the region. Moreover, in order to counter and challenge Beijing’s more determined and assertive policy on the territorial disputes, these countries, which are apparently unable to compete with a rising China individually, are increasingly allying with each other against China, and more importantly, allying with the U.S. explicitly or implicitly and bringing the U.S. into the disputes, thus making the issue even more complicated and difficult to handle for Beijing.

A second major challenge, which seems to be an even more significant one, is from the U.S., a dominant pow-
Aspects of China’s Foreign and Security Policy

Angela Stanzel
Xi’s assertive China

Since 2013, China has had a new leadership, headed by president Xi Jinping. He is already perceived as accumulating more power than any Chinese leader since Mao Zedong, and he likes to speak about dreams.1 When Xi came to power, he started speaking of the “China Dream” to “resurrect” Chinese power, and the “great rejuvenation of the Chinese nation”.2 Has he already changed China over the past few years? Xi seems to have accelerated a foreign policy of competing strategically with other players in the region, pushing to become a normative power like the United States, mainly concerning India-China relations, the East China Sea, and the Islands disputes. Asia’s response is a political alignment of smaller countries in Asia to the US or China. There have been critical tensions between China and some of its neighbors, and a potential crisis is what the world is confronted with today in East and Southeast Asia.

In the US - and in other Western countries - concern about the growth of China’s armed forces and its regional military presence has been increasingly expressed. In March 2014, the Chinese government announced that its military budget would increase by 12.2 percent over the previous year – in total roughly $130 billion. Although China’s military spending is lower than that of the US, Russia, the UK, or France, it is higher than that of many other countries.3 The Chinese “People’s Liberation Army” has more than two million troops - to date the largest army worldwide (in quantity, but in terms of technological quality still far behind the US army). Xi pursues the modernization of China’s maritime capabilities in particular. In 2012, China commissioned its first aircraft carrier, the “Liaoning,” which then went on to month-long exercises in the South China Sea (off the coast of Hainan) at the end of 2014. In February 2014, three Chinese warships on a military exercise that included combat simulations sailed through the Sunda Strait into the Indian Ocean, facing Australia before heading towards China again.4

In the South China Sea we find dozens of intersecting island and maritime claims, in which China’s so called nine-dash line – claiming roughly eighty percent of the South China Sea - takes a major part. Tensions rose between China and neighbouring states such as Vietnam and the Philippines. In 2013, the Philippines government called on the Permanent Court of Arbitration at The Hague to investigate China’s territorial claims in the South China Sea. At the end of 2014, China outlined its objections to a United Nations tribunal on its territorial dispute with the Philippines.

Despite concerns over China’s military rise and the increasing volatility of China’s disputes with Japan and South East Asian states over territorial questions, it appears that China does not want a war. Although China might be provoking, it has managed to soothe when necessary – such as last year in the case of Vietnam. A Chinese oilrig placed in waters and near the Paracel Islands claimed by Vietnam led to a crisis in May 2014, when Chinese and Vietnamese ships confronted each other, followed by (partly violent) anti-China riots in, and the evacuation of Chinese workers from, Vietnam. However, two months later, China withdrew its oilrig, and has since sent some friendlier signals to Hanoi.

China shares a border with India that is disputed too, and border incidents (military confrontations) have increased in the past few years.5 In April 2013, an incursion by Chinese troops into territory claimed by India led to a military standoff between Chinese and Indian troops, which lasted three weeks. Even during Xi’s September visit to India in September 2014, Chinese troops entered a disputed area, which prompted Modi to raise concern in his talks with Xi over the risen tension at the border. However, both countries also cooperate with each other regionally or globally; economically or po-

---


---
politically, even in terms of security (such as combating terrorism) - and this year in May, Prime Minister Narendra Modi is scheduled to visit China.

But the signals China is sending are at best ambiguous and whatever motivates China, there seems to be a looming possibility in Asia that a conflict could escalate, by accident or coincidence, even if no one wants a war. The China-Japan conflict seems closest to such a scenario. Tensions between China and Japan have increased dramatically – as Chinese vice Foreign Minister Fu Ying assessed about a year ago, China's relations with Japan were "probably at their worst". China, Japan and also Taiwan, have territory claims over the Senkaku (in Chinese Diaoyu) islands in the East China Sea. Those islands are uninhabited and to a bird they appear to be just a few rocks, but to China and Japan in particular they represent a matter of security – a line of defense. Each side is accusing the other to pursue a provocative foreign and security policy.

Inside China

China’s foreign and security policy is possibly motivated by both a more confident foreign and security policy - testing limits – and by domestic reasons, with the aim of creating greater confidence. China faces immense domestic challenges, such as to fight corruption at all levels, to combat the environmental crisis, and to improve social standards and rights. Although China’s economic growth accelerated year by year almost steadily for the past three decades since Deng Xiaoping opened the Chinese market (at the end of the 1970s), China’s growth slowed down to an estimated 7.4 percent in 2014, according to the World Bank. It foresees a further drop to 6.9 percent by 2017. In order to tackle those challenges, the Chinese government has announced plans to implement reforms, as pledged during the Third Plenum of the 18th Central Committee in November 2013.

The Xi government seems extremely concerned that the economic, political or social situation will get out of control and that domestic resistance against the leadership might get out of hand. Those concerns are illustrated by the toughening of control and censorship of the Internet as well as media; or by increased detentions of political activists and journalists – to name just a few. Those concerns are also evident in Xi’s “dream,” and his patriotic rhetoric, such as speaking of “national greatness”. Foreign and security policy is a way to show such “national greatness,” and confidence, if not (the Party’s) power. In addition, trouble abroad might distract from trouble inside China, and a common adversary creates cohesion, if not nationalism. Foreign businesses and companies in China have often suffered from frictions between China and their respective home countries, such as between China and France during the protests against the 2008 Summer Olympics torch relay, which led to a boycott of French products in China. Frictions between China and Japan have often led to mass demonstrations at the Japanese embassy in Beijing. The Chinese government under Xi needs to balance domestic public opinion, emotions, and policies with China’s foreign and security policy aims.

Finally, Beijing needs to consider China’s overseas interests in its foreign and security policy, such as Chinese investments, workers, students, and tourists abroad; China’s trade relations, and economic interdependencies. The stronger China becomes, the more it has interests to protect domestically as well as globally. Oil, energy, and maritime interests are on China’s agenda under Xi, while other players require that China also take responsibility for its actions and its role as a rising global player. China’s image abroad is that “the country wants to have as little involvement abroad as it

---


can get away with, except for engagements that enhance its image as a great power. However, in view of global challenges and requirements, China seems to be re-defining its role abroad in minor steps only.

China’s responsibilities

China’s foreign, security, and economic policy in the context of its global responsibilities can be viewed from at least two different perspectives: What other (global and regional) players require from China, and what China itself views as its international role and responsibility.

As China rose, the US in particular has voiced expectations to the Chinese leadership several times, either with a wagging finger or talking as equals. When the US vice Foreign Minister Robert Zoellick called on China in 2005 to be a “responsible stakeholder” in the international system, he meant China should handle its – in this regard mainly economic – power and influence responsibly in accordance with international rules and norms. Shortly after taking office, Obama said that China should play a greater role in the world. This allowed the United States to treat China on the level of a leading global power, but at the same time required from Beijing an acceptance of corresponding global responsibility.

The US – and other Western countries – have engaged China in talks on global challenges, such as financial and economic issues, climate change, international terrorism – all of which are Chinese concerns too. Beijing traditionally maintains economic and trade relations with some so-called ‘rogue countries’, such as Iran or North Korea, and thereby ignores the substance of the international sanctions it formally adheres to. On the other hand, China has stakes in some crisis shaken countries, such as Libya, Afghanistan, South Sudan, even Ukraine. In principle, Beijing agrees with the US and the rest of the West that more can be achieved globally through joint efforts, but it differs on responsibility sharing and crisis management. In addition, Beijing believes in the principle of non-interference in domestic issues of other states.

China is one of the UN Security Council members, who can veto any Security Council resolution, and when
China is one of the UN Security Council members, who can veto any Security Council resolution, and when China has made use of its veto, it has usually sided with Russia rather than the US.

China has made use of its veto, it has usually sided with Russia rather than the US. For example, China and Russia vetoed several past draft UN resolutions on Syria, for instance one in May 2014, which was about referring the crisis in Syria to the international criminal court. UN Security Council draft resolutions against the regimes in Zimbabwe (2008) and Myanmar (2007) also failed because of the China and Russia veto. A couple of weeks before, China had abstained from the vote on a draft UN resolution which urged countries not to recognize the results of the Crimea referendum. Though not siding with Russia in this case, which vetoed the resolution, China did not side with Western countries either, referring to its principle of non-interference.

It seems that while Beijing condemns global conflicts, it has at the same time understanding for some conflict parties, such as in the case of Russia. China’s understanding for Putin’s policy is coupled with doubts in the US and European approach to Russia, as well as their approach to tackle crisis regions. But there is a contradiction: While Chinese politicians criticize “the West” – in particular the US - for its interventionist approach, and find it difficult to see China supporting international interventions, Beijing does seem to welcome the US – and in fact any other country’s - intervention in crisis regions, in particular in countries of interest for China, which is why the US have often accused China of practising a “free-riding” foreign and security policy. Supposedly China might also prefer a US presence in regions such as the Middle East than one in Asia.

China does sometimes share responsibilities, but apparently only if its own interests are directly at risk. Chinese companies and their workers have settled in regions such as South Asia, the Middle East, and Sub-Saharan Africa where crises are endangering not only those lives and investments, but also important trading routes. A debate within China is taking place on its (new) interests that need to be protected abroad and on how to tackle this challenge. Although in some cases Beijing has deviated from its non-interventionist approach, it only joins UN missions - preferably non-military - and within limits. In large parts the limits depend on China’s own interests, whether it is far away (as in South Sudan), or touching China’s own border (as in Afghanistan).

Over half of China’s oil imports come from the Middle East and a further escalation of conflicts could disrupt trade within the region as a whole. The US and other Western countries are thus not wrong to say that China has plenty of reasons to engage in peacekeeping missions and crisis management. China has been involved in political intervention in Africa and has increased engagement, for example in Somalia, Liberia, Sudan, Mali and Syria. China was part of the UN blue helmet mission in Liberia in 2003, and joined in the international naval operation to fight piracy off the coast of Somalia in 2008. The 2011 civil war in Libya triggered a change of perception in Beijing, since China was forced to launch a costly emergency evacuation of 36,000 citizens and abandon billions of dollars’ worth of investment. It was the first time that China was hit, severely and directly, in a crisis region.

Ever since, it seems that China has played a more constructive role in crisis regions, within the framework of the UN. In June 2013, Beijing announced that it would contribute to the UN peacekeeping mission in Mali, and sent roughly 400 soldiers, engineers and medical staff. In South Sudan, China is the largest investor in oil fields, China is taking immense risks in trying to gain access to resources, to build energy and trading routes, and to exploit new markets. How far China might be willing to go to pursue and protect its interests has yet to be seen.
and Beijing announced that it would send a peacekeeping force of 700 soldiers under the command of the UN to protect local oil fields and Chinese workers, in September 2014. This is roughly the same number of soldiers China has sent to Liberia, the largest contribution of China to a UN mission to date.

China needs to invest, to get access to resources, and to build trading routes in a stable environment, and this is true not only in Africa or the Middle East, but in its immediate neighborhood. In addition, China’s own security could be affected by a conflict or crisis in the region – a nuclear meltdown in North Korea or Pakistan, or Islamist terrorist movements spilling into China - to name some of Beijing’s worst nightmares. On Afghanistan, the US under the Obama administration has tried to engage China but without much success – until China announced a turnaround policy in 2012, offering training to 300 Afghan policemen. The US-China cooperation in training Afghans was the first time China has ever cooperated with a third-party in another country.

In October 2014, China offered Afghanistan roughly $300 million between now and 2017 for its reconstruction, and for training of 3,000 Afghan professionals. Facing the imminent withdrawal of coalition forces from Afghanistan, China appears to be more willing to protect its own stakes: In 2007, China invested more than $3 billion in Afghanistan to develop the largest copper mine in the world, Aynak, and in 2011, China won approval to carry out oil exploration and extraction. In addition, Afghanistan is supposed to be a part of China’s New Silk Route project, which includes a road and maritime corridor from China to Europe. It seems that China thinks its interests here are worth protecting.

China is taking immense risks in trying to gain access to resources, to build energy and trading routes, and to exploit new markets. How far China might be willing to go to pursue and protect its interests has yet to be seen. The positive side of this is that China could be willing to take over more responsibility, meaning to engage more in crisis regions. But there is a negative side too. The more
In sum, there are different aspects of the foreign and security policies of Xi’s China: China now also wants to make new rules, not follow those that already exist. For Europeans, these aspects are currently converging to bring home the urgent necessity to take developments in Asia seriously, and to act as a proactive player. The possibility of war, putting the Asian order at stake, highlights the growing risks for Europe, and the urgency for Europeans to deal with the present escalation of tensions. Europe’s interest in – even responsibility for - the stability of the region make it imperative to improve relations with every Asian country – not just major trading partners such as China – and to make strenuous efforts to defuse volatile situations.

China views itself as a global power on a par with the US, the more it will feel confident enough to push through its own agenda, as illustrated only recently: Since the new Chinese leadership under Xi Jinping came into power, China has indeed turned to a much more assertive foreign and security policy, and that means, it shies away less from confrontations than in the past – with all the risks that such a strategy involves.

In China, there are different aspects of the foreign and security policies of Xi’s China: China now also wants to make new rules, not follow those that already exist. For Europeans, these aspects are currently converging to bring home the urgent necessity to take developments in Asia seriously, and to act as a proactive player. The possibility of war, putting the Asian order at stake, highlights the growing risks for Europe, and the urgency for Europeans to deal with the present escalation of tensions. Europe’s interest in – even responsibility for - the stability of the region make it imperative to improve relations with every Asian country – not just major trading partners such as China – and to make strenuous efforts to defuse volatile situations.

China is also increasingly required to act responsibly in its role as a military, political and economic power, and the Chinese leadership has realized that its trade and economic development depend on stability in the region and beyond. Nevertheless, China still sides with Russia in the UN Security Council and rarely sends troops abroad to join international missions, because there are doubts in China that the Western way is best for China. It does not seem as if China knows yet what its own “best” way is, and how much responsibility it wants to take on – all Xi’s dreams notwithstanding.  This is where there is some room for Europe to engage China more in crisis situations, not least because Europe does not consider China as a strategic threat, and vice versa. This advantage offers an opportunity for China-European ties that should be taken up.
China’s Urbanization Drive in Global Perspectives

Fu Jun
Cities, the dense agglomerations that dot the globe, have been a hotbed of human innovations and a window of modern civilization. Historically, the streets of Florence and Venice gave rise to the Renaissance, and the streets of Birmingham and Manchester gave rise to the Industrial Revolution. Not surprisingly, there exists a strong statistical correlation between prosperity and urbanization. Productivity gains when labor moves from under-employment in the low-productivity agricultural sector to full employment in the higher-productivity industrial sector. Research suggests that cities are also the engines of growth because of economies of scale and that, perhaps more fundamentally, enhanced human capital in the form of knowledge accumulation in urban density not only leads to improved worker skills but also to more creative ideas. Not surprisingly either, in China today as in many other industrializing countries, cities are expanding enormously because they provide the clearest path from poverty to prosperity for many poor peasants.

By many indicators, the 20th century was a century of rapid urbanization, defined as the ratio of those living in cities relative to the total population. In 1800 that ratio was only 3% globally. In 1900 the world population was about one billion and urbanization was 13%. In the hundred years since then, the world population grew by 4 times, and urban population expanded by 13 times. 2007 witnessed a watershed moment -- for the first time in history, more than half the world’s population became urban. Historically, for urbanization to reach 40% from 20%, it took Britain 120 years, France 100 years, Germany 80 years, the US 40 years, and Japan 30 years. Newly industrialized countries typically experienced urban population growth rates of 5-6% a year during the 15-20 year period of their most rapid industrialization, where urbanization increased rapidly from 20-25% to 70-75% in 3-4 decades. In the 21st century rapid urbanization will likely continue across much of the globe, and China, together with other emerging economies, will be a big part of the process – a process of catching-up, as it were. In 1978 when China launched its reform and opening-up programs, its urbanization was 18%. Globally urbanization was already 46%. The Department of Economic and Social Affairs of the United Nations has projected that by 2050 the world population will reach 9.3 billion, and 67% of them will live in cities.

Viewed from a global perspective, of late, China’s rapid urbanization is largely a case of norm rather than exception. In line with global trends, although lagging behind initially but catching up lately, China’s urbanization between 1978 and 2013, according to official Chinese figures, increased from 18% to 53%, with a yearly growth of 1.01 percentage point. Although the rate is not extraordinary in light of the experience of the newly industrialized countries, the scale indeed is mind-boggling. In the past 3 decades, urban residents in China soared by more than 400 million (including rural migrants and natural growth of the urban population). That is more than the entire population of the United States. Now over 700 million Chinese – i.e., roughly the total population of Europe – live in cities. Note also that urbanization in China varies by region, with the wealthier eastern region having a higher level, followed by the central and
western regions. Independent municipalities such as Beijing, Shanghai, and Tianjin are highly urbanized, all having achieved a ratio of over 75%.

Rapid urbanization reflects rapid industrialization. Manufacturing jobs in China increased dramatically from 70 million in 1978 to 225 million in 2011, averaging a yearly growth rate of 3.6%; and that of the service sector from 49 million to 273 million, averaging a yearly growth rate of 5.3%. Consequently, China became the world’s manufacturing centre, producing 85% of all TVs, 70% of all air-cons, 50% of all refrigerators, and 40% of all washing machines in the world. Such a rapid industrial transformation has sustained high growth rates of the Chinese economy over the past three decades, and lifted 500 million people out of poverty. Per capita income in China in 1978 was a mere US$ 155, but has since increased to US$ 7,000. History shows that no nation has been able to become a high-income country (i.e., when per capita income reaches US$ 12,000) without successful urbanization (e.g., average urbanization of advanced economies is 76%), and China seems to be well on its way.

Experts at the Chinese Academy of Social Sciences have projected that by 2030 the Chinese population will reach 1.5 billion, and 68% of them, or one billion -- the equivalent of the current combined population of all advanced economies -- will live in cities. Toward that end, a strategy of building so-called “smart cities”, or better integration of digital technologies and pervasive networks with physical space, is clearly in the making. Being efficient, sustainable and livable ecosystems, smart cities are widely envisioned to have the capacity to respond better to the needs of their residents and their environment, including an entrepreneurial ecosystem to promote innovation and sustain economic growth.

According to the National New-type Urbanization Plan (2014-2020) issued by the State Council in 2014, China will aim “to optimize macro-level city layouts by enhancing the leading role of major cities, increasing the
There is an inadequate human dimension of China’s urbanization drive thus far, which in turn may have negative implications for sustained economic growth.

Hukou System

The hukou system was introduced in the late 1950s, originally for population registration, and later also for migration controls. Based on this system, the Chinese population was basically divided into two groups: agricultural (nongye) hukou population and non-agricultural (fei-nongye) hukou population. In the pre-reform era, holders of a non-agricultural hukou received grains and other goods and services allocated by the state, while those holding an agricultural hukou were assumed to practice farming and so received no allocated goods and services. The hukou system was an effective way of controlling the movement of population into cities, because most goods and services were controlled by the state, and people could not live in cities without state-provided resources. During the reform era, however, migration controls were relaxed as markets expanded, but the hukou system continued, hampering allocative efficiency in labor mobility. As social welfare is pegged to hukou and welfare levels vary across cities, hukou is not automatically transferable across cities. The negative impact is felt particularly hard by rural migrant workers, now about 268 million strong, accounting for close to 20% of the country’s total population. Most of them work in production, construction, wholesale, retail, and other service sectors. Most of them hold an agricultural hukou, and as such, they may live in cities, but are excluded from urban public services such as housing, education, health care, social security, and pension schemes. Increasingly, this institutional barrier has become a source of social tensions, and if unsolved, will derail urbanization down the road. Statistically, although China’s official urbanization rate is 53%, which is below the average of 60% in developing countries with similar per capita income levels to China’s, the real rate may be as low as 35%, if these migrant “city-dwellers” are excluded.
Clearly, there is an inadequate human dimension of China’s urbanization drive thus far, which in turn may have negative implications for sustained economic growth—a point highlighted by Chinese Premier Li Keqiang when he said at the World Economic Forum in Tianjin in 2014 that “human-centered urbanization is the biggest structural reform in China”. Here, it should be reminded lest we forget that, originally, the Chinese phrase for city Chengshi, a combination of two characters, means not just the habitat as a built-up physical space Cheng, but also a market place Shi, which has a strong human and institutional dimension of balance between supply and demand.

Indeed, one of China’s perennial problems for sustainable economic growth is its underdeveloped domestic consumption, made worse when foreign demand weakened after the global financial crisis in 2018. In this context, the drag may also be partly explained by the fact that 268 million rural migrant workers are not yet full urban citizens, and they have to save excessively for a rainy day. The problem has received increasing attention recently, to the point that in August 2014 the Chinese State Council issued a circular calling for an overhaul of the hukou system. According to the document, in coming years China will adopt a tiered approach to “fully remove hukou restrictions in towns and small cities, gradually ease restrictions in medium size cities, setting reasonable conditions for settling in big cities while strictly controlling the population in mega-cities.” Here, a key to success is for the government to provide the same basic public services to all urban residents.

The fact is that Chinese urbanization drive can no longer ignore the issue of inclusiveness and move forward with two classes of citizens. A study by Michigan University scholars suggests that with Gini coefficient reaching 0.55, income inequality in China has surpassed that in the US by a large margin and is among the highest in the world. As a window of civilization, cities, after all, are not just

**Chinese urbanization drive can no longer ignore the issue of inclusiveness and move forward with two classes of citizens.**
physical structures, cities are institutions, and cities are people.

**Land Market**

Over the reform era, China has developed a very competitive final-product market. But in the factor market, land is traded internally with little competitive force. In other words, there is no genuine land market. A principal pillar of Chinese public ownership, land is either state-owned (in the case of urban land) or collectively-owned (in the case of rural land). Under the current property rights regime, the state monopolizes the supply of land. Rural land can only be expropriated by the government to ensure that all urban land belongs to the state. A “dual land market”, so to speak, emerged with the coexistence of market-oriented and non-market-oriented transfers of land lease, where the government can expropriate rural land at artificially low costs and sell it to developers at much higher prices; neither the rural collectives nor farmers can negotiate directly with the developers as no property tax yet exists, and a big part of local fiscal income comes from land lease revenues (36% in 2005 and 76% in 2010, according to the Chinese Statistics Bureau), incentives are very strong for the local government to expropriate rural land excessively, often resulting in official corruption, economic inefficiency, and social injustice. Just as excessive expropriation explains the rapid sprawling of many Chinese cities in recent years, it has also triggered concerns about ghost cities, real estate bubbles, the loss of arable land, and dispossessed farmers.

Indeed, there are warning signs that the physical dimension of urbanization in China may have moved way ahead of its human and institutional dimension. Some cities have too much housing and infrastructure relative to the strength of their economies. The built-up area of Chinese cities, for instance, has expanded by 83% from 2000 to 2010, while the urban population only increased by 45% in the same period. A study by the Chinese Academy of Social Sciences has also showed that more than 100,000 incidents of collective conflicts (i.e., involving more than 100 people) took place in recent years, and 60% of them were land-related.

All this calls for a reevaluation of the current Chinese model of urbanization, which is overwhelmingly investment-led and state-dominated. As the root of many problems lies in the so-called “dual land market”, unifying the system toward a genuine land market, granting farmers complete land rights, and allowing them to negotiate...
directly with potential land users seem to be the next logical steps to take. This is particularly true in light of the call by the Chinese new leadership “to recalibrate the role of the government vis-a-vis that of the market” and “to let the market play a decisive role in allocating factors of production.” Meanwhile, transparency and good governance must be stressed, a municipal bond market needs to be developed to help finance long-term efficient infrastructural projects, and a property tax on existing residential and commercial real estates needs to be introduced to offset reductions in fiscal revenues. Here, reform is a must, not an option, because halfway between plan and market has been a powerful institutional cause of rampant official corruption and wealth polarization, and the excessive reliance on land-based local fiscal income and financing has already resulted in high levels of local public debts and is no longer sustainable.

According to the IMF, the size of local public debts in China, roughly 1/4 of Chinese total debts since 2008, has increased dramatically in recent years. It reached 36% of Chinese GDP in 2013, doubling the rate in 2008, and is estimated to reach 52% in 2019. Growing Chinese debts have become an increasing source of concern, as its growth rates are larger than that of Japan, South Korea, or the United States before these countries hit deep recessions.

The Environment

Pollution has been another cause for serious concern. China used to be called “the kingdom of bicycles.” Today the bicycle is still a convenient vehicle for many people, but many Chinese cities have fast become “a sea of cars.” Automobiles in China have increased more than 35-fold since 1978. The sprawl and the rush-hour traffic jams are sights too common in China as it becomes the leading car market in the world. Since 2009 annual production of automobiles in China has exceeded that of the European Union or that of the US and Japan combined. Urbanization, especially in the last two decades, has greatly changed the landscapes of China. While some changes are visible, others are less so, but all the more alarming because of risk to health. According to China’s Ministry of Environmental Protection, groundwater is “seriously polluted” in more than half of the 198 cities under study in 2013. In air quality, smog is no longer uncommon, and related, over 95% of the 74 cities monitored in 2013 have a long-term standard (annual average) PM2.5 concentration (particulate matter with diameter less than 2.5 microns) many times higher than 10 μg/m³, i.e., way above what the World Health Organization deems as safe.

In 1997 the World Bank published a report Clear Water, Blue Skies: China’s Environment in the New Century. The study underscored the economic implications of environmental degradation by estimating that the cost of air and water pollution in China is between 3.5 and 8% of GDP. If we take the upper estimate, it would effectively cancel out the gains China has from economic growth, calling into question growth sustainability. China is seeking and implementing innovative solutions that balance growth and sustainability. Beijing, Tian-
A good model of urbanization must aim at efficiency, inclusiveness, and sustainability simultaneously.

jin, Shanghai, Chongqing, Hubei and Guangdong have started with carbon trade markets. During the 2012 National People’s Congress, the concept of “eco-civilization” was proposed, and investment in renewable energy amounted to US$ 67 billion in 2012 -- more than 3 times what Germany spent. Wind power generating capacity, for instance, is projected by China’s Reform and Development Commission to rise to 200 million kilowatts in 2020, 400 million kilowatts in 2030, and 1 billion kilowatts in 2050, taking up 17% of total electricity need.

In summary, a good model of urbanization must aim at efficiency, inclusiveness, and sustainability simultaneously. In that spirit, let me conclude by adding a broader vision. Americans are known as “a nation on wheels”, and many of their cities with suburban life-styles are built around cars rather than public transit systems. But that, we now know, comes with a high environmental cost. Americans emit about 20 metric tons of carbon dioxide per person per year. By comparison, Europeans are greener. The English emit about 10 tons, Italians about 8 tons, and the French, with all their nuclear energy, emit about 7 tons. Today the Chinese are producing about 5 tons per person per year, roughly a quarter of which are produced making goods for exports. But China has a large population, and its aggregate impact is enormous.

With rapid urbanization, the country is changing rapidly. What the future will be very much depends on the ways the Chinese build their cities, or on their concept of “smart cities” – build up or build out, cluster around or spread out, compact or otherwise- and to what extent the government or the market has a more appropriate role to play, and whether they emulate American or European patterns of urban development. Either way, it will have profound implications not only for China but also for the rest of the world, as the world is increasingly interconnected under conditions of globalization.
Future Prospects for Non-Governmental Organisations in China

Jennifer Y.J. Hsu
**Introduction**

Chinese non-governmental organisations (NGOs) have faced an uphill battle over the last decade or so. An NGO must deal with any number of challenges simultaneously: manoeuvre around state control, navigate state regulations, build and educate both the state and public’s trust about NGOs, and secure funding. Despite all these hurdles, growth of Chinese NGOs has intensified over the last decade. The Ministry of Civil Affairs (2012)—the department responsible for managing NGOs—estimated that there were some 462,000 registered social organisations at the end of 2011, an increase of 3.7 per cent since 2010. However, given the complicated registration requirements, estimates of unregistered organisations and those registered with the Industry and Commerce Bureau range in the millions, with estimates as high as 3 million, with expectations of upward growth. The numeric growth of Chinese NGOs is regarded as an indication of the overall expansion of Chinese civil society but the state’s managerial and supervisory role (Yu 2011) of China’s NGOs has rendered much of these organisations into welfare and social service conduits of the state. Indeed, there are positive signs on the horizon for NGOs, such as more relaxed administrative procedures, as well as increased government funding for NGOs, whether this represents a “spring” (Tang and He 2013) for NGOs is another question. The second draft of the *Overseas NGO Management Law* from the National People’s Congress is perhaps an indicator that there may not be a “spring” for either Chinese or international NGOs working in China. This article will consider the current environment for both domestic and international NGOs operating in China. The article will first provide context by examining the general regulatory environment that pertains to NGOs operating in China. The second section will detail the Chinese government’s changing stance towards NGOs, in particular towards a model of social service outsourcing. In the third section, I will consider the implication of the *Overseas NGO Management Law* for both international and domestic NGOs. The law while seeking to clarify the status of international NGOs working in China may also have the potential to set firm boundaries for the growth of China’s civil society. Finally, the article will conclude by assessing the future environment for the NGO sector.

**The Environment for NGOs**

Despite the overall growth of the Chinese NGO sector over the last decade or so, it is marked by often complex and strict regulations. For NGOs to obtain legal status, all organisations must register with the Ministry of Civil Affairs and have a sponsoring government agency. These procedures are cumbersome and difficult to complete, particularly finding a sponsoring agency. Thus, many NGOs by-pass the process by not registering at all, or alternatively register with the Industry and Commerce Bureau where a sponsoring department is not re-
In early 2013, the Ministry of Civil Affairs announced that four types of NGOs will soon be permitted to register directly with the government without the need to find a government sponsor. These four types include: industrial associations and chambers of commerce, charities, community service organisations and organisations dedicated to science and technology. The registration process is one of the most difficult for NGOs to complete (Sina 2012) and hence many have not registered at all. For example, many HIV/AIDS NGOs working with people living with HIV/AIDS (PLWHA) have better capacity in reaching out to vulnerable groups and provide services that are at no or low cost. But, without registration status, many NGOs find it challenging to fundraise and maintain operations. Thus, new registration reforms such as those experimented and promulgated in Guangzhou, the capital of Guangdong province, for example, *Guangzhou Measures for Administering Social Organizations* which went into effect in January 2015 is indeed a positive sign. Under the law, certain Guangzhou NGOs will have an easier registration process to conduct their activities (see ICNL 2015). At the national level, reforms to existing regulations are pending, such as the *Revision of the Regulations on the Registration and Management of Social Organizations* (originally promulgated in 1998) (Ibid). Simplifying registration will allow many more NGOs to register and ensure a level of operational stability. Nonetheless, doubts about the extensiveness of the reforms remain. First, the new registration process will not apply to NGOs working in the areas of politics, religion and law. Clearly, state tolerance of NGOs can only go so far. NGOs working...
in rights-based area will continue to struggle. Furthermore, with the departure of foreign donors from China, for example, the Canadian government’s announcement in March 2013 to cut direct foreign aid to China (Levitz 2013), many of these Chinese NGOs will not experience the growth afforded to their counterparts. It is possible to envisage that rights-based NGOs will continue to be marginalised and perhaps even experience a tightening of space in terms of their work and development. In conjunction, the Overseas NGO Management Law as discussed later will also have an impact on the availability of resources for domestic NGOs. Second, recent interviews with NGO representatives in China, suggest that an easier route to registration may not be in their best interest. As one health activist in Yunnan noted, having registration will mean the possibility of becoming de-registered, which will then make the NGO illegal. Thus, it may be best not to register, as registration will mean the organisation will in part cede some of its autonomy to the government. Although, not yet in place, the simplification of registration will allow some NGOs greater space to conduct their work but also access potential government funding. The potential for funding for Chinese NGOs is expressed in the government’s move towards the procurement of services from NGOs to deliver a range of services.

Social Service Delivery

Since the 12th Five Year Plan (2011-2015), the Communist Party-state has called upon greater collaboration between state and non-state actors to improve social service delivery and policies, with the ultimate goal to enhance social governance. Although the prospects for Chinese NGOs appear to be bright, there are some reservations. Notwithstanding, a 200 million RMB (US $32 million) investment in funding the social service provision by NGOs (China NPO, n.d.), the move to contracting NGOs to deliver social services can further demarcate the boundaries of acceptability for NGOs in the
eyes of the Party-state. Social reforms and social management initiatives as stipulated in the 12th Five Year Plan will be under the leadership of the Party with the government bearing the responsibility, and society will co-ordinate the reforms with the public participating (dangwei lingdao, zhengfu fuze, shehui xietong, gongzhong canyu). Under such model, we can expect apparatuses of the Party-state, such as government-organised NGOs (GONGOs), to become more active in the work of NGOs. The state across all levels are already shaping the parameters of NGOs’ work, not only through regulations, but subtly through designating “model” type NGOs and by giving awards for well-performing ones. It is through such measures that we see a discernible shift in the make-up of NGOs as NGOs shift towards similar work or project areas (Hsu 2012) since it has proven to be politically “safe” or apolitical. As the Chinese state moves towards a contracting model of social services, whereby NGOs are the contractors, we can anticipate NGOs moulding or establishing themselves based on successful NGOs that have received government contracts (Hsu and Hasmath, forthcoming). If we consider the current financial commitment the Chinese state has made of 200 million RMB which is a start, but barely begins to scratch the surface in terms of meeting existing social needs, and juxtapose it against the number of registered NGOs, let alone unregistered NGOs, we begin to get a sense that there will be stiff competition amongst NGOs for a sliver of the pie. The availability of resources to domestic NGOs may also be further curtailed by the Overseas NGO Management Law, where there is substantial dependence on foreign resources presently, particularly in China’s large cities (J. Hsu, C. Hsu and Hasmath Unpublished).

By demarcating the workspace of NGOs, through regulations, awards and designations, offering contracts to a small percentage of NGOs, these factors will only further determine the work boundaries of NGOs. Moreover, with the Party-state leading and guiding the social management innovation process we can expect that the Party-state will strengthen its vertical managerial functions; and, by collaborating with NGOs it will fortify the state’s access and hold on the grassroots of society. As such, rather than bolster the horizontal co-ordinating efforts and mechanisms of NGOs, and reinforce their participation in society, social management policies will place the Party-state at the forefront. What bearing might the domestic NGO situation have on the international NGOs operating in China and vice versa? The Overseas NGO Management Law as we shall see, if passed will have a sizable impact on the availability of foreign funding to domestic NGOs.

The Overseas NGO Management Law

On 5 May 2015, China’s National People’s Congress released the second draft online of the Overseas NGO Management Law for public comment (see China Development Brief 2015 for English translation). The purpose of the draft law is to establish and standardise procedures for international NGOs carrying out activities in China. This law covers a wide range of organisations—non-profit/non-governmental organisations (NGOs)—working in economic, educational, science, technology, health, cultural, recreational, environmental protection, charitable and other sectors.

Of significance, is the placement of NGOs under the supervision of the Public Security Bureau (PSB), instead of the Ministry of Civil Affairs. In effect, international NGOs will be viewed from the perspective of national security. The law will also affect domestic NGOs as it will limit their access to foreign resources and funding. There are three areas in which the law will have bearing not just on international NGOs but given the broad coverage of...
what is deemed an “NGO”, the impact of this law will be felt by not just international NGOs but foundations, school groups conducting cultural exchanges, universities and colleges with scholarly collaborations in China etc. If passed, the law will create high entry barriers for NGOs wishing to work in China. The resource intensive and lengthy process for international NGOs to establish operations in China will create high entry barriers.

The proposed law does not prevent international NGOs from operating in China. However, the burdensome procedures placed upon NGOs wishing to work in China are time-consuming. To establish a representative office in China, an NGO must have the approval of a Professional Supervisory Unit (PSU). Even for organisations seeking to comply, the problem has been the case for domestic NGOs, is the ability to find a willing PSU. There are no immediate incentives for a PSU to sponsor the application and subsequently assume responsibility of an international NGO. From the perspective of the PSU, such actions may open the unit up to greater political scrutiny should the NGO come under any suspicion from the state. Moreover, government units and agencies have limited capacity to act as PSU and therefore capacity constraints of relevant units may actually limit the number of international organisations receiving registration. Once registered, the international NGO can only hire personnel in China that have been approved by a locally designated unit. Annually, the NGO must submit activity plans and financial reports to be approved by their PSU and the public security authorities. Additionally, the organisation must seek registration re-approval every five years. These provisions will essentially limit the entry of international NGOs into China because it creates administrative hurdles that will be difficult to overcome.

Given the restrictions placed on international NGOs establishing office and activities in China, the impact on domestic NGOs will be significant. If passed in its current form, the Overseas NGO Management Law will restrict domestic NGOs and individuals from receiving foreign funds from an NGO without an office in China. Seen at the macro level, Chinese NGOs and even state-sanctioned organisations will be greatly restricted in accessing international funding and resources. Consequently, the law will limit the scope and impact of social organisations across the spectrum on a range of social issues.

The immediate impact of the law will be felt by international NGOs working in China, if passed. However, there is also much wider range of international organisations that will potentially feel the effects of the law. For example, foreign universities with academic exchanges in China are not precluded from the draft law. Due to the vagueness of the term “NGO” as it currently stands in the draft this can include not-for-profit organisations. A further example: an international scholarly association wishing to host a conference in China will also be included under the law. Thus, such organisations seeking to conduct their activities will have to acquire a PSU or seek a temporary permit from a Chinese partner willing to complete the paperwork. The administrative requirements may deter a variety of overseas organisations from going to China and thus reduce the opportunities of building relationships and partnerships with their Chinese counterparts.

The law gives substantial power to Public Security Bureau and without full transparency, misuse of power is likely. International NGOs working in China have remained largely unregulated. The proposed law makes significant attempts to clarify their legal status, operations and procedures for overseas groups working in China. Most notably, the

the draft law would require all overseas NGOs to concede to a high level of state supervision and control over all activities to the public security authorities and the PSU.
law sets out a guideline for overseas organisations to formally register, requiring the sponsorship of a PSU (Article 11), a government agency or government-approved organisation in the NGO’s field of work. Once the international NGO has secured the sponsorship of a PSU, the NGO can then proceed to apply to the PSB to register for a representative office. The involvement of the PSB as the final approval agency (Article 47) is somewhat at odds with the regulations that pertain to domestic NGOs, where it is the Ministry of Civil Affairs responsible for the latter. Thus, the draft law would require all overseas NGOs to concede to a high level of state supervision and control over all activities to the public security authorities and the PSU. Under the proposed law, international NGOs will be treated as a matter of national security.

The role of the PSB is introduced and enhanced under the proposed law in the management of international NGOs. The PSB is given the power to conduct on-site inspections of the NGO’s China office, interrogate representatives involved in the matter under investigation, access and copy pertinent documents and close down properties. Furthermore, the law permits authorities to detain NGO staff for up to 15 days where infractions do not constitute a criminal offense (Article 59). However, there is no indication as to the type of activities that might give PSB the cause to disrupt an NGO’s work. Without clarification of the type of activities that may subject an NGO to such scrutiny will give the Chinese government power to deem any activity that is seen as undesirable as a potential threat to national security. By casting international NGOs as a security matter is concerning, especially when rule of law, procedural protections and transparency in the context of national security are weak. It is conceivable that domestic NGOs may in the near future suffer similar fate as their international counterparts, that is, their activities will come under the purview of the Public Security Bureau rather than the Ministry of Civil Affairs.
Casting international NGOs as a security matter is concerning, especially when rule of law, procedural protections and transparency in the context of national security are weak.

Conclusion

The Overseas NGO Management Law, if passed will have a broad range of effects not just on international NGOs working in China but also on the domestic NGO sector. Without more clarification from the National People’s Congress, a variety of non-profits with ongoing collaborations or short-term exchanges in China will also be placed under threat, as the law will cover a broad spectrum of organisations due to its vagueness. On the domestic side, the law will have a decided impact on NGO funding. Nonetheless, the situation presented in this article demonstrates the dichotomy at hand: As we have seen that under the Party-state’s social management policy reforms, and simplifying the registration process, NGOs will have a greater role than before in civil society. Yet, it is not the “spring” that many had hope for. First, reforms to the registration process do not encompass all NGOs; rights-based NGOs will remain under-resourced and face continual instability in their operating environment. The registration reforms will therefore, create an uneven playing field for Chinese NGOs: those that are registered and with potential access to government funding versus those that are not registered with issues of survival to contend with. Second, the social management reforms will further ensure that certain NGOs receive government contracts. Despite, all the positivity about the procuring of NGO services, for example, the funding available, some NGO representatives have noted in private the challenge to achieve project goals with the limited money available will be near impossible. Constrained by existing institutional challenges for many NGOs, slow-to-change regulatory laws and greater expectations to conduct social service delivery, Chinese NGOs will face deep challenges over the next few years. No doubt, NGOs have proliferated over the last decade and there is greater acceptance and understanding of NGOs by the Chinese state. Yet, we should not be misled to think that the state is loosening its hold on NGOs, rather it may very well be that the state is seeking to establish more effective control mechanisms in the governing of NGOs—as seen in the Overseas NGO Management Law—but at the same time allowing greater operating space for NGOs to conduct social delivery. Thus, the “social management” heralded by the Chinese state as “innovative,” may yet be a Trojan horse.
Bibliography


China NPO Website. Available at: http://www.chinanpo.gov.cn/xiangmu/


一种舒适的海外生活方式

爱尔兰 | 英国

与华闻共同探索爱尔兰
独家投资移民机会

电话: 00353(0)153 148 40 (IRL)
0044 (0)20 8099 0999 (UK)

网址: www.huawenfoundation.com