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China's Significance in International Politics

Domestic and external development and action potentials

Thomas Heberer / Anja D. Senz

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Abbreviations

ASEAN	Association of South-East Asian Nations
BRIC	Brazil, Russia, India, China
CACF	China-Africa Cooperation Forum
CPC	Communist Party of China
EU	European Union
FAZ	Frankfurter Allgemeine Zeitung
GDP	Gross domestic product
HIV/AIDS	Human immunodeficiency virus / Acquired immunodeficiency syndrome
IEA	International Energy Agency
IMF	International Monetary Fund
INGO	International nongovernmental organization
IO	International organization
NATO	North Atlantic Treaty Organisation
NGO	Nongovernmental organization
OECD	Organisation for Economic Co-operation and Development
RMB	Renminbi
SEPA	State Environmental Protection Administration
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNOMIL	United Nations Observer Mission in Liberia
UNPKO	UN Peacekeeping Operations
WFP	World Food Programme
WHO	World Health Organization
WIPO	World Intellectual Property Organization
WTO	World Trade Organization

1 China's significance in the world and in the East/Southeast Asian region

In recent years "China" has captured the interest of the international public, and China's economic data, impressive at first glance, have attracted growing attention. Numerous German news magazines, including e. g. DER SPIEGEL, have reported at length on China's development. The Spiegel article, "China – Birth of a world power,"[1] went far beyond simply reporting on the country's successful economic rise. The tenor shared by all these articles is based on the assumption that China's economic power, a result of its huge geographic size and large population, has paved the way for the important role the country has now come to play on the world political stage.

The news from China is in fact impressive, and it would appear that the country, or its leadership, has managed to surround itself with a shining nimbus that serves to boost China's prestige and underline its importance for the world. We hear of the first Chinese "taikonauts," bids to acquire huge oil companies like Unocal or Exxon,[2] the first Formula One race on Chinese soil, the Transrapid maglev train system in Shanghai, the world' highest skyscraper, which – let "Taiwan 101" be what it may – is being built in Shanghai; the
Olympic Games are slated to take place in Beijing in 2008, Shanghai has received the nod for the 2010 International World Expo. These are all examples of China's economic success, and they may also be seen as examples for China's endeavor to link its economic rise with a political one, viz. into the leading ranks of the international community. However, there is good reason to concur with Friedrich's critical remark that "*Sheer euphoria is leading us, only all too often, to turn a blind eye to the risks and problems this country is faced with*."(Friedrich 2005, 5) It should be borne in mind in this connection that the hopes placed by – in particular – the industrialized countries in China's development have already once given way to disenchantment, namely during the period of opening in the late 1980s, which suffered a serious setback when the student protest movement was violently repressed in June 1989 in Beijing.

In the following assessment of the role China plays in shaping global structural policy, we have, instead of concentrating exclusively on foreign-trade and foreign-policy issues, chosen to focus as well on some prominent domestic developments. Our assumption in doing so is that the role China is likely to play in 21st century world politics will hinge in large measure on its internal development and that both regional and global political and economic events will be greatly affected by this development. In China internal development has far greater significance than it does in many other countries; we may cite the following factors as responsible to this:

(a) For national reasons, China's development ("modernization") must largely be seen as having precedence over all other factors. We can, in this sense, speak of a *hegemony of national goals*.

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1 See *Spiegel Spezial* 5/2004, or *DER SPIEGEL* 42/2004, 11 Oct. 2004.

2 See *Spiegel Online* 01 Nov. 2005; online: http://www.spiegel.de/wirtschaft/0,1518,382661,00.htm (last accessed on 02 Nov. 2005).

(b) China is in the midst of a transformation process that has been a key factor in shaping the country's foreign-policy decisions.

(c) China has, in the past two decades, increasingly proven to be a "learning" country. That is, China gradually, and step by step, applies what is has learned at home to its activities abroad, digesting the experiences it makes there in such a way as to learn from them.

(d) China's sheer size and its regional and international appeal and influence mean in effect that any internal destabilization of the country would have powerful impacts that, far from being restricted to the Asia-Pacific region, would inevitably spill over into the world economy and what has come to be known as world domestic policy. We can state, in a nutshell, that the world could be unsettled by no less by a weak, crisis-prone China than by a strong, triumphant China. The international community should for this reason seek to accompany China's development in supportive ways with a view to prevent it from falling into either of these two extremes.

1.1 Economic trends

Since it launched its policy of reform and opening in 1978/79, China's economic development has been no less than impressive: Having abandoned the policy of economic closure adopted under Mao, China opted for a policy of gradual integration into the world economy, a policy that has brought the country into the mainstream of world politics.

China's economic development, which has in the past 25 years led to a doubling of the country's economic output, successfully raising the living standards of broad segments of the population, has taken on the shape of an export-driven industrialization process strongly focused on the country's (eastern) coastal regions. This concentration on its coastal regions has meant that China, viewed as an economic area, has experienced an economic development marked by extreme regional disparities which have not really been mitigated by the "Western Region Development Strategy" officially adopted in 1999. As far as economic performance, purchasing power, infrastructure, technological development, inflows of direct investment, and integration into world trade are concerned, China continues to be faced with a marked differential between the prospering regions in the East and the regions more distant from the coast. One problematic aspect here – problematic in the economic sense – is that the regional adjustment processes required to underpin social stability will ultimately bind resources needed by the country's developed coastal regions to catch up with the world's leading industrialized nations.

This situation is further aggravated by substantial disparities within the country's economic structure: Aside from a low-wage sector[3] that, while still extensive, is declining in size, China also has a number of capital- and technology-intensive industries.

3 See Chapter 1.5 "Demographic trends".

1.1.1 Economic growth and the shadows it casts

Over the past 15 years China's economic development has been marked by persistently high growth, which has ranged between 8 % and 10 % p. a. Even conceding that this growth started out at a low level, it must be noted that China has, viewed in absolute terms, posted a number of major successes and now, depending on the statistical measure used, ranks in either fourth or sixth place among the world's leading trade nations. At the end of 2003 its gross domestic product (GDP) had reached a level of US$ 1.25 trillion, ranking it sixth in the world.[4] With its GDP per capita and annum of US$ 1,093,[5] China had, at the end of 2003, for the first time joined the group of "low-medium income countries." In a worldwide comparison, China in 2004 ranked 132nd (viewed in terms of purchasing power parity: 116th) among 208 countries covered in a World Bank study.[6] What this means is that the number of Chinese citizens living in absolute poverty, as defined by the international poverty line, has declined substantially in the course of the country's economic reforms.

Nevertheless, China's national statistics office declared in late December that China had become the world's fourth-strongest economic power. Having reached US$ 2 trillion, China's GNP has exceeded the figures published for the UK, France, and Italy. This recalculation was based on the first countrywide survey using improved methods for recording the performance of China's service sector, smaller companies, and segments of the agricultural sector.[7] On the one hand, this indicates a decline in the ratio of investment to GDP, which may serve to dispel fears that the economy may be running the risk of overheating; on the other, though, it is also likely to boost the confidence of foreign investors.

China's GDP breaks down as follows: 14.6 % from the agricultural sector, 52.3 % from the industrial sector, and 33.1 % from the service sector (OECD 2004). These figures serve to illustrate a relative decline in the weight of the agricultural sector, which in 1978 had accounted for a share of 28.1 %. These figures are the outcome of a pace of growth that has differed from sector to sector. While between 1979 to 2002 the real net output of the secondary and tertiary sectors grew to shares of 11.2 % and 10.1 %, respectively, the figure for agriculture was no higher than 4.6 % (Ye 2004, 14 ff.). If we look at the country's employment structure, however, we find a different picture. According to official statistical data, agriculture offers employment for a total of 365.4 million people, just short of 50 % of China's working population.[8]

China's development is marked by sharp regional and social income disparities. The most pronounced differentials are found between East and West, between urban and rural regions, and in relation to gender. While a 2004 study by the Organisation for Economic Co-

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4 See *Renmin Ribao* 25 Feb. 2005.

5 In 2005: a per capita GNI of US$ 1,290, which translates into purchasing power of US$ 5.530. See World Bank: http://web.worldbank.org (last accessed on 05 Dec. 2005).

6 See online: http://siteresources.worldbank.org/DATASTATISTICS/Resources/GNIPC.pdf (last accessed on 10 Oct. 2005).

7 See online: http://money.cnn.com/2005/12/13/news/international/bc.economy.china.census.reut/ (last accessed on 20 Dec. 2005).

8 See Information Office of the State Council of the PR China: China's Employment Situation and Policies, White Paper; online: http://www.china.org.cn/e-white/20040426/htm (last accessed on 05 May 2005).

operation and Development (OECD) found economic disparities in China to be less pronounced than in countries like Brazil, Mexico, South Africa, or Russia, the United Nations Development Programme's (UNDP) Human Development Report 2005 came to the conclusion that China's urban-rural income disparities are the largest found in the world.[9] In fact, these income disparities have even widened dramatically in recent years, growing in a short period of time to levels otherwise observed only in the Central Asian Republics and Russia.[10]

In 1978 China's Gini coefficient (i. e. the measure used to determine inequalities in income distribution) was 0.21; in 1990 it had reached a level of 0.38, and in 2000 it rose above the marginal level of 0.4, which has been set as a critical threshold (Han 2004, 20 f.). What this means in effect is that 5 % of the richest Chinese citizens already hold 50 % of the country's bank deposits.[11] Between China's urban and rural regions, or between the East coast and the regions in central and Eastern China, we find huge income disparities, which have even deepened over the past 15 years: If in 1990 the rural population had incomes roughly 45.4 % as high as average urban income levels, by 2003 the relation had shifted to 30.4 % (Han 2004, 20 f.). The Engels coefficient, an indicator of a household's standard of living based on the ratio of food to nonfood expenditures, indicates a generally positive trend in income development. According to the China Statistical Yearbook, in 2003 the rural population spent 45 % of its income for food (the figure for 1978 was 67.7 %), the corresponding figure for the urban population being 37.1 % (compared to 57.5 % in 1978). But the coefficient does indicate a marked disparity of over 8 % between urban and rural incomes.[12]

Agricultural incomes have risen only moderately in relation to other incomes. Agricultural earnings have remained low because of fragmentation of cultivated areas, a low level of marketing organization, a decline in prices for agricultural products, due at least in part to their lack of competitiveness. If agricultural incomes are to rise, steps would have to be taken to modify working, cropping, and marketing structures. Only recently has government policy been changed to boost inputs into the agricultural sector, and it is still too early to attempt any assessment of the success of these measures (Wong / Zhang 2002, 215 ff.).

According to official Chinese data, in 2005 26.1 million Chinese were poor in absolute terms, that is, they had less than US$ 0.21 per day in income, the figure used by China to define absolute poverty. 22 million people were reported to be reliant on official social assistance. According to the Chinese definition, the number of China's absolute poor has declined from 250 million in 1978 to a figure of roughly 48 million in 2005. Based on

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9 See online: http://www.undp.org/dpa/pressrelease/releases/2005/december/china-hdr161205.shtml (last accessed on 17 Dec. 05).

10 For detailed information see OECD (2004).

11 The Blue Book on Chinese society notes for 2002 a Gini coefficient of 0.45, see Li (2004, 74); and it is very likely that this value is a low estimate. At an East-West lecture series held by the German *Bundeszentrale für Politische Bildung* and a conference sponsored by the Konrad Adenauer Foundation ("Learning from History") in July 2004, Zhou Jianming (a social scientist and Director of the Center for International Strategic Studies at the Shanghai Academy of Social Sciences) spoke of a Gini coefficient of 0.53 for urban areas in China. In view of the urban-rural divide in China, he noted, it would be necessary to substantially raise our estimates of the coefficient.

12 See China Statistical Yearbook (2003, 344).

international standards, the World Bank estimates that at present the number of Chinese citizens forced to live on less than US$ 1 per day (the definition of absolute poverty) is at present some 200 million (Schüller 2004, 520). We can note on the whole that the majority of China's rural population lacks adequate access to education and healthcare; to cite an example, life expectancy in the countryside is roughly six years lower than it is in urban areas. Since the start of reforms policies, the Chinese education system, up to the 1970s largely dominated by political curricula and at times broken down altogether, has managed to appreciably raise education levels and reduce illiteracy rates. The latter are reported to range between 4.9 % (for men) and 13.5 % (for women). Statistics for the past 15 years indicate appreciable formal improvements in the education sector (e. g. school attendance rates, levels of educational qualification). However, these data tell us nothing about the curricula taught, the conditions under which they are taught, the methods used, teacher training standards, and regional disparities (Kaplinsky 2001, 59). School and university infrastructure tends to be unsatisfactory, particularly in rural regions and more remote provinces, an observation substantiated by experiences made by the authors in the course of research work in China.

Unlike large segments of the rural population, the urban population has benefited from substantial income growth. Here we can observe the emergence of a middle class with rising purchasing power; it is thought to make up some 18 % of the urban population.[13] It is estimated that some 100 million Chinese citizens have incomes of over 4,000 euros a year and that roughly 40 million earn more than 20,000 euros p. a. The number of Chinese (US$) millionaires is estimated to be roughly 300,000 (Anonymous 2004a). Apart from real estate and automobiles (some 50 % of all urban real estate is now owned privately), disposable income is spent for consumption, with foreign-made clothing, furniture, and electronic articles topping the list, while Chinese-made products are in greater demand when it comes to household articles, cosmetics, and food. Accordingly the retail trade in China's metropolitan areas is growing at rates of roughly 10 % p. a., and companies like IKEA and Metro are expanding at a rapid pace in the Chinese market (ibid).

Following a period of persistently high growth rates, in 2004 China was forced to come to terms with the limits and risks of high growth – which exceeded government planning by over 2 percentage points, reaching a level of over 9 %. In a bid to prevent the economy from overheating, to slow down growth, and to head off any development of overcapacities, e. g. in the steel industry, the Chinese leadership curtailed the provision of credit for new steel and aluminum plants, the real-estate sector, and the auto industry. With a view to cutting demand for steel, the government has also postponed some prestige projects like the construction of the Olympic stadium in Beijing. In 2004, though, the government approved the building of two large steelworks with a view to relieving the country's dependence on steel imports for the coming years.[14] This example shows that the government is the crucial actor involved in seeking to steer the economic process through the ups and downs of the business cycle, pursuing an external economic policy geared to avoiding any one-sided dependencies; but it also shows that China's economic development may have some erratic features.

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13 See *Renmin Ribao* 13 Feb. 2005.

14 See e. g. Lohse (2005, 52).

Apart from the problems of overheating and the diverse income disparities outlined above, the Chinese economy has, since the beginning of the reform process, been forced to contend with some structural problems stemming from the need to restructure the country's state-owned enterprises. China has experienced a rapid process of "bottom-up" privatization, driven mainly by new business startups by Chinese citizens. Some 90 % of all Chinese companies are now privately owned, although state-owned companies continue to employ nearly one half of the country's labor force. Today the private sector is the motor of Chinese economic growth, and it now accounts for most of the new jobs created countrywide (Heberer 2003c).

By comparison, many state-owned enterprises are not competitive as far as their products and cost structures are concerned. They are required to provide their workforces with comprehensive social services, including e. g. housing, healthcare and retirement benefits; and for this reason it is quite difficult to find private investors for them or to transform them into private corporations. The problems involved in privatizing state-owned companies also constitute a burden for the financial sector, because the state-owned banks that dominate the sector are required to provide funding to keep state-owned enterprises afloat. At the same time, starting in 2006, the agreements concluded between China and the World Trade Organization (WTO) will expose these financial institutions to the winds of international competition. In recent years great efforts have been undertaken to create rescue companies designed to disencumber these banking institutions. However, these efforts are bound to founder as long as the immediate links between banks and state-owned enterprises have not been severed. One important reason for the present stability of the Chinese banking system must be seen in a the marked propensity to save on the part of the population. China has one of the world's highest saving rates, roughly 40 % – not least because, aside from real estate, there are hardly any other possibilities available for people to invest their earnings – and the country's stock markets continue to be encumbered by numerous intransparencies.

Another problem involved in reforming China's state-owned enterprises is the unemployment this causes. At present the official unemployment rate is 7 %, but this figure is not particularly reliable because it includes, by definition, only the urban unemployed. The Asian Development Bank estimates that rural unemployment is as high as 30 % (up to 300 million persons), while the figure for the urban population is estimated to be roughly 8.5 % (Friedrich 2005, 8). The number of migrant workers circulating through China in search of employment is presently estimated to range between 120–150 million. Further mass layoffs in connection with the restructuring of state-owned enterprises could aggravate existing social tensions.

Data on the national budget or on the national debt are one way to judge whether the government has the resources it needs to implement the required reforms. The official data on the national debt – new debt: 3 %, total debt: ca. 23 % of GDP – would appear to be no cause for alarm. However, as Taube points out, these figures do not consider a number of important factors. If the figures were to include the liabilities accumulated in nonbudget funds, the depreciation requirements of the banking sector and state-owned enterprises, the bonds issues by the rescue companies set up for the major banks, and the deficits run by the social-insurance sector, we would come up with a total national debt in the range of 100 % of GDP or higher (Taube 2003, 45 ff.).

Just how sensitive economic circumstances are in today's China is shown by the fact that while the government fears excessively high economic growth, experts at the same time emphasize that continuing growth rates in excess of 7 % are needed to prevent a collapse of the overall system, a threat posed by growing unemployment and its social implications (Anonymous 2002).

Economic experts are generally optimistic about China's future economic development. For 2006 experts expect continuing high growth in the range of 8.5 % and an inflation rate of about 3 % (Hong et al. 2005, 52 ff.); for the period to 2020, the Chinese Development Research Center, which reports to the State Council, predicts economic growth in the range of 7 % to 8 %, assuming progress is made in raising factor productivity, urbanization rates, investment in the country's education system, and technological innovation (Schüller / Albrecht 2005, 21 ff.). Western economists are also optimistic about China's long-term development prospects, pointing to the growth dynamic resulting from the transformation of the country's economic system and the positive impulses generated by the Chinese economy's growing integration into the world economy.

The fact that China's economy is not simply on a linear upward course is also illustrated by increasingly negative assessments of its international competitiveness. According to the World Economic Forum's Global Competitiveness Report 2005–2006, China in 2005 moved downward from a ranking of 24 to rank 33 as far as its overall economic data are concerned. The reasons must be sought in rising inflation driven by consumption and in government restrictions on personal savings accounts. China also slid from rank 47 to rank 57 on economic competitiveness. The findings are similar when we look at the technology index or the assessment given for China's public institutions. According to this prognosis, China's competitiveness is likely to continue to decline unless it solves the problems besetting its public institutions. The report indicates that China's social security systems, banking system, education system, and legal system are in urgent need of improvement.[15]

1.1.2 The problem complex of energy and natural resources

In China too, economic growth and rising living standards are generating a growing demand for energy. However, the country's economic prosperity is increasingly threatened by China's lack of energy resources. In 2004 the country was faced with electricity shortages so massive as to compel the authorities to intermittently cut off factory electricity supplies, a move that had markedly negative impacts on the economy. In recent years China's energy demand has grown nearly twice as fast as the economy itself. Per capita electricity consumption, at present 1,300 kilowatt hours, is about half of the world average. Estimates indicate that in 2005 the country had a shortfall in electricity of some 30,000 to 40,000 megawatts, and electricity demand is expected to rise by an additional 20,000 to 30,000 megawatts per year. That is roughly one quarter of Germany's overall electricity output. According to economists, this lack of energy is the result of flawed investment decisions taken at the end of the 1990s. The International Energy Agency (IEA) in Paris estimates that in the coming years China will have to invest some US$ 70 billion

15 See China-Telegramm 04/05, 4, and the report under: http://www.weforum.org/site/homepublic.nsf/Content/Global+Competitiveness+Programme%5CGlobal+Competitiveness+Report (last accessed on 11 Dec. 2005).

in the development of its energy sector if it is to meet its energy needs. At the same time, there is growing pressure on policy-makers to take measures designed to promote energy-saving. In 2004, for instance, a first step was taken in this direction by raising electricity prices (Lohse 2005, 48 ff.). Technical analyses show that it is conceivable for energy consumption to grow moderately in an environment defined by continuing economic development. But this presupposes appropriate key energy-policy decisions on industry structure, technology and efficiency, energy mix and emission rates (Dai / Zhu 2005, 131 ff.).

China has over 2 % of the world's oil reserves, and it has been importing oil since the early 1990s. Development of China's own oil reserves is highly cost-intensive, particularly in view of the fact that China's oilfield are located for the most part in regions that are both remote from the country's industrial centers and have for the most part yet to be developed. In view of the fact that China's present per capita energy consumption is roughly half the international average, it must be assumed that energy demand will continue to rise. According to the IEA, China now imports some 45 % of its energy needs. It is estimated that this percentage will increase to 75 % by 2030. Apart from hydropower, coal – of poor quality – is China's chief source of energy, accounting for 70 % of the country's overall energy consumption. Between 2000 and 2004 China doubled its consumption of coal to 957 million tons p. a. (by comparison: the US presently consumes 564 tons p. a.). The Chinese government plans to expand its output of nuclear energy from a present 1 % of total consumption to a figure of 4 % in 2020 – which will mean construction of a total of 32 nuclear power plants. But since this will take time, China will continue to be dependent on oil imports. At present China is the world's second-largest oil consumer.

In addition, the Chinese government plans to promote the use of gas, wind and water power, and other renewable energies. China is, for instance, engaged in a cooperative project with Greenpeace and the European Wind Association designed to promote the use of wind energy. In March of 2005 the Chinese parliament (National People's Congress) passed legislation on renewable energies: the aim is to have renewable energies (solar, wind, small-scale water power) cover 15 % of the country's energy needs by the year 2020 (2005: 7 %). Furthermore, in 2005 China has hosted the 2nd International Renewable Energy Conference. It also intends to lend in strengthening the United Nations Environment Programme (UNEP) and to support efforts to upgrade the program to the level of a United Nations Environmental Organization.

Apart from the huge Three Gorges Dam, China is engaged in a number of other projects designed to exploit water power, in particular in the water-rich regions of Southwest China, from where the energy is set to be supplied to Guangdong Province or to neighboring countries. These projects do, however, entail the risk not only of heedlessly destroying unique landscapes but also of uprooting hundreds of thousands of people, mostly against their will and without according them any voice in the matter.[16]

China's huge demand for natural resources (iron ore, coal, oil) is now making itself felt in both drastically increased world market prices and bottlenecks, e. g. in the steel sector.

16 The ethnic minorities in southwest China will bear the brunt of these projects, which may destroy coherent settlement areas and endanger the existence of the ethnic cultures there. Lohse points to the example of the Tiger Leap Gorge in Yunnan Province, a case in which the ancient Naxi culture is threatened with extinction. See Lohse (2005, 50 f.).

While in 2004 China produced a total of 260 million tons of steel, making it the world's largest steel producer, it was still forced to import an additional 43 million tons of high-grade steel, which China is not yet able to produce itself.

Likewise in 2004, China became one of the world's largest oil importers, second only to the US; this is due, among other factors, to the headlong growth of the country's auto industry. The greatest share of China's oil imports stems from the Middle East (45 %). But China has also been concluding a growing number of contracts with suppliers from Russia (8 %), Africa (28 %), and Central Asia and Latin America, the aim being to avoid any one-sided dependencies (Zweig / Bi 2005, 37 f.). In 2005 China started building national oil reserves. Both this development and China's general demand for oil are likely to have appreciable impacts on both the international oil market and the development of world oil prices. However it has to be taken into account that Chinas enormous demand for energy and resources is caused by the fact of its integration in the world market and international production cycles and not by a large own domestic demand or consume.

We can note here by way of summary that the energy issue, or put more generally: the problem of resources, is of vital importance for China, because resource availability constitutes a core component of China's ability to continue on with its positive economic development. This economic progress in turn is needed to ensure a minimum of social and political stability, with which the Communist system seeks to legitimize its rule and secure its own survival. But efforts to secure China's needs for raw materials also have a foreign-policy dimension. In the spring of 2005 the Chinese government set up a state energy agency that reports directly to the prime minister. Based on targets set by the government, the agency is tasked to work to reduce China's dependence on energy supplies from abroad and to cut energy imports to 5 % of overall consumption, from the present level of 12 %. China's percentage of imports as a share of its total energy consumption is thus appreciably lower than the figures reported for countries like the US (40 %) and Japan (80 %) (ibid.). Three aspects bound up with China's foreign policy may be highlighted in this connection:

First, China's natural resource needs are increasingly leading to competition with neighboring countries; this is at the same time the background of the territorial disputes with Vietnam, Malaysia, and the Philippines over the islands in the South China Sea, where oil reserves are suspected; the same goes for the dispute between Japan and China over the gas reserves in the East China Sea. Internationally, China is also a competitor for the US, although China is undertaking efforts to develop less important raw materials markets in which the US is not active and there is thus little danger that any direct competition will emerge. In the past 20 years China, hoping for technology transfers and investments, has undertaken efforts to develop good relations with the industrialized countries in particular. But even though it continues to need these inputs, China has more recently turned more of its interest to the resource-rich countries of the South with a view to securing its own raw materials needs. In 2000, for instance, China took the initiative in creating the China-Africa Cooperation Forum (CACF), an organization devoted to promoting Chinese trade and investment activities in 44 African countries. Since then China has not only invested there, it has also cancelled debts in the region amounting to US$ 1 billion. Following official state visits, China, in 2004, invested US$ 1.4 billion in Latin America, and it may thus be seen as the driving force behind the export growth recently experienced by Latin American countries. In 2004 China also took steps to intensify its trade with Australia.

Australian iron and coal exports to China have grown by 40 % and 70 %, respectively. China has in this way replaced the US as Australia's second most important trading partner. Alongside this investment-oriented strategy, China is also active on the world diplomatic stage. It has for instance intensified its relations with Canada with a view to initiating joint projects in the field of natural resource development. Aside from its acquisition of raw materials, transportation is for China a challenge that should not be underestimated and has thus far largely eluded solution. Since China has e. g. no transboundary pipelines – one project with the Russian oil conglomerate Yukos failed in 2003 – it is in essence forced to rely on (secure) sea lanes. China is for this reason participating in a port expansion project in Pakistan (Gwadar), conducting negotiations with Bangladesh on maritime facilities, and expanding military bases in the South China Sea. Discussions are presently underway on the possibility of upgrading the Chinese navy from a coast-guard fleet to a modern naval force.

Second, China interprets the US engagement in Iraq, Afghanistan, and Uzbekistan not only as an expression of a traditional security policy aimed at containing China but also as an attempt to develop Central Asia's oil reserves for the US. In other words, China has now come to view access to resources as a national security factor.

Third, China's resource interests have impacts on political decisions taken e. g. by the United Nations (UN). To cite an example, in September 2004 China blocked a UN Security Council resolution condemning Sudan for genocide in Darfur, the chief reason being that China regards Sudan as a potential supplier of oil (at present imports from Sudan cover 6 % of China's oil needs).[17] Chinese security expert Shen Dingli is quoted in this context as saying: "*Because we are dependent on oil imports, we have no choice but to maintain amicable relations with all oil-producing countries*." (Lohse 2005, 53)

At the same time, China's large demand for natural resources need not necessarily only aggravate relations with other major importers (the US). Indeed, potentially China has a shared interest in securing open access to natural resources. Guaranteeing access to constant qualities of oil at prices that do not fluctuate wildly or securing shipping lanes and oil platforms are costly projects that can be realized more effectively by cooperative means.

1.1.3 External economic relations

Since 1978 China has acceded to a number of institutions and agreements established to regulate the world economy. Since 1980 it has been a member of the International Monetary Fund (IMF), the World Bank, and the World Intellectual Property Rights Organization (WIPO); in 1995 it joined the International Chamber of Commerce and in 2001 it was accepted for membership in the WTO. China's accession to the World Trade Organization may be seen as an important indicator for the country's ongoing process of socioeconomic change and the process of economic globalization, and it may also be regarded as a permanent commitment to a liberal, open international economic system. It illustrates at the same time that China is prepared to accept some initial competitive disadvantages in its domestic market as a means of modifying, in the longer term, its domestic economic struc-

17 See *China aktuell* XXXIII (10), 1081 f.

tures. China is not only tied into these organizations, it will also increasingly exert its influence on the institutional shape given to them.

In the view of China's leadership, the country's economic regime can already be classified as a market economy because the private sector has gained substantial economic weight and prices for most goods and services are formed in the market. However, many of China's trade partners object to the state's continuing strong influence on the economy, in particular as far as industrial policy and pricing policies for raw materials and export goods are concerned. They have also criticized unsatisfactory legal arrangements, e. g. on protection of intellectual property rights, as well as distortions in the financial sector (Schüller 2005, 41 f.).

China's accession to the WTO was accompanied by concerns about the country's further stable development. Its membership in the world trade body must be seen as an expression of both adaptability to international processes and China's ability to learn in economic terms. However, the step should not be interpreted only with a view to economic matters. For it at the same time

- constitutes a radical liberalization program;
- is accelerating the country's process of market-based transformation and altering domestic economic structures;
- serves to place private and state-owned companies on an equal footing;
- is increasing competitive pressure on state-owned enterprises and the agricultural sector;
- is reinforcing China's attractiveness for foreign investment;
- serves to create new jobs;
- and is boosting China's share of the global economic pie; while it at the same time
- is leading to the collapse of more and more enterprises and, at least for the time being, to a rise in unemployment. It is now feared that any further rise in unemployment could give rise to social unrest and spell serious trouble for the country's political leadership.

China's course of external economic liberalization and market-based adjustment, not least in connection with the country's accession to the WTO, have in recent years boosted China's foreign trade, which is at present posting two-digit growth figures. China has also constantly improved its environment for foreign direct investment. Between 1999 and 2003 China's volume of foreign trade more than doubled, making the country the world's fourth most important exporter; agricultural products account for 4.8 % of the country's overall exports (2002) and 2.5 % of its overall imports.[18] According to OECD data, China's main exports are computers (14.3 %), clothing (11.9 %), and telecommunications

18 See China Statistical Yearbook (2003, 655 f.).

equipment (10.3 %), (OECD 2004) at present Chinese products account for a total of 6 % of world trade (OECD 2005).

China holds the world's second-highest currency reserves (at the end of 2004: US$ 609.9 billion, an increase of 33.9 % against 2003; at the end of 2005 the figure was US$ 818.9 billion; at the end of June 2006 941 billion US$).[19] Between 2003 and 2004 the country's foreign debt rose by 18.1 % to a figure of US$ 228.6 billion. Its short-term liabilities (under one year) accounted for 45.6 % of this figure (US$ 104.3 billion) (ibid.).

China's growing integration within the international division of labor is documented by its high trade ratio (the relation of exports and imports to GDP). For a country of the size (in terms of both population and geography) of China,[20] whose economy could be oriented primarily to domestic trade, a high trade ratio is quite unusual (Taube 2003, 32 ff.). To be sure, roughly half of China's foreign trade is generated by what is known as processing trade. This form of integration into international value-added processes, which consists in importing semifinished goods, finishing them, for the most part in labor-intensive processes, and then exporting them as finished goods, is contributing to a disproportionate rise in China's trade ratio; in other words, high values for exports and imports entail, in relative terms, a low contribution to domestic value added.

For export-oriented foreign corporations, China is an attractive manufacturing location, and the country's developing domestic market is also attractive for foreign investment. Over 60 % of such investment flows in from China's neighbors Hong Kong, Taiwan, and Japan, most of it going into processing and manufacturing industries. High-grade intermediate products and components, e. g. from the machine-building, electronics, and transport-equipment industries, are delivered to China for finishing and are then exported e. g. to the European Union (EU) and the US. This outsourcing of labor-intensive production processes to mainland China has led to a regional division of labor, which, thanks to China's low labor costs, has made the country into something that might be termed "Asia's workbench" (Schüller 2005, 46). Due to its structural and institutional characteristics, the Chinese economy is at present generally classified in the world economy more as a "procurement market" than as a "sales market," even though the fantasies promoted by the Western media of China as a gigantic marketplace may suggest something entirely different (Taube 2003, 32 f.).

China's integration into the global strategies of foreign corporations is leading to major inflows of foreign capital – from the mid-1990s the figures for foreign direct investment averaged some US$ 40 billion, and in 2003 the figure for the first time exceeded US$ 50 billion. The lion's share of this investment comes from investors and companies of Chinese origin. But Chinese economists estimate that at the same time some US$ 25 billion in private capital is transferred abroad every year. Another important factor that needs to be considered here is the "yields" from corruption, which are channeled abroad by the "beneficiaries." A volume of some US$ 300 billion has been estimated for the period beginning with the launching of economic reforms. One important reason for this exodus of capital must be seen in situation of legal uncertainty in China. Some of this capital appears to find

19 See *Renmin Ribao* 25 Feb. 2005.

20 According to OECD data, China has a land surface of 9,597 million km2, 1.3 million km^2 is used for agriculture and 2,633 million km^2 are forest areas. See OECD (2004).

its way back to China in the form of new investment. And China has in the meantime set up supervisory bodies to combat capital flight. But while the state foreign-exchange administration in Beijing has recently started providing support for Chinese investment abroad, capital outflows to the Caribbean, Hong Kong, and real-estate markets in Australia and Canada may be seen as indirect evidence that these official measures are not particularly successful. The locations named have for years now been the alternative havens of choice for financial investments made by wealthy Chinese (Anonymous 2005).

The Chinese government is hoping that the engagement of foreign corporations in China will also lead to technology transfers, a development that would on the whole serve to boost China's competitiveness in the world market. However, investigations of e. g. patent data indicate that subsidiaries of foreign companies generate relatively few innovations for the world market and concentrate instead on the Chinese market, one of the reasons being that China has thus far failed to provide adequate protection for intellectual property rights. It is expected that in the long run government efforts to improve the education sector and the return to China of well-trained Chinese scientists will have positive effects on China's innovation capacity (Schüller / Albrecht (2005, 29 f.).

Chinese private- and public-sector companies are now increasingly making their mark on the world market, making sizable investments and acquiring corporations and shares of corporations abroad (including IBM or the Texas oil company UNOCAL), and this is making China a global player in this field as well. China's investments in the ASEAN countries – they are likely to exceed by far the official figure of US$ 2 billion p. a. (Frost 2004, 323 ff.) – are also of growing economic and political significance. Chinese investments in this region are not motivated only by economic considerations, one of their aims is to alter the dominant perception of China as a threat to the countries of Southeast Asia. But two facts of some interest should be noted here. For one thing, little is known about the ways in which Chinese companies operate (locally). It remains unclear whether and to what extent these companies will contribute to exports and/or to the dissemination/maintenance of poor working conditions and how open and willing they will prove to be to implement international industrial-safety standards and workers' rights. In China itself, working conditions are nothing short of disastrous. Every year industrial accidents claim the lives of some 140,000 workers (Anonymous 2004b).

It is known from Hong Kong that dealings with and criticism of subsidiaries of state-owned Chinese companies can be problematic, because the internal affairs of these companies may be regarded as tantamount to state secrets (Senz 2003). It is, in other words, entirely possible that subsidiaries of state-owned Chinese companies may reject criticism of poor working conditions and demands for compliance with international labor standards as "interference" in their "internal affairs." For another, Chinese investments and economic aid also flow, largely unnoticed, to "rogue" regimes like Burma (Myanmar) that have been isolated internationally for human rights violations; there these funds are used, among other things, to modernize military apparatuses (Anonymous 2004b).

Growing Chinese investments abroad seem to be going hand in hand with the spread of the Chinese language; in some Thai towns, for instance, Chinese-language schools are being set up and thought is being given to the use of bilingual street signs.

However, China's rapid growth has some important impacts on other developing countries. China's growth has positive effects on countries that export natural resources; they profit from it. To cite an example, thanks to the increasing demand generated by China and other growing economies, Latin America is currently enjoying an unparalleled export boom. But on the other hand exporters of finished goods are increasingly forced to compete with mass-produced Chinese goods, especially since China's accession to the WTO. Chinese goods are making inroads in the markets of industrialized and developing countries alike. Furthermore, one effect of China's pull of foreign investment is that in some cases other developing countries find themselves left out in the cold – although it should be noted that China is also investing abroad, at present chiefly in oil and mineral resources in developing countries. While between 2000 and 2003 these investments were relatively low in volume, averaging roughly US$ 3 billion p. a., at present they show a strong upward trend.[21]

1.1.4 Currency policy

Starting in 1995, China pegged the yuan to the US$, setting a currency band of not more than 0.3 % from an average market rate of 8.28. In late July 2005 this fixed dollar peg was abandoned in favor of a currency basket consisting mainly of the US dollar, the euro, the Japanese yen, and the South Korean won. According to the Chinese central bank, this currency basket is made up and weighted on the basis of data on foreign trade, debt, and investment. At the same time, the renminbi was revalued upward by 2 %, and it is now allowed to fluctuate within a currency band of 0.3 % p. d.[22]

In September 2005 the exchange rate was again relaxed by doubling the yuan's margin of fluctuation vis-à-vis non-dollar currencies from 1.5 to 3 % p.d. However, since this does nothing to change the yuan-US$ parity, the US is likely to continue to exert pressure on China.

For some time now the US and the EU have been pressuring China to revalue the yuan. Beijing has repeatedly indicated that while it intends to reform its currency system, it nonetheless insists on its right to determine the exchange rate on its own. In this connection China has rightly pointed to the substantial risk involved in currency reform. And de facto a stronger yuan would contribute no more than marginally to reducing the US trade deficit.

In early 2005 Beijing took measures to stabilize the Chinese financial sector. The aim is to create a market-based system that could serve to cover financial risks. In addition, there are plans to develop indicators for financial stability and to improve the country's foreign-exchange management system.[23] In June 2005, for the first time, the government also legalized trade in international currencies in Shanghai, an important precondition for a flexible exchange rate. Further liberalization measures have been announced; one of them

21 See Jenkins (2005) for more information on this issue complex.

22 See *Die Welt* 11 Aug. 2005.

23 See *China aktuell* XXXIV (1), 69 f.

is designed to grant large Chinese companies direct access to the currency market with a view to enabling them to safeguard themselves against exchange-rate fluctuations.

There is no doubt that the stability of China's currency has contributed to the country's economic growth. Furthermore, the yuan's link to the US dollar proved to be an important stability factor during the 1997/98 Asian financial crisis.

As far as the domestic economy is concerned, the undervaluation of the yuan has led to a situation in which too many resources flow into the export sector and too few are used to satisfy domestic demand. This is one important reason why changes to the country's currency regime are necessary, although caution is also called for due to the fragility of China's financial sector.

Another relevant factor must be seen in China's currency reserves, which are estimated to have reached US$ 818.9 billion at the end of 2004. China seeks to keep its own exchange rate low by purchasing US$ and US government bonds; according to the World Bank, in 2005 101 of the 132 so-called developing countries have increased their dollar reserves. Together with other East Asian countries like Japan, South Korea, and Taiwan, China has now become one of the US' biggest creditors (Balls 2005). However, in China more and more experts are asking how long this situation can/should be justified.

Any assessment of this situation needs to bear two aspects in mind:

1. The dollar reserves China holds give it bargaining power vis-à-vis the US, and the possibility that China might engage in massive sales of the US dollar, thus lowering its value, has, in a certain sense, made the US vulnerable to extortion. This bargaining power is defensive in nature, in the sense e. g. that it could be used to defend the country against any threat of US intervention, although potentially it could also be used offensively, i. e. to push through Chinese interests. One interesting aspect of this theoretical possibility is the fact that Chinese-US relations are marked by a variety of tensions that might induce either side to make use of whatever threat potentials it has. In this connection, and playing on the nuclear threat omnipresent during the Cold War, Lawrence Summers, the former US Treasury Secretary and current president of Harvard University, has spoken of a "balance of terror." (Afhüppe et al., 2005, 136)

2. However, any massive sales of the US key currency might well lead to a international economic crisis that would hurt all of the world's economies. And due to the high dollar reserves it holds, China would stand to lose substantially, i. e. in the end to harm itself as well. Looked at in this way, China's high dollar reserves are perhaps best interpreted as a strategy designed to promote the country's present economic development by creating favorable conditions for Chinese exports (i. e. China has *no choice* but to buy US dollars) as well as a defensive mechanism to ward off threats to China's own currency (e. g. Thailand/Asia crisis) or to discourage any possible outside intervention. But it must be noted that these reserves also constitute a problem for China itself in that a downward slide of the dollar (not caused by China) would force Chinese decision-makers either to accept huge losses or to sell off dollars, with the known though ultimately unpredictable consequences for the world economy that any such move would entail.

1.2 Environmental trends

Its strong focus on economic success has entailed severe environmental consequences for China. Today the country is forced to contend just about everywhere with visible environmental problems that have earned it the reputation of being the world's most polluted country; at present, for instance, the majority of the world's most polluted cities are located in China (Klein 2004, 21). Calculations indicate that the costs of this environmental degradation amount to roughly 8 % of GDP (approximately the level of China's annual growth rate), while China spends less than 1 % of GDP on environmental protection (Dupont 2001, 52 f.). According to calculations of the World Bank and the Chinese Academy of Sciences (2005), the annual environmental damage suffered by China amounts to a figure as high as 8 to 13 % of GDP.[24]

Air pollution levels in China's cities are unacceptably high – according to the World Health Organization (WHO), the pollution levels in most Chinese cities are two to six times higher than the international standard. One of the main factors responsible for this situation is the explosive growth in the number of motor vehicles on China's roads. The record here is presently held by the US, where motor vehicles are responsible for 10 % of worldwide CO_2 emissions. In the coming decades, though, China will replace the US as the world's worst CO_2 emitter if it does not take incisive measures to reverse the trend. This would, in effect, be tantamount to a repeal of the decisions codified in the Kyoto Protocol. In 2003 alone car sales in China increased by more than 70 %. This perceived need to have one's own car is something new in China, and at present only a limited number of families have a car of their own. Forecasts indicate that car sales in China will grow by 15–20 % p. a. It is not only traffic congestion in China's big cities and health problems like a rapid increase in pulmonary diseases in the past 10 years that serve to underline the negative factors associated with this development; it is above all the country's negative environmental data.

As far as motor vehicle emission standards are concerned, China is more than 10 years behind the industrialized countries. Chinese standards permit motor vehicles in China to emit twice as much CO_2 and three times as much nitrogen oxide as in Europe. This is the reason why urban air pollution, which had declined slightly toward the end of the 1990s, has started again to rise appreciably. Smog due to car exhaust has now replaced industrial smog as the country's main source of air pollution.

China's political leadership has recognized that motor vehicles are one of the core causes of environmental pollution in the country. China's 10th five-year plan (2001–2005) still encouraged families to buy cars – the consequence being a sharp rise in the number of vehicles in urban areas (in late 2003 these newly registered vehicles accounted for 800,000 of a rough total of two million Chinese automobiles), the negative impacts (including persistent traffic congestion and emissions of pollutants and noise[25]) have now been recognized. In 2000 emission limits were defined, and since then only unleaded gasoline has been sold in Beijing. A number of Chinese cities have furthermore decided to limit the

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24 See *DIE ZEIT* 43/2005, 31.

25 Urban noise pollution has increased markedly since the late 1990s; at present measurements indicate maximum noise levels of 80.7dB, figures well in excess of the national standard of 70 dB. See Lo / Chung (2003, 728).

ownership of private motor vehicles and raise vehicle taxes. The government has now also set up a program designed to promote the development of fuel-cell vehicles.

Its emissions of CO_2, methane (wet-rice cultures), and nitrogen oxides (pesticides and fertilizers) mean that China is responsible for a substantial share of global climate change. China is the world's second-biggest emitter of greenhouse gases. The country even leads the world in sulphur dioxide emissions, and a reduction of 40 % would be needed to reach tolerable levels (Lo / Chung 2003, 726 f.). However, government programs designed to reduce emissions are at odds with the country's rising energy demand, which is met e. g. by permitting outdated coal-fired power plants to remain in operation. One consequence of the high levels of air pollution in China is acid rain, which affects 30 % of the country's land area, mainly in the South. This places China in the middle of one of the world's three largest acid-rain belts. The 2002 China Human Development Report concluded that continuing large-scale environmental degradation could threaten to annul the positive economic developments the country has posted.[26]

On top of air pollution, China is also forced to contend with other pressing ecological issues such as water pollution, waste-disposal problems (including nuclear wastes), desertification, overfertilization and soil erosion, and biodiversity losses:

- Some 20 % of China's rivers have water of extremely poor quality, and one third of rivers that run through cities are so badly polluted that people are advised to avoid direct contact with the water. In the cities of Northern China the groundwater is polluted and thanks to its toxic components, the quality of drinking water is problematic. The problems presented by wastewater-related river pollution and drastic declines in fish stocks are exacerbated by falling water and groundwater levels; numerous rivers are threatened by complete desiccation, and there are now plans to transfer water resources from the country's Southern provinces to the North. In order to reduce water consumption, the Chinese water resources ministry in Beijing has now reached agreements with its major customers on consumption quotas. At the same time, there are plans to increase water prices. In an interview, the minister responsible, Wang Shuchen, recently announced that it is China's goal to make China, within 15 years, a "society of water savers" and to freeze consumption levels at current rates for the coming 20 years. There is, he noted, a large water-saving potential in China and a majority of the population is prepared to support this goal. This initiative, he went on, could cast China in the role as a model for other countries with water problems.[27] While it is doubtful whether the initiative is in fact realistic, the project does at least reflect the start of a process of rethinking and the development of an awareness for the problem. But the problem is not only unsatisfactory water quality and availability. According to World Bank calculations, a rise in sea levels induced by global climate change would affect China's prosperous coastal regions in particular – and 90 million people would be need to be resettled in this case.

- Furthermore, 140 million tons of domestic refuse accumulate every year in China, and the country's recycling system is able to handle only a small percentage of it. Landfills

26 See: http://hdr.undp.org/docs/reports/national/CPR_CHINA/China_2002.pdf (last accessed on 20 April 2004).

27 See *Renmin Ribao* 16 June 2005, 2.

in China now have an expanse of 600 km^2. Chinese industry generates some 890 million tons of waste p. a., and roughly half of this volume is recycled. Another third is disposed of in landfills, many of which are unsafe. Of the roughly 9 million tons of hazardous wastes that accumulate every year, some 6 million tons are appropriately recycled or stored; there are, though, plans to invest RMB 20 billion in facilities designed to safely dispose of 100 % of the country's hazardous wastes. China is also a country of destination for waste exports, especially for plastics and electronics scrap. However, China's recycling sector is still largely unregulated, and the country lacks the know-how it needs for proper recycling operations.[28] Despite afforestation programs, China annually loses considerable forest areas to logging and agricultural encroachment. The consequence is seen in increasing sandstorms, erosion, desertification (amounting to some 2,400 km^2 p. a.), and danger of more frequent floods.

- China is home to some of the Northern Hemisphere's greatest biodiversity, though it should be noted that nearly half of this flora and fauna is found in Yunnan Province. The preference in China, due in large part to traditional Chinese medicine, for certain rare (i. e. rare not least for this reason) species of plants and animals also has impacts in the global context, and no process of rethinking is visible here. Many species at home in China are under threat because they are illegally gathered and their habitats are being destroyed. A poll conducted in 2000 among more than 20,000 city dwellers documented that nearly half of the respondents had eaten wild animals in recent months; one third of them were not interested in where the animals came from, and 82 % were not aware of the destructive consequences for the ecosystem (Klein 2004).

As early as 1972, i. e. prior to the policy of reform and opening, China saw itself faced with some first environmental problems that served to sensitize the Chinese political leadership for the issue (Jun 2000, 143 ff.). In the years following China set up official environmental-protection institutions, integrated environmental goals into its five-year plans, enshrined environmental protection in the Constitution (1978/1982), passed environmental-protection legislation, and adopted international standards to measure the environment.[29] Since then China has increasingly participated in scientific cooperation and data-collection efforts. However, systematic, scientific monitoring of the environment is not yet fully developed in China, and the data situation is for this reason not entirely reliable. In addition, many data are based on estimates.

In 1998 China set up a State Environmental Protection Administration (SEPA) which today employs some 70,000 persons in more than 2,300 local environmental-protection offices. Compared with other developing countries, China started out relatively early in integrating environmental protection into its political system, and it now has a set of high-profile environmental-protection institutions. In recent years the Chinese government, motivated by the occurrence of increasingly visible environmental damage, has gone some way toward giving greater weight to environmental protection. It has e. g. continuously passed new environmental legislation, although compliance is often not adequately monitored. Ecology and environmental protection have now become focal points of science and

28 See *Arbeitspapier der Wirtschaftskammer Österreichs: Umwelttechnologie in der VR China*, May 2004; online: http://portal.wko.at (last accessed on 20 May 2005).

29 For an in-depth presentation see Bechert (1995, 22 ff.).

research. This is illustrated, among other things, by the annual "Report on China's Strategy for Sustainable Development" published by the Chinese Academy of Sciences.[30] The 10th five-year plan provided for a reduction by 10 % in overall environmental degradation (measured in terms of 2000 levels), and the choice of Beijing to host the 2008 Olympic Games has, at least as far as planning goes, led to investment in efforts to combat environmental pollution in Beijing. But the environmental aims of the 10th five-year plan were, in fact, not realized. Whereas the five-year-plan called for a reduction of sulphur dioxide emission of 10 %, merely 2 % were realized.

The new Chinese government has taken a positive stance towards the concept of sustainable development, and since 2004 the country has plans to factor estimates of environmental damage into its GDP calculations (Lincoln 2004, 7 f.). Together with some foreign corporations (e. g. Siemens, BP), the Ministry of Trade, Science and Technology is engaged in the fields of sustainable development and corporate social responsibility.

China has ratified all of the important international environmental conventions (Montreal Protocol, UN Framework Convention on Climate Change, UN Convention on Biological Diversity, UN Convention to Combat Desertification). On Mai 19, 2005, it was announced that China would also ratify the Cartagena Biosafety Protocol, the international convention on the dissemination of genetically modified organisms.[31] The background here must, according to Greenpeace, be sought in problems involved in genetically modified cotton, soy beans, and rice. It must, though, also be kept in mind here that China is engaged in intensive research in the field of genetic engineering, and China's willingness to refrain from the use of genetically modified organisms is due largely to the EU's position on this issue. If the EU should change its stance on the issue, with Europe becoming an export market for relevant Chinese products, China would presumably lose no time in cultivating genetically modified plants.

Thus far China has come in for international criticism mainly for its practices in species protection and water projects (the Three Gorges Dam). It is not least for fear of international isolation that China has become active in the field of environmental protection, though it is doing what it can to keep its own costs as low as possible. While e. g. China did ratify the Kyoto Protocol, the accord contains no obligations binding on China, since Beijing joined the Protocol as a developing country and is therefore – unlike the industrialized countries – not bound to comply with the emission ceilings set out under it.

In all, the Chinese population perceives China's ecological problems as serious. Studies indicate that the majority of Chinese citizens expect more commitment on the part of the government in coming up with solutions to environmental issues; only a limited number of Chinese citizens, generally the younger and better-educated people at home in the country's more developed regions, are aware of the negative consequences of their own behavior and know what they themselves can contribute to environmental protection (Klein 2004, 135 ff.). Since the end of the 1990s the Chinese government has for this reason promoted educational programs on the environment and sustainable development. But very few people in China really understand the regional/global dimension of environ-

30 *Zhongguo kechixu fazhan zhanlüe baogao* (Report on the Strategy of Sustainable Development in China), Beijing 2002, 2003, 2004.

31 See online: http://www.greenpeace.org (last accessed on 22 May 2005).

mental problems. China refuses to accept responsibility for environmental damage it has caused in the neighboring countries of Japan or Korea, and it otherwise insists fundamentally that environmental problems are a Chinese internal affair. In recent years this attitude has increasingly led to tensions with China's neighbors (Dupont 2001).

Numerous INGOs are also active in China, and gradually an environmental movement is emerging, including Chinese environmental NGOs; owing to the country's political structures, though, these NGOs are fragmented and more local in orientation (Ho 2001, 893 ff.). They tend to form on the one hand in the country's big cities and on the other in regions affected by tangible environmental crises.

1.3 Political trends

In China the start of the new millennium saw a smooth change of generations in the leadership of both Party and state. The stage having been set in November 2002 at the Party level, the so-called fourth leadership generation in March 2003 took over the powers of government from the old leadership around Jiang Zemin, with Jiang finally resigning his chairmanship of the Military Commission, his last office, in the fall of 2004. One feature characteristic of China's development since 1978 is that there have as yet been no political reforms comparable to the comprehensive economic reforms initiated in that era. In terms of system type, the way in which the country is ruled must be termed authoritarian, although China experts prefer to speak of a "fragmented authoritarianism" (Lieberthal / Lampton 1992, 8), which means that authority is fragmented at the levels below the supreme leadership.

The political consequences of the economic development outlined above have meant that development successes have led to tensions which the country (at present) lacks mature instruments to resolve. In all, it can be said that there are in today's China clear-cut signs that the system is faced with a legitimacy crisis – though one due not to the **failure** but precisely to the **successes** the country's **development** path has met with.

This rapid process of change has been accompanied by a multiplicity of social and political problems that pose major challenges for the county's political system and leadership. In essence, six political factors may be cited for the process of political change that has taken place over the past two decades:[32]

1. Changes to the country's economic and ownership structures

2. Social change and liberalization within society

3. A greater measure of legal certainty

4. The economization of politics

5. Greater participation at the grassroots level

32 For a more in-depth view see Heberer (2003a, 19–122).

6. Creation of international confidence

The course of economic reform has, *first*, fundamentally altered the country's economic structures, and nearly all small businesses and a majority of medium-sized companies are now privately owned, with only the really large enterprises remaining in state ownership. This has given rise to an assertive and well-qualified entrepreneurship in the business sector. Unlike the situation in the former Soviet Union, in China there has been no large-scale "top-down" privatization handing over companies to members of the former nomenclatura. China has promoted privatization "from below," respecting the independence of privatized companies and encouraging new startups by the population. Still, in China too, economically driven transformation of the system has gone hand in hand with a widespread corruption that threatens to undercut the legitimacy of Party and state. Efforts to boost the efficiency of Chinese companies has also led to the factories closures and sweeping layoffs. Since China's social security net is still far from adequate, many of the families affected have had to contend with massive material problems. Unemployment, social insecurity, and the attendant social problems are growing at an alarming pace, with social conflicts more and more often finding expression in demonstrations and acts of violence. According to one source, the number of larger-scale protest actions and demonstrations in China, some of them violent, rose from roughly 10,000 (attended by 730,000 persons) in 1994 to roughly 74,000 (attended by some 3.7 million persons) in 2004 (Pei 2005).

The process of economic change has, *second*, brought with it a process of rapid social change. The state has withdrawn from many sectors. Liberalization of the economy has led to liberalization of society: People are coming more and more to shape the course of their own lives, young people have gone through a striking process of individualization, the values and attitudes held by people have changed. Throughout the country more and more associations and civil society organizations have been founded with the blessings of the state. These also include NGOs.

Based on the country's legal system, the state, *third*, is attempting to draw legal boundaries with a view to containing arbitrary actions and improving recourse to the law. The motto: "Run the country with the help of the law." However, efforts to develop the country's legal system have not kept pace with economic and social needs. Although the system is (still) far removed from our notion of "the rule of law," more and more citizens are successfully instituting legal proceedings as a means of securing their rights.

Fourth, politics has been economized in the sense that policy is today determined by economic goals like China's development, its integration into the world market, and efforts to raise overall standards of living.

Fifth, today by introducing general elections at the village level, as well as, in the meantime, in urban residential districts, the political leadership is seeking to strengthen local self-rule and popular involvement in public affairs. As problematic as election procedures may still be in many places: studies we have conducted demonstrate that the population is increasingly coming to see such elections as its right, and this is serving both to strengthen the idea of active participation and to reinforce the learning effect involved.[33]

33 See Heberer (2003b, 1223–1240) and Senz (2005).

China's efforts to host the 2008 Olympic Games or to gain admission to the WTO clearly indicate, *sixth*, that the country is interested in becoming an accepted member of the international community and at the same time in building for itself a positive image as a reliable partner prepared to play according to the international rules.

1.4 Social and political pressure for reform

The pressure to embark on a course of extensive reforms comes not only from intellectuals and think tanks but from the Party itself. A (Chinese) survey conducted among 100 leading province-level cadres concerning the most urgently needed reforms found that over one third of the respondents see political reforms as the most pressing problem. Another survey conducted in 2002 found that 79.8 % of respondents were of the opinion that structural political reforms constituted the central factor for economic and social development in the current decade (Xie 2002, 34).

International pressure (respect for human rights, democratization) and global and regional developments (breakup of the Soviet Union, Asia crisis) have led to processes of reflection on preventive measures. To cite an example, the demise of the Soviet Union sparked, some ten years after the fact, in 2001, a discussion among intellectuals over the causes that led to this process. Some important Party and government advisers argued that the country was in need of swift political reforms, more ethnic autonomy, and improved cooperation with the West in order to prevent any similar development from happening in China (Xu / Chen 2001).

It is nevertheless essential to give due consideration to the problems faced by political reforms:

(a) Political reform is a particularly sensitive area because it implies a redefinition of the function of Party and state; fundamental political reforms may easily lead people to start radically questioning the role played by the Party and the overall political system.

(b) Within the political elite there is no consensus on such reforms, and this means that any one-sided decisions would inevitably lead to power struggles.

(c) For functionaries at all levels, political reforms have consequences bearing e. g. on power, incomes, careers, and insider networks. Any loss of support by segments of regional or local political elites could entail consequences for the Party's control capacities as well as for its legitimacy in the eyes of the membership, above all when reforms threaten to massively curtail its interests.

With its thesis that the Communist Party of China (CP) represents the "whole Chinese people" – a statement that has now been enshrined in the Constitution – the Party has completed its transformation from a class party into a popular party.

One interesting development in this connection that was discussed in the context of the XVIth Party Congress (2002), and which attracted relatively little attention in the West, is the revival of a discussion on Social Democracy that goes back to the 1980s. Academic advocates of a Social Democratic course in China argue that Social Democracy is likewise a branch of socialism, one that has always fought for equality, social justice, and social

welfare and could for this reason prove suitable for China. And a noted expert on the international Communist movements has proposed a "socialist multiparty system" for China. After all, he argues, Marx and Engels were also in favor of a system of this kind, and it was Stalin who abolished it. In the 1940s, he argues, Mao also preferred a multiparty system. The failure of socialism in the Soviet Union and in East Europe, the argument goes on, proves that a one-party system is no real alternative.[34]

Of course such discourses do not mean that China is about to move in the direction of a democratic multiparty system. This was made clear by the XVIth Party Congress, which explicitly rejected a multiparty system and Western-style democratization. Yet concepts like the "socialist entrepreneur," the "socialist shareholder system," or the "socialist market economy" too were first rejected, only later to become official policy. A "socialist multiparty system" must for this reason by no means be seen as precluded once and for all. Efforts geared to democratizing the Party and placing the relationship between state and society on a solid legal footing have raised the question of whether the CPC might not gradually be transformed into a civil society organization (Tang 2005, 117) or whether the Party might, in the future, be given the role of an upper house of parliament, i. e. become an institution entrusted with the task of reviewing and approving, in the framework of the law, all important government decisions, i. e. a body whose authority is restricted to control and supreme oversight functions (Wei 2003, 40 ff.). A decision taken by the political leadership in December 2005 could point in this direction; it called for efforts to strengthen "multiparty cooperation," i. e. cooperation among the country's eight non-Communist parties.

Another interesting development is the concept of the "harmonious society" officially advanced toward the end of 2004. The concern here is, in principle, the question of how best to resolve contradictions in society and to overcome them with a view to achieving social stability. The aim is to reach this goal by creating a solid economic base, economic and social justice, a functioning legal system, and by working on a continuous basis to raise education standards.[35] This concept is – as the sociologist Hang Lin has emphasized – to serve as a basis to broaden the middle class, to reduce the size of lower-income groups, and to fight corruption.[36] This reflects the view that the country needs a broad middle class as a vehicle for processes of political change.

1.5 Demographic trends

In early 2005 China's population surpassed the level of 1.3 billion, and by the end of the same year the country's population had grown to 1.3075 billion. China's population density is 135 per km^2. (OECD 2004) China's population is growing at an annual rate of 0.6 %, and the one-child policy adopted in 1979 and the growing life expectancy figures induced in connection with economic reforms mean that China is faced with a marked

34 See e. g. Feng (2003).

35 See Qiang (2004) as well as various contributions on the issue in the framework of the discussion on the Chinese government's report to the National People's Congress in March 2005, in: *Renmin Ribao*, 07–09 March 2005.

36 See *Renmin Ribao* 09 April 2005.

process of demographic change. The core problem here must be seen in China's aging population and the problem of old-age security which this development entails. In the year 2000 only roughly 10 % of the population was older than 60 years, in 2020 the figure will be 17 %, and by mid-century the figure will have risen to 29 %. Very few of these people receive regular retirement benefits.

Experts estimate that the Chinese population will have grown to roughly 1.6 billion by mid-century (Schucher 2005, 24–26), the average age of the population will then have reached 45 years, a figure close to that typical for the industrialized countries. It is furthermore estimated that the number of elderly persons will grow from a figure of 133 million in 2001 to 355 million in 2030 and 450 million in 2050. One highly precarious factor here is that China has not developed a social insurance system adequate to the task of supporting the country's growing number of elderly people. Aside from this general demographic trend, China's gender ratio also raises questions regarding the country's future. Thanks to the traditional Chinese preference for male progeny, the current ratio of boys to girls is 120:100 (instead of the normal figure of 103–107:100), and in many provinces, including Jiangxi, Guangdong, and Henan, the ratio is well above 120:100. If this trend continues, 30–40 million men will be unable to find a mate. Even today, China is forced to contend with the first serious social consequences of this development (trafficking in / abduction of women); but even if the country launches successful corrective programs, the surplus of men over women will have reached roughly 24 million by 2020, according to the Chinese Minister for Population and Family Planning, Zhang Weiqing. In 2004 the government stepped up its efforts e. g. to combat the practice of selective abortion (in 2002 the practice was banned by a population-planning law), and it now has plans to define both selective abortion and the practice of prenatal gender determination as criminal offences. The official goal is to reach a gender ratio of 107:100 by the year 2010.

A population and family-planning commission that emerged in 2003 from a 250-member group of experts has been entrusted with the task of looking in depth into the demographic challenge and working out proposals for coming to terms with it. There is also a discussion underway about officially easing the one-child policy, possibly beginning in 2010. It has, though, been noted that even today China's birth rate shows signs of declining in connection with growing prosperity and increasing education levels. This raises questions as to how great the influence of political measures on population development will in fact be.

Another factor with implications for China's demographic development is the spread of Human Immunodeficiency Virus / Acquired Immunodeficiency Syndrome (HIV/AIDS); China's outlying provinces Xinjiang (in the West) and Yunnan (in the Southwest), both of them transit routes for the drugs trade, currently appear to be particularly hard-hit. (Dupont 2001, 212 ff.) Alongside prostitution, the major sources of infection include unhygienic medical conditions in rural regions, as the 2002 blood-donation scandal in Henan Province clearly showed. The Chinese government, which long saw the problem as typical of the decadent West, has in the meantime launched information campaigns on HIV/AIDS. However, growing mobility (migration), increasing drug consumption and prostitution, low education levels, and the underdeveloped state of rural medical infrastructure are proving to be a major challenge for these government measures.

China's huge population constitutes a challenge for official attempts to guarantee access to the country's social system. China's population development will go hand in hand with increasing urbanization, and this too presents a major management challenge. China has at present one of the world's most rapidly aging populations.

One conceivable economic consequence of this long-term population development in China will be a reduction in the "supply" of cheap (unskilled) labor. China's demographic development can thus, ultimately, be regarded as a factor working counter to the country's rapid pace of economic development. Even today, first signs seem to indicate, e. g. in Guangdong Province, that constant high demand for low-wage labor is boosting the bargaining power of Chinese workers when it comes to negotiating wage agreements and improved working conditions (Yang 2005, 19 ff.).

1.6 Problems facing China's social security systems

The economic transformation of Chinese society on the road to a market economy that got underway in the 1980s has led to a crisis in the country's social security system and at the same time made it necessary to take measures to safeguard against social risks (e. g. unemployment). State-owned companies, otherwise responsible for the social security of their workers, have, at least in part, either collapsed or are no longer able to provide medical services and pensions. While the state is undertaking efforts to establish new social security systems, it has, for the time being, set other financial priorities, e. g. continuing subsidies for state-owned companies (as a means of preventing any downward spiral in employment), efforts to improve infrastructure throughout the country, or investments in space-flight projects and upgrading of military technology.

But one way or the other, the collapse of many state-owned companies has severely undercut the social security of parts of the urban population. The problem is exacerbated by growing unemployment due to factory closures and layoffs. Per year somewhere between 9 and 12 million people are forced to leave the state sector and to seek new employment - along with the roughly 10–12 million school graduates per year who are pushing into the labor market at the same time. This loss of social security due to the closure or insolvency of state-owned companies is one important cause of growing protests in urban regions. Establishment of social security systems above the company level is for this reason becoming an increasingly pressing need.

Until now social security appeared to be primarily an urban problem, precisely because it was here that many state-owned companies collapsed or were closed, with workers suddenly finding themselves without work and social benefits.

This problem is aggravated by the rapid aging of Chinese society, an effect of increased life expectancy and the country's official one-child policy. How, in the future, the pensions of the growing army of retired persons are to be paid for remains an unanswered question.

One of the central tasks of China's urban neighborhood committees, which were reorganized in the late 1990s, is to guarantee a minimum of social security. Growing unemployment and social insecurity were one of the main reasons why the government created an

income support system for families with nor or low income (*dibao*). This system was introduced in 1999 on the basis of a decree issued by the State Council. The aim was to guarantee a minimum standard of living for city dwellers. The tasks of needs testing and distribution of assistance, which is made available by civil administration offices, have been assigned to local neighborhood committees. The state has in this way disburdened itself of a touchy task, delegating the actual provision of social assistance, in a way that might be termed "citizen-friendly," to the residential areas in which the recipients live.

Social security, long regarded as an urban problem, has now come to be seen as one of the core problems in rural areas as well. Compared with city dwellers, the rural population has always been at a disadvantage, i. e. without state-funded healthcare, pension systems, and other state-provided social services. Moreover, fewer and fewer farmers are able to pay for health services, which are growing increasingly expensive. Those who fall ill and are in need of medical treatment are forced themselves to procure the money they need for the purpose, often from illegal, private moneylenders, who demand exorbitant interest rates. The Chinese press has accordingly noted critically that the main reason for the new poverty affecting large segments of the population is precisely this phenomenon. According to Chinese reports, sickness has been the reason why 95 % of newly impoverished rural households have fallen below the poverty line.

This unequal treatment of the urban and rural populations is reflected e. g. in the fact that, in 1978 alone, the state spent 5.1 billion yuan for the social welfare of the country's roughly 170 million city dwellers while making available only 230 million for the rural population, which numbered 790 million. In the course of the 1980s this rural-urban ratio of 1:22 deteriorated to a level of 1:63 (1984). The picture had hardly changed at all by the year 2000. In 2000, 20 % of China's health infrastructure was shared by 70 % of the country's rural population (with 80 % of this infrastructure located in urban centers). If in 2000 the state spent an annual total of 12 yuan per capita for health care for the rural population, the figure for the urban population was 44 yuan, and this disparity has widened in recent years. And the costs for medical care soared at the same time – according to official date, hospital costs alone rose by more than 500 % between 1990 and 2000.

Starting in the mid-1960s some initial efforts were undertaken to create a system of cooperative healthcare in rural areas, with village cooperative members paying a contribution of their own and the cooperative "welfare fund" contributing the rest. Beginning in the mid-1960s, a network of country doctors – earlier known as "barefoot doctors" – trained in treating frequently occurring local diseases was built up to broaden the availability of medical services in the countryside. Today the cooperative system can only be found in prosperous villages. Poorer villages have problems providing medical services, especially in view of the fact that the state is not able to cover the costs for rural medical care. The state provides some subsidies at the local level, and for the needy there are the so-called "five guarantees." Under this arrangement villages provide their sick people, orphans, childless and widowed persons with cost-free food, clothing, fuel, education for their children, and funeral rites.

Agricultural reform reduced the role of the collective while strengthening the role of the farm household, and this has made itself felt in rural healthcare. Some farmers were unwilling to continue paying contributions for community medical services. Rural medical stations were given up, or barefoot doctors looked elsewhere for gainful employment. Ac-

cording to reports, in 1970 85 % of the rural population had access to one form or another of guaranteed medical services; the corresponding figure for the 1980s was a mere 7 %. Higher-paid persons can of course choose between a growing number of private doctors; and then there are numerous persons who offer private medical services without ever having been trained in the field. In many places traditional healers and shamans have also been appearing on the scene, helping to close gaps in rural areas. This goes in particular for regions with large ethnic minority populations and high incidences of poverty. In Meigu, a district in Sichuan Province in Southwestern China with a majority Yi population, 6,000 traditional healers were active in 2000 – in a region with an overall population of roughly 150,000. The fact that such healers are reappearing certainly also has to do with the breakdown of the healthcare system in rural regions as well as with the high costs of medical treatment there. In addition, many university-trained doctors are unwilling to work in the countryside because both pay and working conditions there are poor. The state for this reason promotes the activities of practitioners of traditional medicine, who, while they are as a rule not academically trained, are affordable for rural populations and more willing to work in the countryside.

The 11th five-year plan adopted in March 2006 provides for the reintroduction, by 2010, of cooperative healthcare systems in 80 % of all the country's rural counties. A good number of counties are already experimenting with the concept, under which the central government, the provinces, towns, and counties, and the rural population each pay annual contributions into a cooperative fund monitored and supervised by special institutions.[37]

1.7 Growing unemployment and social insecurity in urban regions

According to official Chinese data, the national unemployment rate was 7 % in 2004. 24 million persons were reported to be registered, including 10 million new entrants to the labor market. It should, however, be noted here that the term "unemployed" refers only to officially registered city dwellers. These figures include neither people who have been "released from their jobs" (i. e. laid off without having been finally dismissed) nor rural migrant workers. But China's real unemployment rate is estimated to be far higher. Chinese social scientists even speak of rates of hidden, unregistered unemployment ranging between 15–20 %. While according to official figures, the ratio of job vacancies to job applicants was 1:2.17 in urban centers, the corresponding figure for the poorer western provinces was 1:2.39.

Closings of loss-making state-owned companies, mainly in traditional heavy-industry regions, have led to a large measure of social insecurity. The bankruptcy of many state-owned companies that were responsible for the overall social security of their workers has meant that these persons are without any health and retirement benefits, i. e. that they suddenly found themselves without any social security. In addition, soaring costs in the healthcare sector are also fueling social insecurity. A 2003 Chinese study on poor urban families in the Northwest Chinese provincial capital of Harbin found that 58.8 % of the persons concerned fell under the poverty line as a result of having to care for sick or dis-

37 See *Renmin Ribao* 16 March 06.

abled family members, 36.7 % because of unemployment. 41.5% of the persons surveyed indicated a combination of the two factors as the reason for their poverty.

1.8 Summary of domestic development trends

- China's growth and its rapid transformation to a market economy have entailed a great number of social problems. Some of these are transformation problems that call for the creation of new institutions, some systemic problems (e. g. corruption) that can only be contained by fundamentally altering the system. Still, China has a strong state sector with marked governance capacities, and it is working successfully to build a new institutional structure. This restructuring process serves three aims: continuation of the country's positive economic development and rise in the international arena and preservation of CP rule.

- It is therefore safe to assume that – provided the country continues on its successful economic course – China's political and social system will remain largely stable

- It is important to note that studies conducted by Chinese and Western scholars (including the surveys of the authors) indicate that broad segments of the population continue to have confidence in the country's central government, although they have far less trust, or none at all, in local governments. China's central political leadership (and thus the overall political system) may therefore still be said to posses legitimacy.

- China's process of economic and social transformation and the process of political change underway in the country indicate that the party-state is capable of learning, i. e. of drawing conclusions from mistakes and failures and taking steps to remedy them. However, in the interest of economic, social, and political stability, the country is in need of sustained structural reforms, including efforts to boost popular participation, improve administrative transparency, strengthen the country's public space, but also to initiate urgently needed reforms in the financial sector. This task is likely to prove to be one of the greatest challenges facing China in the years to come.

- As long as China's trade expectations continue to develop positively, and the economy does not go into stagnation, the process of transformation is likely to continue. China's successful integration into the world economy and support for the transformation process underway in China itself may be seen as two key conditions that must be met if China is to continue to develop into a reliable and cooperative partner in the world.

- Coming up with approaches to solve environmental problems and deal effectively with the country's demographic development will pose a special challenge for Chinese politics and society in the coming decades.

It is often asked whether corruption could impair the country's economic dynamic and pose a barrier to foreign investment in China – in particular in view of the fact that corruption is increasingly perceived at the international level as a growing problem for the business and investment activities of foreign companies in China. World Bank experts have pointed out that surveys among Western corporations indicate that corruption poses a greater problem for investment decisions in Africa than it does in East Asia. The reason

for this finding is seen in significant differences between the two regions. Corruption, it is argued, amounts to share of fixed costs in Asia, and it remains within a predictable range. Bribery is used here to build personal relationships, to create an atmosphere of trust, and this in turn gives rise to standards of reciprocal obligation. In Africa, on the other hand, such practices are seen as entailing neither close social ties nor trust, and this in turn may mean that arbitrary payments are demanded again and again. For this reason, it is noted, bribes must be seen there as a component of variable costs. Among the reasons cited for this is the fact that institutions and bureaucracies in East Asia are relatively stable and problems there tend to be solved on an informal basis. In Africa, by comparison, institutions are unstable and governments and bureaucracies are in a constant process of flux. It is also noted that profits tend to fluctuate heavily in Africa, a factor that tends to undermine the effectiveness of bribes. Furthermore, it is argued, East Asia has posted larger rates of economic growth, and despite corruption the region has made significant progress in poverty reduction. These are thought to be the reasons why corruption impacts more heavily on the engagement of Western corporations in Africa than in East Asia (Reja / Talvitie 1998).

This is of interest for the Chinese context to the extent that the high level of corruption in the country has thus far not had any adverse effects on the investment activities of foreign corporations there. Accordingly, Tay and Seda argue that the case of China proves only that 'clean government' is not needed to set successful development in motion. Corruption, they note, is evidently no reason for foreign investors to refrain from investing in China, on the contrary. Even according to estimates of the United Nations Conference on Trade and Development (UNCTAD), foreign direct investment in China will double in 2006 to more than US$ 100 billion, and that despite a high level of corruption.[38]

Yan Sun, now teaching in the US, argues, in a similar vein, that corruption in China is less destructive and causes fewer costs than in Russia. The destruction of Russia's old political institutions and political authority, accompanied by a course of economic shock therapy, Yan argues, led there to an uncontrolled burgeoning of corruption. The weak state that resulted, he goes on, has trouble fighting corruption, a state of affairs that serves to obstruct both economic growth and a controlled transition to a market economy. In China, on the other hand, political institutions are intact and the state has remained strong. Corruption, Yan argues, has served in China to win over antireform forces for the government's reform policies, and social actors who had been cut off from political power have in this way been able to buy a share of power (Yan 1999, 1–20). Even though the consequences of corruption are similar in both countries, one key difference is, in our opinion, that China's political leadership can point to economic successes and a large measure of political stability. In addition, the political system in China has a stronger legitimacy base among the population.

Table 1 (below) lists some problem areas that are in urgent need of solution over the coming years. The issue areas listed are those that (a) have a long-term structure and (b) have the potential to endanger China's positive political, economic, and social development. Due to their domestic destabilization potential these problems are also of considerable importance for the regional and global context.

38 See Tay / Seda (2003, 40 ff.). On the foreign investment issue see UNCTAD (2000).

It must be borne in mind that the problem areas listed in Table 1 are not wholly separate, cut-and-dried fields; the list is instead based on an analytical breakdown; in reality these problem areas are multidimensionally intertwined. To cite an example, the present shortage of women in China both leads to migration and favors the spread of HIV/AIDS. Growing crime e. g., which, be it said, has an international dimension due to the growing dimensions of international criminal networks, is often directly linked with corruption-related offenses, and these in turn tend to have highly adverse effects on the country's inadequate social security systems and existing income disparities. Over the long term the deficits in China's education system will obstruct the country's further course of economic development, because education is the key to producing the qualified labor force that China needs. These examples may suffice to illustrate the intertwinement of and interplay between the different problem areas.

Table 1: Long-term problem areas in the PR China with potentially powerful impacts on the country's political stability and economic development

Dimensions	Issue area	Most important problems
Social	**Demographic change**	- Changed proportions between generations and genders - HIV/AIDS - Deficient social security systems (social assistance, pension system, healthcare system, care for the elderly) - Urbanization
	Education	- Nine-year compulsory school system underdeveloped, particularly in rural regions - Percentage of person with higher educational qualifications not sufficient
	Income disparities	- Rise in (gang) crime - Growing unrest and protests in rural areas - High rates of unemployment and labor migration - Funding of compensatory interregional projects ties down capital needed elsewhere
Economic	**Agriculture**	- Share of productive agricultural land too low / farmland unfavorably allocated - Low competitiveness of Chinese agricultural goods
	Overall economic development	- Urgent need to reform state-owned companies and the financial sector - Unskilled workers often exploited and without rights - Risk that the economy may overheat / need for high growth rates - Dependence on imports of energy and raw materials (oil)
Political	**Bureaucracy / political system**	- Widespread corruption and arbitrary decisions/actions - State structures inefficient and intransparent, esp. at the municipal level - Economic opening vs. political isolation
Regional/ global[a]	**Environment**	- Increase in private transportation - High (and inefficient) levels of resource consumption - "Development" accorded more importance than environmental protection - Environmental awareness underdeveloped among the population - Little understanding (willingness to accept responsibility) for the global scope of environmental problems

a Section 2 will deal in more depth with international issues.
Source: Senz (2006)

1.9 Perspectives

"The only guidance we can take is to study the past, observe the present and place our hope in a future that is increasingly multilateral, multi-stakeholder, and diverse. And yes, this can even be true in the case of China"[39]

The high level of complexity of the influencing variables involved makes it extremely difficult to come up with concrete scenarios for China, a country in the midst of a transformation process. Instead attempting a concrete outlook e. g. on what options China has as regards democratization or what, concretely, the result might be if the CP lost (some of) its power, Figure 1, at the end of the present section, outlines some of the basic factors underlying the situation of transformation in China. The aim of the diagram is to depict, at least in rudimentary form, the nexus of influencing factors and the reciprocal interrelationships between them. On top of economic conditions, the diagram also outlines social and political conditions, the assumption being that any concentration on one area alone would lead to distortions.

In our opinion, studies like the so-called BRIC study (Wilson / Purushothaman 2003) or World Bank analyses focus too strongly on the economic dimension of development, with their projections often paying too little heed to other influencing factors, which are evidently neglected as "fixed variables." Based on data on demographic development and a model of capital accumulation and productivity growth, the much-noted BRIC study e. g. makes forecasts up to 2050 on the development of GDP, per capita income, and developments in the monetary sectors of the BRIC economies. According to the authors of the BRIC study, the basic assumption guiding the study includes the further development of institutions and a continuation of policies conducive to economic growth in the countries under consideration. In the case of China, however, it is precisely questions bearing on the whether and how of further *political* developments that must be seen as the "crux" of any projection.

Projections of China's seemingly huge economic power are by no means new. The 1980s and 1990s e. g. were witnessing a good number of fantasies concerning China's economic potentials and rise in the arena of world politics; depending on the author, these views tend to be coupled with assumptions on an impending decline, at least of the world-political significance, of the "West."[40] The background of such scenarios must be seen not least in the altered world-political and world-economic parameters brought about by globalization; in the last analysis these views, which claim that the new conditions have served impede any North American-European dominance in the global context, are primarily the reflection of altered *Western* perceptions.

There is no doubt that Chinese politicians fuel these fantasies, playing their part in the creation of a "China legend," e. g. by constantly pointing to the possibility – in effect threatening – to restrict access to the Chinese market. Such lines of argument rarely focus on up-to-date figures and relations – while China's economic development is in fact quite positive, other countries in the region can point to similar success stories – they tend in-

39 Mar / Richter (2003, 30).

40 See e. g. Naisbitt (1995); Overholt (1994); Fukuyama (1995); Kennedy (1994); Bernstein / Munro (1997); Bauer (1995).

stead generally to be based on huge-scale projections and to be based on today's economic data, which are for the most part the result of estimates. In many fields Chinese data and statistics are inaccurate and often in need of subsequent correction. When it comes to realizing its own objectives, China is of course very interested in fanning or at least keeping up expectations. Indeed, it may be just this ability to awaken expectations, while at the same time keeping up a certain secretive nimbus in Western eyes, that distinguishes China from e. g. India in this regard. As far as this soft-power factor is concerned, China has a potential that might, in the long-term, even prove comparable in many ways to the "American dream" – provided that China manages to be perceived internationally as peaceable and to remain more or less "inconspicuous" as far as its domestic affairs are concerned, i. e. provided that it keeps out of the international headlines for human rights violations. This Chinese soft power is of course addressed primarily to international business representatives and big investors, not to Chinese citizens or international civil society.

The findings of some recent studies, including the above-mentioned Goldman Sachs study, with their catchy terms à la "BRIC economies," are, in our opinion, primarily a reflection of the fact that capacities of the sales markets in the industrialized countries are by no means infinite. In other words, thanks to their population figures, countries like the "BRIC economies" *could* potentially prove to be huge sales markets for Western products. However, these hopes are predicated on numerous conditions that are only all too often ignored.

We can identify two extreme positions among observers currently commenting on the ongoing transformation process in China. The one side bases its assumptions on a stable, positive development in China, focusing on economic aspects and euphoric projections. The other emphasizes the pressing political, social, *and* economic problems facing China, and predicts, depending on perspective, persistent crisis, collapse, or indeed even implosion of the entire Chinese system.[41]

As noted above, there is in our opinion evidence that China's gradual and continuous transformation process may well continue, in both economic and social terms. Party and state will continue their efforts to define and control the framework conditions. As long as the political stability and the preeminence of the CP is not in danger, the system is likely to remain, at least in the coming years, one defined by a *limited pluralism* which accepts personal liberties while at the same time restricting political liberties – although further setbacks like the suppression of the 1989 student protest movement cannot be ruled out. Such setbacks may be of a limited, temporary nature, although in the worst case they could also hobble the country's overall political system. A continuous course of liberalization, on the other hand, would be an entirely conceivable, positive outcome. Any attempt to answer the most interesting question for the political scientist, namely in what direction China will move in the future, would be prophecy, a question beyond the reach of science. We for this reason refrain from making any concrete prognosis here – and in view of the multiplicity of economic, political, ideological, social, and environmental issues involved, any attempt to make a prognosis of this kind would necessarily be doomed to failure.

China's future development will, in our opinion, depend of whether and how the political leadership manages to come to effective grips with the country's social crisis potential,

41 See e. g. Chang (2001); Jenner (1992).

laying the groundwork for long term social stability. Instead of being meant in a static sense, the term stability refers to the maintenance of a relative "steady state" that can be preserved e. g. through government measures taken in response to certain social developments; and to this extent the term stability also denotes dynamic aspects.

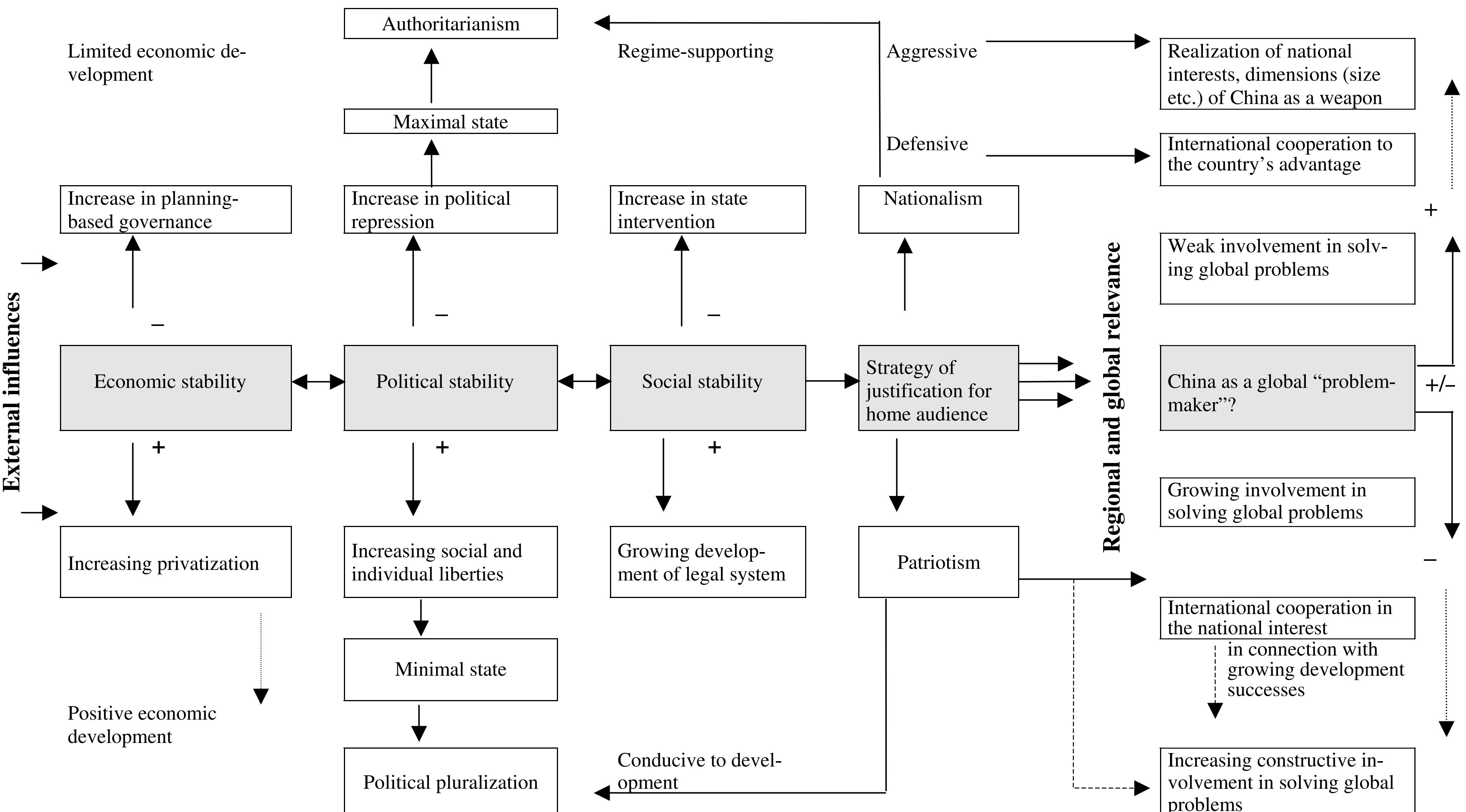
Growing instabilities (be they induced by economic, social, or political factors) could prompt the party-state to curtail or dampen the ongoing pluralization process; social crises and conflicts could, in tendency, lead to an intensification of party-state interventions and interference. There is thus reason to expect that any destabilization due to an aggravation of various conflict situations and possible social unrest might prompt the party-state to intervene massively and thus favor the development of authoritarian structures, whereas economic and social stabilization would serve to smooth the transition to market-based structures, to more legal stability and pluralization of society and politics. The first case would entail the threat of growing nationalism; it in turn could, as we can observe at the moment, take on a defensive hue, an attempt at self-assertion; whereas if signs of crisis begin to accumulate, this may take on the form of an outward-directed nationalism in the sense of a compensatory ideology. The concept of nationalism is of course associated with a sense of superiority over other countries and ethnicities and a vehement rejection of "foreign domination." Conditions marked by social, political, and economic stability would be likely to give rise to a durable, inward-looking *patriotism*, one that serves to legitimize and sustain China's development, much in the sense of a moderate national consciousness and pride in China's successful course of development. At present, however, it must be said the boundaries between patriotism in this sense and defensive nationalism are in a process of flux.[42]

On the whole, it may be assumed that China will prove to be less a "global problem-maker," the more favorable the shape the transformation process takes on and the greater China's capability becomes to solve its own problems. Until it has come close to reaching a level of development comparable to that of today's industrialized countries, China will concentrate primarily on itself, seeking in international relations a cooperation that benefits its own interests. Only then will there be reason to expect China to become involved in solving global problems and to be willing to accept restrictions on or disadvantages to its national interests and to bow to superordinate ethical interests – and this only providing that other internationally important countries are willing to do the same.

If – despite the dynamic reflected in Fig. 1 – we speak of "stability," we do so because we understand under stability not only – as mentioned above – a system stability that enables a system to return to a state of equilibrium following a disruption and that induces it to seek solutions that restore equilibrium. We also see stability as functional in nature, as "political performance" in the sense of legitimacy, efficiency, steadfastness, pragmatic political action, development successes, growing prosperity, and other factors. Above and beyond its structural and functional dimensions, stability also has a cognitive dimension which consists of attitudes held by the population as regards this performance. What people associate most with stability is political, social, and individual security. At present the party-state has a good track record on all three factors of stability, and it can therefore be seen as a guarantor of stability and the realization of national interests.

42 On the issue of nationalism see Section 2 as well.

Figure 1: Dimensions of China's future development



Source: Heberer / Senz (2005)

2 China in international politics

2.1 Foreign-policy trends

In the wake of the suppression of the 1989 student protest movement, China made the painful experience of being hit by sanctions and of finding itself, though only for a brief period of time, internationally isolated. It was not least this that served to open a debate in China over foreign policy as well as on China's role in shaping international relations. The central concept behind China's foreign policy is the idea of multipolarity. In 1994, in a speech he held before the UN, the then Chinese foreign minister Qian Qichen presented and explained the concept to the international community. The concept is based, among other things, on the notion that there are several poles in the world which are equally strong, which respect one another, and which extend assistance to poorer countries and regions.[43] With this view of international relations, China has taken a position explicitly opposed to the unipolar view embraced by the US. There are three models of multipolar politics currently under discussion in China:

(1) a tripolar model consisting of the US, the EU, and the larger region of Asia-Pacific (including India);

(2) a five-pole model consisting of the US, China, Japan, Germany, and Russia; and

(3) a bipolar model, with the poles "superpower" (US) versus the four big powers China, Japan, Russia, the EU.[44]

For China, it has still not been decided which of these models will prevail, although China definitely prefers cooperation between the different poles, if need be jointly against the US.

In connection with the ongoing reform process, China has redefined its domestic and foreign-policy agenda. While its foreign policy is increasingly aligned with modern international standards, "traditional value concepts," including absolute priority for national sovereignty, territorial integrity, and national unity, play an important role here. We can identify a total of eight key interests behind China's foreign policy:

- Securing a steady/stable environment for China's domestic economic development and preference for peaceful settlement of conflicts (modernization diplomacy)

- Respect for China's national sovereignty and territorial integrity

- Economization of foreign policy, i. e. accordance of a central role to economic interests

- Promotion of a multipolar world order

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43 See also the Chinese government's progress report of 05 March 2004, in: *Internationale Politik* 59 (9), 126–128.

44 For an in-depth discussion see Zhao (1996, 13).

- Improvement of China's standing in the international community (Wang 2003, 46–72) and acceptance of China's voice in all important international affairs
- National unity, in particular as regards reunification with Taiwan and China's claim to sole representation
- Securing China's supply of energy and raw materials (based on the development of Chinese spheres of power and influence)
- A multilateralism keyed to economic and security concerns.

China's foreign-policy style has also changed over the past decades. The old class-struggle concept, which China had earlier defined as the ideological basis of international relations, was abandoned, and today national interests serve as the frame of reference for China's foreign policy. Another important change is that China has increasingly abandoned a confrontational foreign-policy rhetoric in favor of a greater willingness to engage in international cooperation. China has recognized that its position in international affairs also hinges on accepting international responsibility. In this sense it may be said that China is now more willing to become involved in forging a world domestic policy (as witnessed by its participation in UNPKOs in Cambodia and East Timor, UN peacekeeping missions in Congo or in Haiti, where, for the first time, an independent Chinese police unit has been deployed); and China proved to be a constructive partner in the course of the 1997 Asian financial crisis.

China is also engaged in an intensive search for like-minded partners for cooperation in pursuing common economic interests, above all in Southeast Asia (e. g. proposals on a North Asian Free Trade Agreement, creation of an Asian Monetary Fund and an East Asian Cooperation Organization, efforts to form a common market (free trade area) with the ASEAN countries by 2015, and establishment of an "East Asian Security Community" in the form of a dialogue forum). China is in this way seeking to harness economic synergy effects for its development, but as the same time to build strategic partnerships with the Association of South-East Asian Nations (ASEAN) and the EU with a view to creating strategic counterweights to the US as a means of finding a balance in its continuing disputes with the latter and to ensuring that it will not one day find itself isolated internationally.

In the past 15 years China has nevertheless sought to build confidence in Southeast Asia based on its cooperative and constructive engagement in the region. By 1991 China had normalized its relations with all of the Southeast Asian countries. Since 1996 it has conducted an ASEAN-China dialogue, and since 1997 it has participated in ASEAN+3, a dialogue between ASEAN and China, Japan, and South Korea. It has at the same time been actively involved in the ASEAN Regional Forum's security dialogue. In November 2002 Beijing signed a framework agreement on broad-based economic cooperation (including the projected ASEAN-China Free Trade Area). In 2003 China committed itself, in a document binding under international law, to refrain in the future from using military force in the South China Sea. All this has contributed to building confidence between China and ASEAN.[45] Finally, China, in December 2005, was also actively involved in the "First East

45 See Hilpert et al. (2005, 31 ff.); Hilpert / Will (2005); Shambaugh (2004–2005); Hughes (2005).

Asian Summit," which was concerned, among other issues, with cooperation between ASEAN, Japan, South Korea, China, Australia, and India on energy, avian flu, the terrorism issue, maritime security, elimination of trade barriers, and issue bound up with the formation of possible new communities. Zhang Xizhe, professor of international relations at Beijing University, has noted that the task of this summit, which is set to be held on a regular basis in the future, is "*creating a new model for regional integration that differs from the mechanisms of other regions*."[46]

All this indicates that China has intensified its efforts at cooperation in regional as well as in international affairs. This shift in priority from bilateral to multilateral engagement can be clearly recognized at least in the East/Southeast Asia region. In September 2005 the Party newspaper *Renmin Ribao* explicitly pointed out that Beijing's aim is to base its international policies on the concept of the "harmonious society" by seeking to contribute to the creation of a peaceful and developed world.[47]

Nationalist currents in Chinese politics, encouraged for years by the leadership as an "ideological proxy," today represent a major pressure potential, one that the political leadership can hardly afford to ignore, and one that at the same time has the potential to restrict its room for maneuver in foreign affairs.

These nationalist positions are directed primarily at US foreign policy, which is claimed to be seeking to obstruct China's rise in the world of international politics, as well as against Japan's efforts to boost its own weight in international affairs.

A few years ago a major stir was caused by a Chinese book publication entitled "China Can Say No."[48] It advocated a more aggressive Chinese stance in international politics and called for more resolute efforts to achieve Chinese interests, even against the will of the US. At the same time, though, the authors also called for an intensified Chinese engagement in international affairs. Based on a strong national consciousness, the authors recommended, China should seek greater engagement in the UN, improve its ties to other Asian countries, and look for allies throughout the world as a means of countering the threat posed by the US. One interesting aspect here is that while some voices in the US discussion perceive China as a growing threat, the Chinese debate for its part may be said to view the matter exactly the other way around.

The US' China policy is perceived as an attempt to obstruct China's rise in the world: The US engagement in Central and East Asia is interpreted as a policy aimed at isolating China, and US support for Taiwan is viewed as an attempt to encourage Taiwan to seek independence and to undercut China's aspirations for national unity. China rejects as bullying what its regards as unacceptable interference in its national affairs in the name of human rights.

There is, though, no reason to exaggerate these nationalist currents. Thus far the country's leadership has, despite storms of protest among the population, for the most part shown

46 *China Daily*, Internet issue: http://www.chinadaily.com.cn/english/doc/2005-12/16/content _503995.htm (last accessed on 17 Dec. 2005).

47 See *Renmin Ribao* 25 Sept. 2005.

48 See Song / Zhang / Qiao (1996); Song et al. (1996).

reserve and moderation when it has come to concrete conflicts (here we need only think of the bombing of the Chinese embassy in Belgrade, an incident involving a US spy plane, anti-Japanese protests).The examples clearly indicate that outbreaks of Chinese nationalism have for the most part been a reaction to pressure exerted by the West (Zheng 2000, 93–116).

2.2 Multiple foreign-policy actors

If Chinese foreign-policy decision-making was strongly personalized and centralized under Mao, the period since the later 1970s, the Deng era, has seen (a) a new emphasis placed on the institutions tasked with managing Chinese foreign relations and (b) a growing level of professionalization within these institutions. While the foreign ministry plays an important role within this institutional structure in shaping the country's foreign policy, its scope is limited by the fact that the ministry is de facto subordinate to the Communist Party and its Leading Group on Foreign Relations.

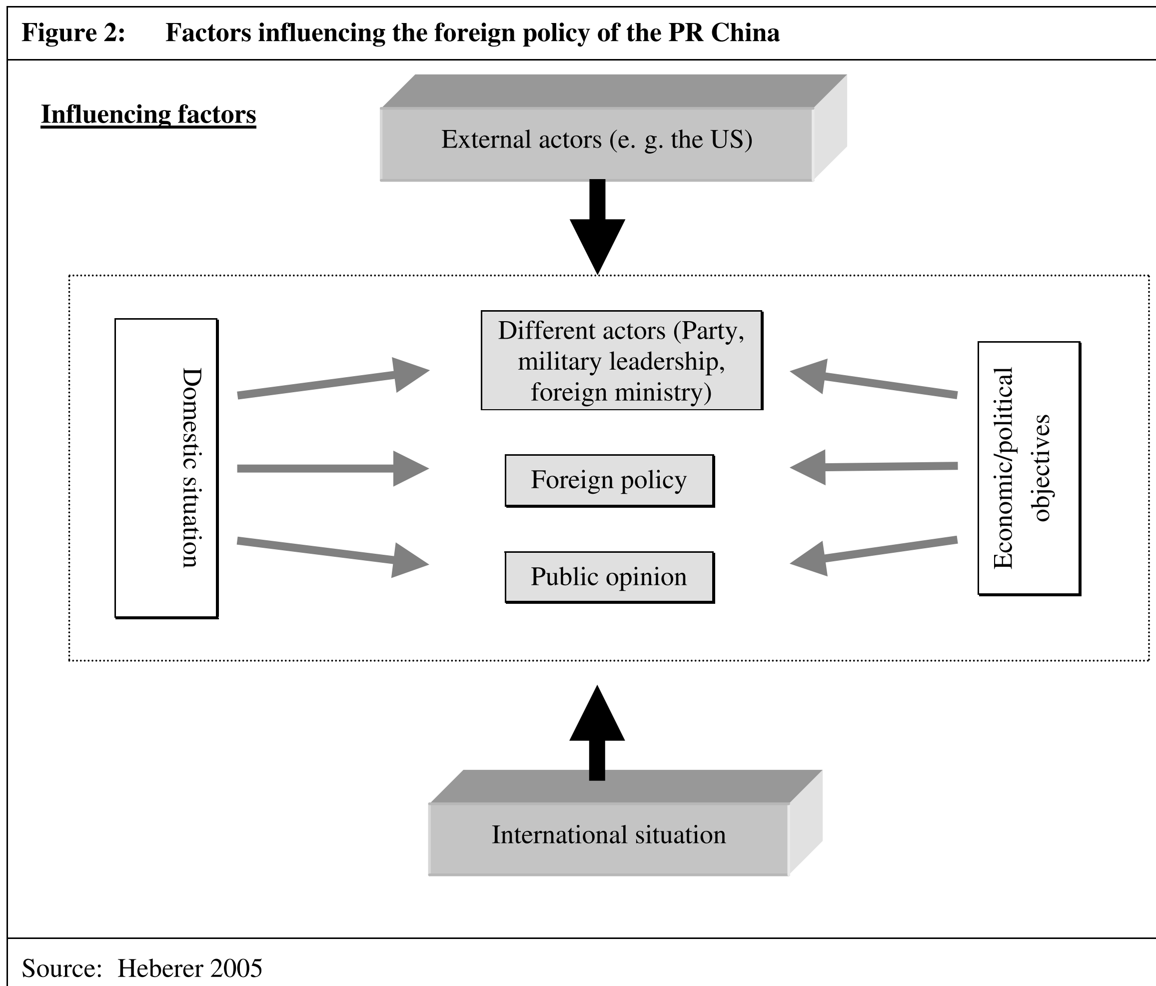
It is, however, not the case that a small group of political leaders decide on foreign-policy issues on their own. Since the later 1970s there has also been a process of pluralization within the foreign-policy decision-making process, including involvement of a number of different actors; Zhao coined the term *horizontal* or *consultative authoritarianism* for this development (Zhao 1996, 80 f.). In other words, the Chinese foreign-policy decision-making process rests increasingly on competition and/or compromises between various actors, some of whom pursue different interests. The lack of transparency in these bargaining processes sometimes makes it difficult to recognize the rationality of China's external behavior. The key actors involved are:

- The country's political leadership, which ultimately defines the basic lines of policy
- The foreign ministry, which prefers a more moderate policy and favors diplomacy
- The military, which sees itself as the "guardian" of national interests, even though it 'traditionally' hews to the line of the CP[49]

49 While the Chinese military made use of the 1990s to modernize and expand the country's naval, air-force, and missile capacities, its financial and technical resources were not sufficient to swiftly close the gap on other countries; government funding flowed primarily into economic development, and in this period military budgets increased little more than the rate of inflation (see e. g. *Beijing Rundschau* 48/1995, 18). But the military did manage to boost its budget in the 1990s by producing – mainly – cvil goods. Beginning in 1999/2000 this activity was restricted by the political leadership to the production of defense goods, also for export. Since 2000 military spending has risen massively, a fact which is acknowledged by the country's leadership and justified with reference to the need to purchase high-tech weapons systems, primarily for national defense. Officially, the defense budget is about 1.5 % of GDP, although large chunks of military spending are hidden in other budget items, and for this reason the actual level of military spending is estimated to be five times as high as officially indicated (see e. g. Petra Kolonko, *China rüstet auf*, in: *Frankfurter Allgemeine Zeitung*, 14 March 01). China, the world's least transparent nuclear power, conducted most of its nuclear tests in the 1990s. Apart from economic goals, Chinese arms exports (proliferation of nuclear and missile technology) are also geared to security aims, e. g. efforts to build alliances (with Pakistan) and to secure China's access to energy resources. See e. g. Kempf (2002, 175 ff.).

- The provinces, which, interested in attracting foreign investment (above all in coastal regions), prefer a moderate foreign policy
- Larger business enterprises, which are mainly concerned with economic aspects
- Public opinion,[50] which is generating short-term pressure via the Internet and other media, often expressing dissatisfaction with the "too soft" foreign policy pursued by the central government – too soft as regards certain national interests (see e. g. the anti-Japanese Internet movement in April 2005, which came out against a permanent seat for Japan on the UN Security Council and managed to collect over 10 million signatures within just a few days).

Figure 2: Factors influencing the foreign policy of the PR China



Source: Heberer 2005

2.3 Different approaches to interpreting China's foreign policy

While China's foreign policy has, in recent years, gone through a remarkable process of change in the direction of a multilateral strategy, it remains to be seen whether the country's newfound multilateral orientation is not of a purely tactical nature. It is – at least in many respects – based on a cost-benefit rationale. Viewed from the realist perspective, the

50 For an in-depth analysis see Fewsmith / Rosen (2001, 151–187).

primary aim of China's foreign policy is to buttress China's position as a big power in a multipolar world. This aim – it is argued – is a result of structural constraints of the international system. China's rapid rise to economic power, it is claimed, has enabled the country to emphatically pursue this aim. Accordingly, China's multilateralism could be interpreted as a transitional strategy adopted in connection with China's aspirations to assume the role of a great power.

By comparison, the main strand of the liberalist line of argument is as follows: China's economic rise is interlinked with the country's integration into the world economy. This growing economic interdependence is seen as conducive to a peaceful-cooperative foreign policy. And the beginnings of the development of a civil society in China are having similar effects on the country's foreign policy.

The *theory of trade expectations* provides an instructive and interesting approach to analyzing China's foreign policy. According to the theory, a country with positive expectations for its own economic development will engage in a cooperative foreign policy. In the reverse case, i. e. when negative expectations are involved, a country will be more likely to pursue aggressive foreign-policy strategies (Li 2004, 35 ff.). This approach thus links some core elements of realism (self-interest as the central motive driving action) and liberalism (interdependence as the regulative structure underlying the international system). Accordingly, it would be important for other countries to shape their foreign policy toward China in such a way as to ensure that the country's expectations concerning its economic development are as positive as possible and the costs involved in engaging in a more aggressive foreign policy are prohibitively high. This would be in line with the principle of "constructive engagement," i. e., in our case, with efforts geared to further integrating China within the international community, perhaps along the line of the EU's recently proclaimed "strategic partnership" with China.

2.4 China's stance on the UN, UN reform, and engagement in international organizations

Between 1971, when China took its place on the UN Security Council, and the late 1990s, China played a more or less passive role in the body. It itself proposed few if any resolutions, contributed little to discussions over resolutions tabled by other countries, and tended more to abstain from voting than to take a position of its own, assuming that its own immediate interests were not involved. Between 1990 and 1996 China was responsible for 65 % of all abstentions recorded in the Security Council (Johnston 2001, 51). It was only in 1997 that China, for the first time since 1982, made use of its veto power. It must on the whole be said that in the past decade China has come more and more to see the UN as a forum in which it is able to represent its own interests, and this has served to professionalize China's habitus. China now makes more unrestrained use of its permanent seat on the Security Council than it did in earlier years, bringing its influence to bear especially in cases where its sees possibilities to prevent Taiwan from gaining any ground at the international level. To cite two examples, in 1997 China used its veto against Guatemala, a country that had come out in favor of UN membership for Taiwan, and in 2000 Macedonia came in for the same treatment after it had established diplomatic relations with Taiwan in exchange for a US$ 300 million loan.

Otherwise China's stance at the UN has been pragmatic in nature, guided not least by the country's interest in obtaining sources of funding to develop its own infrastructure, its health and education systems.

Up to the end of the 1990s China remained largely aloof from UN peacekeeping missions and humanitarian aid operations.[51] Nor did it contribute much to funding such activities. But a change has taken place in the meantime, and China has started to show more engagement in discussions on the Security Council and to become more involved in the UN's international activities (Tang 2002, 40). Generally speaking, China appears to seek greater involvement in various areas of UN work when it sees possibilities for it to engage successfully. While e. g. China has always raised claim to respect of its 200-mile sea boundary, it acceded to the UN Convention on the Law of the Sea only in 1996, when it felt that the country's economic development, military defenses, and legal personnel had reached levels that allowed it to do so.

Today China views the UN as an organization in a position to work for global governance, and the Chinese leadership has repeatedly emphasized that it sees the UN as the key vehicle of global governance. In October 2004 the Chinese foreign minister reaffirmed this point to UN Secretary-General Kofi Annan.[52]

China now shows greater engagement both within the UN and in UN peacekeeping operations. While in 1998, for instance China contributed roughly 50 persons to UN peacekeeping missions, the figure had grown to over 1000 persons in 2004, with China participating in 12 of the 17 UN peacekeeping operations underway at that time. It contributed roughly 600 persons to the UN operation in Liberia (UNO-MIL), the largest troop contribution China has ever made (Bates 2005).

China is involved in the ongoing debates on arms control and disarmament, and it has signed and ratified most of the relevant treaties, conventions, and agreements. It has come out in favor of UN nuclear weapons inspections in Iraq, Iran, and North Korea, though it remains opposed to any hard sanctions (be they military or economic in nature) and in particular to any unilateral US military interventions, as it was in the case of Iraq (Chu 2005). Beijing rejects the use of military means to enforce peace, even though it has not always voted against such actions on the Security Council, mostly abstaining instead.

If in 1977 China was represented in only 21 international organizations (IOs) and 71 international nongovernmental organizations (INGOs), in 2000 the country was a member of 50 IOs and 1,275 INGOs),[53] and in this respect China's international engagement may be said to be developing positively. However, China's financial and personnel contributions here have been modest, as have its other inputs. This would lead us to conclude that China currently does not play a proactive role in the international framework. However, the fact that China has signed a large number of international agreements indicates quite clearly that the country is cooperatively engaged in global governance, or at least interested in such an engagement. China has participated in numerous international initiatives, e. g. the Container Security Initiative, the Proliferation Security Initiative as well as various meas-

51 The year 1992 saw China's first active involvement in a UN mission (in Cambodia).

52 See *Renmin Ribao* 12 Oct. 2004.

53 See Oksenberg / Economy (eds.) (1999); Chan (2003, 217–245).

ures designed e. g. to prevent the proliferation of nuclear weapons and the transfer of sensitive technologies to countries like Pakistan or Iran. Beijing has thus increasingly shown itself to be willing to seek orientation in international standards. Despite these developments, on the whole positive but only relatively recent, it remains unclear how actively China will be willing to engage in the international context and what contribution it will be able and prepared to provide to resolving conflicts. Diplomats estimate that China, given the possibility to use international organizations to represent its own interests, is likely to proceed on the basis of temporary, issue-focused alliances. The principle of bringing a number of countries together, through compromise and in the interest of all, is (still) an alien idea to China's foreign-policy actors (Kempf 2002, 131 ff.).

As regards UN reform, China has as yet not shown any major engagement; while it voted for a reform of the world body, it came out in favor of moderate reforms. It wishes e. g. to retain the veto power of the permanent members of the Security Council. China has also voiced skepticism about enlarging the number of permanent Council members. But on the other hand it has also repeatedly called for a greater involvement of developing countries.[54] This it wishes to see given priority in the course of the reform process.

In April China (together with Russia) reaffirmed in part the concerns expressed by the developing countries (claiming e. g. that the reform paper submitted by UN Secretary-General Kofi Annan on the future shape and mission of the world body had failed to pay due heed to the demands raised that the organization should work more to promote development and social progress). China's UN representative demanded that the decision on UN structural reform be taken by consensus of all 191 member states, and not in a secret, divisive vote.[55] This shows that China has the equality of *all* countries in mind, an aspect that, since 1995, has – along with the principle of noninterference in internal affairs – always been emphasized by China in the UN General Assembly.[56]

As far as its relations with the countries of the South are concerned, this means that China now holds a more differentiated view of these relations, placing them more in the context of its own interests. China does not necessarily see its place at the side of the countries of the South. Indeed, its relations to the Third World must be seen in terms of China's overall concept of its newly defined national interests, and its relations with individual countries will depend on China's specific own interests. For example, China views strong countries as potential allies (against the US) in the process of intensifying its economic or diplomatic relations to resource-rich countries, and it conditions Chinese development aid on the position taken by potential recipient on the Taiwan issue.

One new factor is that China is itself increasingly developing from a recipient country into a donor nation. In connection with the tsunami disaster in South Asia e. g., Beijing participated in relief efforts by contributing a package worth US$ 83 million. The key factors in play here were the expectations of the recipient countries, China's claim to regional leadership, and its competition with the aid provided by Taiwan. At the same time, though, this also illustrates that China is undertaking greater efforts to become engaged in the field

54 See e. g. *China Daily* 29 Jan. 2005 and *Renmin Ribao* 02 April 2005.

55 See *Frankfurter Allgemeine Zeitung* 08 April 2005.

56 See e. g. *Beijing Rundschau* 45/1995, 26.

of humanitarian aid. While, in our opinion, claims that China, compared with the US, Japan, or Germany, has lost some of its external clout and been largely "sidelined" in the region are completely exaggerated,[57] such claims do illustrate the fact that China's economic and political capacities continue to be limited and that the country has more weight at the regional than the international level.

China's transition from a recipient to a donor country is also illustrated by the fact that in the future it intends to become more involved in the aid provided in the framework of the UN World Food Programme (WFP) and to discontinue, beginning in 2006, the food aid it has been receiving for decades.[58]

It may generally be assumed that China will continue to participate in UN activities, not least because China, interested as it is in containing US unilateralism, has no choice but to work to strengthen the United Nations. But it will always bear its own national interests in mind (e. g. one-China policy, securing the resources it needs), observe outside influences with distrust, and be willing only gradually to modify its "traditional" notions of foreign policy (emphasis on the principle of sovereignty). China still lacks the diplomatic and economic capacities it would need to become active in the global context in ways comparable to the EU and the US. One challenge will be to strengthen China's consciousness of its own global responsibility and the meaningfulness of multilateral approaches and to get it involved in the project of shaping a global structural policy. This involvement should, ideally, be sought in problem areas with which China's own, self-defined interests will force it to deal, e. g. global health issues (combating contagious diseases), environmental protection, internationally governed access to resources, or efforts to combat organized crime (drugs trade). Fearing to disrupt the favorable setting it needs for its own development, China is generally cautious when it comes to its actions on the international stage, and it is likely to continue to seek to avoid any one-sided dependencies. Its capacities to actually implement international standards once it has decided to do so must be seen as limited, because the dynamic of the country's ongoing, comprehensive reform course and the decentralization tendencies it has set in motion have weakened the government's effectiveness in this regard.

On the other hand, China's behavior e. g. during the WTO talks in Hong Kong in December 2005 clearly shows that the country – compared with e. g. India and Brazil – continues to act more with reserve in international organizations. In view of the fact that the configurations of international trade are taking on a shape quite favorable to it, China quite consciously opted for a policy of restraint during the course of the WTO talks. Beijing is presently more in favor of bilateral than multilateral negotiations, a factor that has also largely gone to define its stance at the United Nations. The first signs of major change here have become visible only regionally (e. g. at the East Asia Summit in December 2005; see below).

57 For more information on the issue see Giese (2005, 5 ff.).

58 See *Renmin Ribao* 08 April 2005.

2.5 Chinese domestic discourses on international development

The following positions have figured high on the agenda of the domestic discussion in China:

- The paramount objective is and remains economic development
- Domestic interests have priority over external interests
- China continues to see itself as a developing country
- Its military strength is limited
- At present its international influence is still relatively limited.

As the first two factors indicate, China hopes to be able to make better progress in coming to terms with its domestic economic development deficits by engaging in development cooperation. In country-wide terms, the underdevelopment of China's economy, the country's generally low standard of living, large development disparities between and within its regions (structural heterogeneity), and continuing high levels of poverty (some 200 million Chinese are estimated to be poor) show clearly that China is best regarded as a developing country. China itself has declared that it will have reached the status of a "developed country" only in 2080 (*Renmin Ribao,* 22 Feb. 2005).

China feels threatened above all by the US. The actions of the US and NATO in Kosovo and, above all, the two Gulf wars served to highlight China's military underdevelopment. Beijing would presumably be unable to mount an effective sea blockade of Taiwan for lack of the military technologies it would need for the purpose (e. g. state-of-the-art aircraft carriers). This is one important reason for China's accelerated pace of military upgrading and modernization.

The Chinese domestic discussion on issues of international politics is therefore concerned above all with the role played by the US in world politics and with the relationship between the US and China. We can cite here two primarily divergent positions taken in the discussion over the future of the US: (a) The events of 9/11 have made it plain that the US is highly vulnerable as a superpower. The Iraq war, it is claimed, is a reflection of the US' vanishing influence in the world; (b) the events since 9/11 have, on the contrary, confirmed that the unipolar policy pursued by the US has stabilized and that the Iraq war has strengthened the US' potential. Assuming a middle position, Qian Weirong, former vice director of the Center for World Affairs Studies, argues that over the long term the US will remain in a position to uphold its status as a superpower in political, economic, and military terms. That said, however, Qian sees signs of erosion (of a "relative decline") of US power due to multipolarization, the rise of the EU, and a possible resurgence of Russia. In addition, he argues, US prestige has, seen in global terms, suffered severe losses due to the country's unilateral policies. Nor, he goes on, would it be advisable to underestimate the ongoing change in the demographic composition of the US and its influence on the country's social and political development and implications for the future of US foreign policy. But he also advises China not to overestimate its own present strength: China's weak eco-

nomic base will mean that the country's rise in the world will take considerable time. China's foreign policy, he notes, needs to be adapted to this present degree of weakness.[59]

However, there is also a discussion underway in China on a possible US-Western threat. Advocates of this view are advising the leadership to lose no time in upgrading the country's military capabilities. While, it is claimed, there is no reason to expect a war in the coming two decades, a major global military conflict is likely around 2050 (Jin / Xu 2004, 180 ff.); the "neoimperialism" of the US and the UK poses a growing danger that is, or could be, directed against China (ibid. 204 ff.; 210 ff.).

The foreign-policy expert Lanxin Xiang has developed another view of the world: In his opinion China is aiming for a "Eurasian model," i. e. a strategic partnership between China, Russia, and the EU as a counterpole to the unilateral world order embraced by the US. China, he notes, is not seeking a position as a big power but a secure "place in the shade." European integration and the European welfare state could, in his eyes, serve as a model for the domestic transformation and stabilization of China (Xiang 2004, 109–122).

Developments in recent years show that China's self-confidence is growing together with its economic power, and this in turn implies a need for China to play a greater role as far as foreign affairs are concerned. Yet domestic crisis could serve to bolster China's nationalism, already virulent, thrusting the country into a more aggressive role. On the other hand, economic successes and the growing pluralization of society they entail are likely to mean that China will prove to be a reliable international partner, one that works for regional stability and becomes increasingly engaged in forging a world domestic policy.

2.6 The Chinese domestic discussion on globalization

As far as the issue of globalization is concerned, we can identify two tendencies for China: On the one hand, individual segments of society seeking different links to globalization and on the other an intellectual discourse on the consequences of globalization for China. Six issue fields are under discussion in this connection:

(1) Is globalization an objective fact or a subjective fiction?

(2) Is globalization best seen as a capitalist or a socialist phenomenon?

(3) Is there, beside economic globalization, also a political and cultural globalization?

(4) Are the effects of globalization positive or negative for developing countries like China?

(5) What stance should China adopt on the issue of taking a hand in shaping globalization? Should its stance be active or passive?

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59 Anonymous (2004c): *Ruhe qiadang de pinggu Meiguo de shili diwei* (How to correctly assess the US' position of strength), in: *Heping yu Fazhan* (Peace and Development) 4/04, 5–9.

(6) Does globalization imply for China Westernization, Americanization, or Sinicization?[60]

These questions meet with great interest among Chinese intellectuals. What they are asking is whether globalization is an American invention aimed at subjecting the world (i. e. China as well) to US interests or whether other nations are able, on equal footing, to take a hand in shaping the process of globalization. Numerous Chinese intellectuals argue that globalization ultimately means "Americanization," assertion of American interests, standards, and values at the global level. In this connection there is talk of a "globalization trap."[61] Other authors are already speaking of the emergence of a "risk society" in China due to globalization.[62]

Yu Keping, who serves as an advisor to the Party leadership, argues in a more moderate vein. He distinguishes four globalization trends that we will deal with at more length here, because these views have largely gained acceptance among the Chinese political leadership:

(a) Globalization implies on the one hand structural and cultural adjustment, on the other hand particularization. On the one hand, the market economy is developing more and more into a global phenomenon, with the nations of the world calling more and more for democracy and political despotism losing more and more ground; on the other hand, different forms of market economy and democracy are developing in different countries.

(b) Globalization represents a unity of integration and fragmentation. On the one hand, we can observe a growing integration and homogenization of international organizations (UN, World Bank, IMF, WTO), which play a growingly important role in the world; a growing process of integration between countries, which tends to undercut national sovereignty; an intensification of patterns of regional integration (EU, ASEAN, etc.) and increasing flows of capital and information. On the other hand, increasing demands are being heard for self-government, national independence, and local autonomy.

(c) Globalization is proving to be a unity of decentralization and decentralization. Capital, information, power, and wealth – in particular as regards transnational corporations – have a thrust in the direction of centralization. On the other hand, the same factors at the same time show a tendency toward decentralization (e. g. information available on the Internet).

(d) Globalization represents a unity of internationalization and nationalization. Based on international treaties, conventions, and regimes, it neutralizes national boundaries, with individual countries forced to harmonize their national particularities with bodies of international rules.

60 See Yu (ed.) (2002a, 297 ff.).

61 See e. g. Wu (2002, 160 ff.); Liu (2002, 201 ff.).

62 See e. g. Yang (2005).

(e) Globalization is a process that every country is forced to contend with. While the processes was initiated by the industrialized countries, no individual country, including the US, is in a position to manipulate the process of globalization. Indeed, the developing countries (including China) have increasingly been able to gain influence on the process, to lend a hand in shaping it.[63]

Above and beyond these intellectual discourses, China's decision to join the WTO is certainly the country's most unambiguous step toward coming actively to grips with the processes of economic globalization as well as toward participating in and harnessing these processes, especially in view of the fact that participation in these processes sets the stage for playing an active role in governing them.

In China global governance is largely seen in connection with efforts to strengthen the hand of the UN, to help shape the role of international (e. g. China in the WTO) and regional organizations. While China's stance toward transnational NGOs (e. g. Transparency International, Greenpeace) is gradually beginning to change, there is still a need to build confidence.

3 Selected single issues of international relevance

3.1 The Taiwan question

At present the Taiwan question is the most precarious issue with international implications faced by China; it has the potential to lead to violent confrontation involving the US.[64] Development both in the region and in China itself will hinge in important ways on the approach taken on the Taiwan question. There are conflicting and overlapping interests involved here.

Taiwan's interests consist in

(a) the continued security of its autonomy and democracy, and

(b) continuing growth of Taiwanese trade and investment in mainland China.

The People's Republic is interested in

(a) reintegration of Taiwan, and

(b) Taiwan's contribution to the economic development of mainland China.

The main obstacle to any rapid rapprochement between the 'two Chinas' is the PR China's political system, which is regarded in Taiwan as insecure, unstable, and not especially

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63 See Yu (2002b, 1–27); Jin / Xu (2004, 242 ff.) argue in a similar vein: "*China's economic self-interest prevents it from seeking to neutralize the globalization process, and China thus has no choice but to participate in shaping the process.*"

64 The formal basis for the US engagement here must be seen in the Taiwan Relations Act adopted in 1979 by the US Congress; it defines protection of the "human rights" of the Taiwanese population and violent confrontation in the Taiwan Straits as matters that directly affect US interests.

predictable. Taiwan has no intention of sacrificing its still young democracy to the goal of reunification. Constant interference by Beijing in political events and freedom of speech in Hong Kong – despite the present "one-country, two-systems" arrangement – have also had a deterrent effect. Also, Beijing's saber-rattling has served to reinforce Taiwan's preference for autonomy. Both Taiwan's fear of a Beijing-dictated military solution and pressure from the US have, however, had the effect that the majority of the Taiwanese population tends more to be interested in retaining the status quo. As long as the political system in mainland China has not been democratized in the real sense of the term (a development which virtually no one expects over the short to medium term), the only viable approach is to preserve the status quo. Yet despite these political tensions, the economic interdependencies between Taiwan and mainland China have increased significantly in the course of the past decade.

The so-called "Anti-Secession Law",[65] which was adopted by the Chinese parliament in March 2005 and expressly includes the military option for the case that Taiwan should declare its independence. Statements by Taiwanese President Chen Shuibian, who has proposed linking a new constitution with a referendum on independence, and spoke out in favor of independence in the course of the 2004 election campaign, set off alarms in Beijing. The situation has since been calmed down somewhat by a statement by the US president indicating that the US would not accept Taiwan's independence and advising Taipei to seek negotiations with Beijing; the fact that Chen failed to gain an absolute majority in the parliamentary elections; the moderate rhetoric adopted by Chen in the second half of 2004 (in a conversation with an opposition leader, he was unwilling to rule out reunification); and a concession made by Taipei (establishment of charter flights between the two sides on the occasion of the Chinese New Year's festival at the beginning of 2005).

But fearing to lose face, Beijing was unable to simply to withdraw the proposed law (2004).[66] It must also be said that the law passed was considerably more moderate than the original bill proposed. If it was originally referred to as the "Reunification Law," which could have been interpreted as a unilateral declaration authorizing Beijing to use force to reunite the country, it was later renamed the "Anti-Secession Law." This must the seen as a concession in that the stated aim of the new law is to preserve the status quo (i. e. neither immediate reunification nor the use of force to reunite the country as long as Taiwan does not declare its independence).

The law thus does not, in the end, reflect any change in Beijing's basic stance. The military option had always been reaffirmed by the Chinese leadership, and it cannot now be disavowed, merely for domestic political reasons (public opinion, the armed forces). The law instead has a symbolic function. Its aim is to make it clear that the military option is not an act of the Party or state leadership but an expression of political will which has the backing of the entire Chinese people. This was the reason why the National People's Con-

65 For the text see online: http://www.china.org.cn/english/2005lh/122724.htm; Giese (2005, 3–7).

66 Observers also believe that the law has a domestic function as well; once he had taken on the chairmanship of the Central Military Commission in 2005, Hu Jintao was able to use concessions to strengthen his position vis-à-vis the military, which had already called for a more resolute approach toward Taiwan (see *South China Morning Post*, 03 March 2005). At the same time, though, the law also contains elements designed to more clearly define lines of responsibility, and it may in fact serve to strengthen moderate forces within China's institutional structure.

gress, according the Constitution the "supreme organ of the people," was to pass a law of this kind in the first place. Furthermore, in China laws in part have a character which differs from that familiar from democratic countries: The Constitution or the Anti-Secession Law do not constitute claimable legal rights (i. e. it is not possible to sue to enforce the clauses of either); they must instead be seen as political platforms on which various factions and actors have reached agreement. They therefore have more symbolic character.

Viewed from this angle, Beijing's behavior as regards the Taiwan question should not be understood as the expression of an aggressive foreign policy. Instead, the Taiwan question is seen as one element of efforts to "create state unity" and thus as a component of "nation-building."

In the spring of 2006 Chen Shuibian – no doubt forced to do so by his weakness at home – abolished the Taiwan" Council for Reunification," even though he had repeatedly emphasized that he had no intention of doing so. This served to provoke Beijing once again, but also the US.

3.2 China and North Korea

China is North Korea's last remaining ally. Pyongyang relies on China for 80 % of its energy and roughly one third of its food imports. While Beijing advocates a nuclear-weapons-free zone on the Korean peninsula, it rejects sanctions against North Korea.

As far as North Korea is concerned, China

- has lost some its influence there;
- is the country's most important trading partner and main supplier of relief goods;
- is, in the name of national interests, not particularly interested in seeing any substantial changes in North Korea (as regards either reunification or a collapse of the system there);
- uses North Korea to secure its influence on the Korean peninsula;
- sells arms via North Korea;
- fears Japanese rearmament in response to a military threat from North Korea;
- has no interest in the emergence of North Korea as a nuclear power;
- is able to use protracted negotiations (the Six-Party Talks) to establish its position as a regional moderator and to gain concessions from the US.[67]

Beijing supports North Korea in its demand that the US provide security guarantees before North Korea proceeds to dismantle its nuclear potential.

67 See e. g. Mayer (2005, 201–207).

China is the only country that is today in a position to exert a certain influence on North Korea. With a view to maintaining this influence, China has thus far rejected the imposition of sanctions by the UN Security Council. It is above all North Korea's economic dependence that ensures that Beijing will retain a certain influence on the North Korean leadership – a trump card that Beijing can also play against the US. Even though Pyongyang has, since China's transformation into a market economy, regarded its neighbor as a potential source of danger, China is, in principle, the only friend North Korea has left. China uses informal talks and commitments to provide relief supplies and to move North Korea to make concessions, an engagement as mediator that is in turn welcomed by the US.

3.3 Fight against terrorism

The Chinese government unreservedly condemned the 9/11 terror attacks in the US and offered the US its unconditional cooperation in the fight against international terrorism. For the Chinese government this offer of support was bound up with the twofold expectation that, first, the US would accept or even support China's efforts to fight "terrorism" in China (i. e. aspirations for independence on the part of ethnic minorities like the Uighurs or Tibetans) and, second, that this offer of support would serve to improve China's damaged relations with the US and permit it to enhance its profile as a responsible and reliable partner in international affairs.

On the other hand, transnational processes have assumed an important mobilization function. The independence of the Central Asian countries, a consequence of the breakup of the Soviet Union, and a resurgence of Islamist movements has given momentum to the aspirations for independence articulated among China's Turk population minorities. As long as the Soviet Union was in existence, China was in possession of a certain guarantee that there would be no independence for the Central Asian peoples on both sides of the border.

On the foreign-policy front, China (together with Russia, Kyrgyzstan, Uzbekistan, Kazakhstan, and Tajikistan) established the "Shanghai Cooperation Organization," one of the aims of which is to combat terrorism in the region. In connection with the ongoing campaign against terrorism, Zhu Feng, Director of the International Security Program at Beijing University, once declared that China is itself a victim of terrorism.[68]

As regards the fight against terrorism, Beijing has always emphasized the power invested in the United Nations to authorize and monitor international military interventions. China has repeatedly underlined that respect for territorial integrity and national sovereignty must be seen as cornerstones of the new international order. Chinese analyses at the same time point out that it is essential to pay more attention to identifying the causes of terrorism. Chinese public opinion, but also many Chinese scientists and politicians, see the US as an arrogant superpower that is shoring up an unjust political and economic order, intervening at will in the internal affairs of other countries, and violating their sovereignty. Unless US foreign policy changes fundamentally, it is argued, there will be no coming to terms with a terrorism setting its sights on the US.

68 See *Frankfurter Allgemeine Zeitung* 12 Dec. 2001.

3.4 Stance on issues concerning the world economy

Beijing emphatically advocates a stronger role for the United Nations in the field of development as a means of reducing the antagonism between North and South. This antagonism, it is claimed, is one of the main sources of conflict in today's world, one that also undermines regional stability.[69] A need is also seen here to create a fair multilateral trade regime and to restructure the international financial system.[70]

At present China has relatively little interested in an involvement in the G8. China, which could attend the meetings of the seven leading industrialized countries plus Russia (G8) as an observer, and, viewed in terms of its size, might even take a place in this circle, has thus far shown little interest in enlarging the circle or taking Canada's place in it – after all, China's economic power now exceeds Canada's. While China realizes that it will, in the longer term, have to be included in the group, it is, for the time being, more interested in preserving its status as a developing country and working to make up for its development deficits.

It is interesting to note that China would like to enlarge the function of the Shanghai Cooperation Organization to include economic cooperation. The aim, over the coming two decades, is to see the organization work for the creation of a uniform economic area and to build a comprehensive regional organization – that could also serve as a counterweight to the influence of the US in Central Asia.[71] – China's engagement as regards economic cooperation in East and Southeast Asia has been outlined above.

China is faced with growing conflicts with the EU and the US over the issue of Chinese products increasing flooding markets there. The US has e. g. imposed import quotas for Chinese products, and the EU has threatened to adopt protectionist measures. For its part, China has threatened to rescind its export tariffs on textile exports. The Chinese foreign-trade ministry has declared that the EU guidelines on the use of protective measures constitute a violation of the WTO's trade principles. At present China accounts for some 20 % of the world textile market. The EU estimates that this share will rise to 60 % within the coming five years.[72] But the International Monetary Fund has issued a warning about a resurgence of protectionism in Europe and the US, branding protectionist measures as a move to avoid the structural change needed in the two regions. Protectionist moves, it notes, will more likely be motivated by China's growing influence and the ongoing reorganization of the world economy.

3.5 Protection of intellectual property rights

The Chinese government has repeatedly declared its willingness to protect intellectual property rights, and its has adopted relevant legislation. This is pointed out in the 2005

69 See *Renmin Ribao* 26 Sept. 2003.

70 See *Renmin Ribao* 29 Sept. 2004.

71 See *China aktuell* XXXIII (9), 963 f.

72 See *Frankfurter Allgemeine Zeitung* 08 April 2005.

"Report of the State Council on Protection of Intellectual Property."[73] The problem, though, is implementation. There are a number of reasons for this: overlaps in the competences of government organs, attempts of local authorities to protect local industries, widespread corruption, a lack of understanding among large segments of the population for intellectual property rights, in particular in view of the fact that the majority of the population is unable to afford the original products concerned. It will take a process of learning and rethinking to change this situation. On the other hand, though, both the Chinese government and Chinese firms are interested in seeing greater efforts undertaken to legally enforce intellectual property rights. For one thing because pirated foreign products play a role in obstructing the development of Chinese brand-name products; for another because at present 80 % of all Chinese products are themselves affected; and, finally, because lack of protection for intellectual property rights threatens to undercut the confidence of foreign investors in the Chinese market.[74]

3.6 Human rights

As a reaction to the 1989 events in Beijing and the international criticism they provoked, the Chinese authorities initially simply claimed there were no human rights violations in China. The 1990s then saw the emergence of a debate over Asian versus Western conceptions of human rights; this led, at the 1995 UN Bangkok Human Rights Conference, to the forging of a coalition of like-minded countries. Chinese scholars have repeatedly pointed out that the original conception of human rights is a product of the European intellectual tradition.

China's political leadership sees an opposition between "individual" ("Western") human rights and "collective" human rights, and it is adamantly opposed to any interference in its internal affairs in the name of human rights. At present China sees priority for collective human rights (e. g. a minimum standard of living). It for this reason demands that a given country's socioeconomic development level be taken into consideration in assessing its performance on human rights.

In fact, the fundamental human rights are universal and given by birth; they include the right to life, liberty, and the security of person, and the right to protection against racist or religious discrimination. This also implies the right to a minimum standard of living. While the right to life and the security of person basically poses no problems to implementation (no state can claim a right to torture or to carry out arbitrary arrests simply because it is underdeveloped), realization of the right to a minimum standard of living presupposes that certain material prerequisites are given. But this cannot be used to infer a contradiction between these rights. This likewise applies for culturally specific human rights, for no culture negates the fundamental human rights. "Collective" or "culturally specific" aspects can, in our view, only be invoked when the concern is to implement more extensive rights.

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73 The report can be found in *Renmin Ribao* 22 April 2005.

74 See Lampton (2001, 119 ff.) and the Chinese "White Paper on IPR Protection" (2005); online: http://service.china.org.cn (last accessed on 22 May 2005).

There is little doubt that certain material prerequisites must be given to secure social or certain political rights. For it is these prerequisites that create the objective conditions needed to better ensure both individual and collective human rights. High growth rates or development that brings prosperity to the few or is achieved at the expense of certain population groups or regions do not automatically entail social rights. Instead, a right to development and social rights are needed to create the material foundations on which personal rights can be realized.

Here we can formulate six theses by way of summary:

(1) No culture negates fundamental human rights.

(2) Individual and collective human rights complement each other.

(3) While the right to life and the security of person pose no problems to realization, the right to a minimum standard of living presupposes that certain material prerequisites are given.

(4) Human rights are not given by nature, and only under certain conditions did they begin to be realized.

(5) Western double standards frequently obstruct any credible human rights policy.

(6) China has until now lacked a popular movement for democracy and human rights that could expert direct pressure on the country's political leadership. The reason for this must be sought not least in the need to improve living standards and in the larger measure of freedom that has been realized in connection with China's reform course. Moreover, due to its historical experience and material underdevelopment, the Chinese population continues to focus cognitively on social and political order (stability), economic progress, and social security.

Since 1991 Beijing has regularly issued white papers on human rights and provided, in official reports, information on the human rights situation in China. The 2004 white paper states, among other things, that the Chinese government has substantially improved the population's living standard, the legal system, and the political and participatory rights of the citizenry. Despite all deficits, the white paper notes, there have in fact been improvements in the country's human rights situation.[75]

In 2001 China ratified the International Covenant on Economic, Social and Cultural Rights. The UN Covenant on Civil and Political Rights, signed by China in 1998, has yet to be ratified, although Beijing has announced its intention to ratify the convention in 2006 but has not yet done this. In 2004 human rights protection was anchored in the Chinese Constitution, and since the end of 2004 the Party organ *Renmin Ribao* has regularly published a section on the concept of human rights and the relevant international declarations and conventions. This reporting is no longer, as in the past, ideologically colored but aims for objectivity. During a visit of UN High Commissioner for Human Rights, Louise Arbour, in Beijing in August 2005, the Chinese leadership declared its intention to work more

75 The last report (for 2004) can be found in *Renmin Ribao* 14 April 2005.

closely together with the United Nations on issues concerned with respect for human rights. Even though Beijing continues to point to "specific conditions" bound up with human rights, China does appear to be moving in the direction of adopting the position acknowledged throughout the world, namely that human rights are universal in nature.

Even so, China has sought successfully to prevent the adoption of resolutions critical of China by the UN Commission on Human Rights in Geneva. China has also managed to have some criticism of human rights violations in China "privatized" by having it referred to informal bilateral bodies (e. g. rule-of-law and human rights dialogues with Germany and the EU). It remains to be seen how successful these dialogues will turn out to be.

One state of affairs that has often come in for criticism is the extremely high number of executions in China. Amnesty International estimates the number of cases at roughly 3,400 per year – a figure exceeded nowhere else in the world. Other organizations have far higher estimates, some as high as 10,000 persons executed per year. Under the Chinese penal code (1997) not less than 68 offences are punishable by death, and the death penalty is used as a means of "cracking down on criminals." Apart from drugs-related offenses, corruption, economic crimes, and betrayal of state secrets can also be punished by death.

3.7 Résumé of China's current international interests and aims

The two tables that follow (Tables 2 and 3) sum up China's most important interests and aims in the international context. Table 2 specifies and sums up the core elements and features of China's foreign policy, as outlined above, listing some of the problems that result from them in the international context. For reasons of space Table 3 lists only China's relations with the US, Japan, Russia, and ASEAN, the most important actors in the region. The table lists, for the global context, China's interests vis-à-vis the EU and its memberships in international organizations. It is apparent here that these relations are focused for the most part on economic interests, a fact that must be seen in connection with China's "national objective" of successful economic development, in addition to various strategic considerations in relation to China's neighbors. This explains both China's regional orientation in making use of its influence potential and its low level of global ambitions (a fact due to the country's present level of development).

Table 2: China's international orientation

Issues	Problem areas	Consequences
Global order	- Forging links between international standards and national legislation; - Implementation	- Implementation quite slow - Adaptation to instead of acceptance of international standards - Subordination of special multilateralized areas to the political objectives of "regime security" and "national security"
	- Little understanding for the global relevance of certain problems and the possibility of solving them in the global framework	- Not much willingness to accept restrictions in the name of "global welfare" - Willingness to assume international responsibility motivated by strategic rationales
	- Mistrust of multilateral approaches to solving problems	- Temporary cooperation in solving problems (i. e. selective multilaterality)
Foreign policy	- Multiple foreign-policy actors	- Inconsistencies in China's "external behavior"
	- (Neo-)realist conception of foreign policy - Narrow concept of sovereignty - Foreign policy only along national interests and security needs - Aspiration to be independent	- Emphasis on / realization of China's economic interests - Fear of interference in China's internal affairs and violation of its territorial integrity - China unwilling to cede sovereignty
	- Concentration on "Chinese problems"	- China's foreign policy primarily defensive as long as development problems continue to be seen as pressing
	- Use of marked symbolism to suggest internal and external stability	- Both in China and abroad, "China legend" bars any objective view of real developments and problems there
National question	- Return to an appropriate international position as a national objective - Sense of inferiority toward the West / the US	- Demand for a voice in all international concerns
	- Taiwan and mainland areas settled by ethnic minorities (e. g. Tibetans, Uighurs) as inseparable parts of China - Historically conditioned, poor relations with Japan	- High escalation potential inherent in unresolved Taiwan question - Conflict potential of territorial issues - Rivalry with Japan and threat perception of axis US-Japan-Taiwan
	- Pressure due to high expectations on the part of the population concerning foreign-policy decisions in the "interest of the nation"	- Influence potential of nationalist currents within Party and military apparatus as well as of pressure by population on foreign policy
Domestic policy	- Great variety of external influences obstruct the "control" so important to the government and may seem to it to endanger domestic stability	- Internal repression as conceivable reaction - (Aggressive) nationalism as a source of government legitimacy in the face of destabilization risks - Potential for selective use of external force in response to internal destabilization and possible military miscalculation

Source: Senz 2006

Table 3: China's interest in the international context

Chinese interests						
Policy fields	**US**	**Japan**	**Russia**	**EU**	**ASEAN**	**International institutions and regimes**
International affairs	• Reduction of US engagement and influence in Asia-Pacific (Japan, Taiwan) and Central Asia • Reduction of the US' threat potential	• Prevent any further political and military strengthening of Japan in the region • Loosen relationship between Japan and the US • Disturb relationship between Japan and ASEAN	• Acquisition of modern weapons systems from Russia • Make use of tensions between Japan and Russia • Secure Northern border with Russia • Potential partnership against Japan and US	• Potential partner against the US	• Expand China's influence on ASEAN; but at the same time: dispel mistrust of China • Keep alive memories of an agressive Japan • Settle territorial disputes (Spratlys) without interference from Japan and the US	• Chinese interests first • Cultivate image of a trustworthy, reliable partner • Involvement on China's own terms and only as long as costs are low • Prevent any interference in international affairs • Retain own scope of decision and action • Will to influence policy frameworks and concrete policies
Economic policy	• Investment • Loans • Technology transfer • US as export market	• Investment • Loans • Technology transfer	• Expand trade relations	• Investment • Loans • Technology transfer • Trade intensification	• Expand China's share of investments and economic aid • Forge ahead with integration in East Southeast Asia	• Loans • Economic support • Secure access to resources • Guarantee a environment
Domestic policy	• Make use of antipathy toward US interference; demonstrate equality in relations with the US • Prevent US interference (rejection of US notions of freedom and democracy)	• Make use of popular antipathy toward Japan				• Demonstrate China's global rise and international significance

Source: Senz (2006)

4 Interests shared by China and Europe/Germany

China's foreign policy toward the EU countries shows the same basic tendency, and it is virtually impossible to discuss Sino-German relations without recourse to Sino-European relations.[76] However China's relations with Germany, as a key actor in the EU context, are of special significance.

China sees the EU as one pole of a multipolar world order and as a strategic partner in a multipolar world, in the sense that it views Europe as a counterweight to the US. Nevertheless, in political and economic terms the US is a more important to China than the EU, and the same applies for the EU's relations with the US. But China does see the growing economic and political strength which the EU's eastward enlargement has entailed. Not only does Beijing have a strong economic interest in the EU as an export market, it is also banking on technology transfers from Europe as a means of reducing its dependence on the US and Japan.

Like Germany, the EU attaches great importance to its relations with China; the country is seen here as Asia's most important country and as a strategic partner. Furthermore, China has now become the EU's third most important trading partner (in the past year the volume of trade between the two partners amounted to € 115 billion), and the country is increasingly perceived as an opportunity for the European economy. For Germany, Europe's slowest grower, this is no doubt one important reason why the last German chancellor regularly visited China once a year. Germany is interested in building a durable and reliable partnership with an internally stable China, and it shares with China an interest in stable (economic) development in the Asian region.[77]

The aim of Germany and the EU's China policy is to integrate China into a multilateral system in which the United Nations plays a key role – from regional and global conflict management to cooperation on issues of global interest, ranging from arms control and international terrorism to climate policy. Since this corresponds exactly with China's foreign-policy interests and aims, the conditions may be seen as beneficial to developing Sino-European cooperation.

Based on political dialogue with Beijing, Germany and the EU continue to support China's process of economic and political transformation on the road to a stable, prosperous, and open society, which includes democracy, the principle of free markets, and the rule of law. The human rights dialogue mentioned above has been given special priority in this connection, even though this priority is often forced to take second place to the economic interests of the EU member countries. China welcomes a "discreet" diplomacy of this kind, because dialogue can help to avoid "hard" political criticism, and this approach demonstrates that the EU is far more skillful than the US in its dealings with China.

76 See the Sino-German declaration issued on the occasion of a visit by China's prime minister Wen Jiabao in Germany from May 2–5 2004, in: *Internationale Politik* 59 (9), 175–177.

77 See the position paper of the European Commission of 10 Sept. 2004, in: *Internationale Politik* 59 (9), 124–126.

Some other central issues of the sectoral dialogue between China and the EU include co-operation on nuclear energy, the EU's Galileo Program, illegal migration, Chinese Europe tourism, and negotiation of a tariff agreement (ibid.).

Even today, China has an economic "locomotive function" in the region, and China perceives itself, over the long term, as the region's central nation. It must be seen as questionable whether its neighbors will be willing to accept China's leadership on both economic and political matters. Due to its size and its unclear ambitions, China continues to encounter distrust in East and Southeast Asia. Efforts to intensify both the Sino-German dialogue and cooperation-based relations that would seem called for in view of the concept of China as an anchor country will need to bear in mind that China's attempts to strengthen its influence in the region may well heighten both existing tensions and the perception of the countries in the region of China as a threat. Long-term experiences based on trust-based and mutually beneficial cooperation may serve to improve these relations. However, China is just now, gradually, embarking on such a course.

Yet the domestic challenges facing China are so great that a contribution to mastering them would have substantial positive impacts on the overall region that could serve to ease tensions there. But it is important not to overlook the fact that China is not above instrumentalizing its own problems as a means of generating foreign aid transfers.

Interests shared by China and the EU

- EU interested in a comprehensive partnership
- But: for China the US is more important than the EU; and for the EU the US is more important than China
- For the EU: China is the most important country in Asia
- On sensitive issues: the EU is more discreet than the US
- For China the EU is a counterweight to the US
- Important: function as trade partner / China is highly attractive for European companies
- The EU and China: "building a comprehensive partnership"
- The EU as a market for Chinese exports
- The EU as a strategic partner of China in a multipolar world
- EU: growing economic and political strength due to the European Union's eastward enlargement

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