

POLITICAL ECONOMY OF CHINA'S PEACEFUL RISE:  
THE RETURN OF THE DRAGON?

A THESIS SUBMITTED TO  
THE GRADUATE SCHOOL OF SOCIAL SCIENCES  
OF  
MIDDLE EAST TECHNICAL UNIVERSITY

BY

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IN PARTIAL FULFILLMENT OF THE REQUIREMENTS  
FOR  
THE DEGREE OF MASTER OF SCIENCE  
IN  
THE DEPARTMENT OF INTERNATIONAL RELATIONS

DECEMBER 2008

Approval of the Graduate School of Social Sciences.

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## ABSTRACT

### POLITICAL ECONOMY OF CHINA'S PEACEFUL RISE: THE RETURN OF THE DRAGON?

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December 2008, 141 pages

This research aims to analyze the international political economy of rising China since the mid 1990s. The main question it tries to answer; why in the early 21<sup>st</sup> century, Chinese officials defined China's position within the international system as *Peaceful Rise* in theory, in rhetoric and in policy. The research studies the question based on analysis of international political economy of China's reform process within a historical perspective. Given China's history-long "catching up with the West" as the main drive behind the determination and the guidance of China's strategy at home and abroad throughout the political history of modern China, the thesis argues that "China's Rise" has become the new strategy of China's catching up objective towards the 21<sup>st</sup> century. Chinese leadership formulated the concept of *Peaceful Rise* as the discourse of the new policy to both domestic and external audiences. Building up *Harmonious Society* and being a *Soft Power* in international order have been designed as the policy components of new strategy. Chinese leadership also used the concept of *Peaceful Rise* as the theory of the legitimization of the new strategy of "China's Rise" and its policy components.

Keywords: Peaceful Rise, China's Rise, China Threat, International Political Economy, Foreign Policy, Reform and Opening.

## ÖZ

### ÇİN'İN BARIŞÇIL YÜKSELİŞİ'NİN SİYASİ İKTİSADI: EJDERİN GERİ DÖNÜŞÜ MÜ?

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Yüksek Lisans, Uluslararası İlişkiler Anabilim Dalı

Tez Yöneticisi: Doç. Dr. M. Fatih Tayfur

Aralık 2008, 141 sayfa

Bu çalışma, 1990lı yılların ortasından itibaren yükselen Çin'in uluslararası siyasi iktisadını analiz etmeyi amaçlamaktadır. Çalışmanın yanıtlanması gereken temel sorusu; Çin politik seçkinlerinin 21. yüzyılın başlarından itibaren, niçin Çin'in uluslararası sistem içindeki pozisyonunu; teorik, söylemsel ve politik zeminde, *Barişçıl Yükseliş* olarak niteledikleri şekilde karşımıza çıkacaktır. Çalışma, sorunsal Çin reform süreci uluslararası siyasi iktisadını tarihsel bir perspektif ile ele alacaktır. Modern Çin'in iç ve dış siyasetteki dinamiklerinin ardında yatan tarihsel “Batı’yı yakalama” motivasyonu düşünüldüğünde bu tez; 21.yüzyılda “Çin'in Yükselişi”ni söz edilen amaca ulaşmada yeni stratejisi olarak yorumlamaktadır. Çin politik seçkinleri, *Barişçıl Yükseliş* konseptini ulusal ve uluslararası toplum boyutlarında yeni politik söylem olarak ortaya koymuştur. Yeni stratejinin politik bileşenleri olarak; Çin ulusal sınırları dahilinde *Uyumlu Toplum* inşası, uluslararası sistemde ise *Yumuşak Güç* olma olgusu karşımıza çıkmaktadır. Çin politik seçkinleri, Barişçıl Yükseliş konseptini yeni strateji; “Çin'in Yükselişi”ni ve politik bileşenlerini meşrulaştırmaya yönelik bir teori olarak da kullanmışlardır.

Anahtar Kelimeler: Çin'in Barişçıl Yükselişi, Çin'in Yükselişi, Çin Tehlikesi, Uluslararası Siyasi İktisat, Dış Politika, Reform ve Dışa Açılma.

To My Grandmother

## **ACKNOWLEDGEMENTS**

I would like to express my deepest gratitude to my supervisor Assoc. Prof. Dr. M. Fatih TAYFUR for his patience, advice, criticism and encouragements throughout the research.

I would also like to thank to Assoc. Prof. Dr. Pınar AKÇALI and Assoc. Prof. Dr. Oktay TANRISEVER for their valuable suggestions and comments.

No words of gratitude would be sufficient enough to thank my family for their support. I would like to stress that without the constant support, encouragement, tolerance, and affection of my family, I would not be able to complete this thesis.

Finally, I would like to acknowledge the support of The Scientific and Technological Research Council of Turkey (TÜBİTAK) throughout my M.Sc. studies.

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## **CHAPTER 1**

### **INTRODUCTION**

For approximately the last decade, the “rise of China” has become a cliché within the international community and media. There have been many articles devoted to the subject in internationally-recognized magazines and newspapers. Since the topic has captured the attention of the business world, these columns mainly focus on the increasing growth rates of the Chinese economy, the foreign reserves accounts of the Chinese Central Bank, the US trade deficit with China, China’s accelerated integration into the world economy with its membership into the World Trade Organization in 2001, and the opportunities presented by both the central and local governments to the international market. Apart from the economic and financial analysis of China’s rise, there have been many interpretations for the prospective impact of the staggering economic power on its military along with its international behavior in world politics. But what is really known about China?

China is distinct from many countries in the world. As Kim asserts, China has an important place in significant aspects of world affairs as being the world’s most populous nation, being the world’s second largest country, possessing the world’s largest armed forces, having veto power in the United Nations Security Council (UNSC), being a member of important global institutions including the World Trade Organization (WTO), being the world’s third-largest nuclear weapon power, and being the world’s second-largest generator of carbon dioxide emissions amongst a few of its attributes (Kim cited in Buzan and Foot, 1999: 38-39). As it entered the 21<sup>st</sup> century, China is able to preserve its “socialist” character; it has an authoritarian state; its economy has been labeled as “socialism with Chinese characteristics” showing signs of state capitalism; it has one of the longest histories of civilizations in the world; and more significantly, China has been on the reform process since the end of the 1970s.

China has affected the world and has also been affected by international circumstances more than before since the reform process started. In other words, China matters some way or another not only regionally but also globally; China is

not solely important for neighboring countries or the Asia-Pacific region but also for the international community in general. Indeed, the National Intelligence Council (NIC) report, *Global Trends 2023: Transformed World*, stated, “China is poised to have more impact on the world over the next 20 years than any other country”(NIC report, 2008:vi). It is therefore important to have an idea about China and its dynamism in order to grasp the changing parameters of the world economy, global issues such as the food crisis and climate change, and international relations in general. Trying to understand global trends without taking into account the developments in China’s transformation is incomplete. As stated before, whether or not perceiving it as the new global power, the dynamics of the international system and the world economy forced every policy-maker, businessman, and scholar to make an effort to China as one of the most dynamic countries in the world.

Chinese studies date back to the late 1950s. The study of Chinese foreign policy was pursued under three schools: the traditional or historical school, the Maoist or communist ideology, and the realist or rational thought until the late 1960s. The traditional school<sup>1</sup> studies Chinese foreign policy behavior based on the analysis of the “continuity of traditional Sino-centrism<sup>2</sup> and China’s experience with and conceptualization of the West” as the explanatory variable (Yu, 1994:236). The traditional school was challenged with the emergence of the Maoist/communist ideology school with the Communist Victory of 1945. This approach takes the Maoist revolutionary politics and Mao’s personality as the explanatory variables of Chinese foreign policy (Yu, 1994:237-8). Throughout the 1960s, the study of Chinese foreign policy was mainly limited either to the borders of the Maoist/communist ideology emphasizing the central theme of Mao’s Theory of Three Worlds<sup>3</sup> in forming China’s foreign policy or the emerging systemic and

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<sup>1</sup> The examples of the historical/traditional school are given by C.P. Fitzgerald in *The Chinese View of Their Place in the World* (London: Oxford University Press, 1964); Francois Geoffroy-Dechaume, *China Looks at the World* (London: Faber and Faber, 1967); John K. Fairbank, ed. *The Chinese World Order* (Cambridge: Harvard University Press, 1968) cited in (Yu, 1994: 236).

<sup>2</sup> The Chinese tradition of Sino-centrism conceptualizes the world order through a three-layered hierarchical system in which China or the Middle Kingdom is at the top, neighbors or peripheral states are linked to China with a China-centered tributary system and placed in the middle, and the West or barbarians are at the bottom (Yu, 1994:237).

<sup>3</sup> Under the Theory of Three Worlds, the world consists of three worlds in economic and political terms. The superpowers belong to the First World, the developed allies of the superpowers form the Second World and the non-aligned nations of the developing world were the Third World.

realistic approach based on the “Western notions of power, national interests and international constraints to the study of Chinese foreign policy”(Yu, 1994:238). Emphasizing the uniqueness of China and adherence to its specific conditions while studying its foreign policy by both the traditionalist and Maoist/communist schools differentiated them from the realist school, which emphasized external/international constraints as the main explanations for foreign policy analysis of a nation-state in the international system (Yu, 1994:238).

The change in the relationship between the United States (US) and China at the start of the 1970s, (the normalization of Sino-US relations, rapprochement) also reflected in the foreign policy analysis of China and made the analysis of triangular diplomacy between Moscow-Washington-Beijing the central topic of Chinese foreign policy studies. For realist ones studies, the analysis of bilateral relations of China with other states in Asia-Pacific and the Third World were the main focus<sup>4</sup>. However, the factionalist school, which challenged the unitary-actor approach in foreign policy analysis, began to study the factionalism among top Chinese elites as the main variable of Chinese foreign policy (Yu, 1994:242). Since the 1970s, elite politics has been emphasized in the study of Chinese foreign policy.

While the signs of China’s turn outward started surfacing by the start of the 1970s as a result of China-US rapprochement, the decision for integration into the world economy was not taken till the late 1970s under the rule of Deng with his modernization program of “*opening and reform*” in 1979. Meanwhile, the behavioralist trend in IR literature also became influential in Chinese foreign policy studies beginning in the 1980s. The main assumption of such thinking was that since China opened its door to the West, its foreign policy has become more multi-faceted in the sense that grasping the totality of Chinese foreign policy was not possible but priority should be given to the study of discrete measurable units of the system. The institutional and perceptual approaches that flourished by the 1980s have been the reflections of the behavioralist trend to some extent (Yu, 1994:257).

The start of the reform process and the changing character of Chinese revolutionary politics led to variations in Chinese foreign policy studies. The edited books based on the collection of studies analyzing different aspects of Chinese foreign policy behavior had been published; their aim was to examine the change in

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<sup>4</sup> See G.W. Choudhury, *China in World Affairs: The Foreign Policy of the PRC since 1970*, 1982.

Chinese foreign policy pattern. In this vein, the reform decision in Chinese domestic politics came with a new debate on Chinese foreign policy in literature in the sense that the question of whether China's foreign policy pattern indicated continuity or change in accordance with the one followed under the rule of Mao was taken broader scholarly attention. Until the end of the early 1990s, Chinese foreign policy studies mainly focused on the explanation of the change and continuity of China's foreign policy behavior.<sup>5</sup> However, by the early 1990s, Chinese studies began to come under the influence of new Orthodox thinking (or mainly by neo-realist and neo-liberal approaches).

The international system entered a new phase with the collapse of the Soviet Union, and the "end of the history"<sup>6</sup> began to be spelled out by the international community. Many studies focusing on the reform of the ex-Soviet countries and their failing attempts to liberalize their economies were made. By the end of the 1990s, while the world was witnessing the break-up of the Soviet Union as a consequence of Gorbachev's *perestroika* (restructuring) and *glasnost* (openness) policies, China was busy with the repression of the demonstrations at Tiananmen Square in 1989. All this led to the emergence of a new debate in Chinese domestic politics known as the China Collapse debate: whether or not China could survive a collapse like the Soviet Union. Although China suffered from the consequences of both domestic and international changes in the cited period, which resulted in China's short-term isolation from the world, the initiative to rehabilitate the reform process by the Chinese leadership accelerated the re-integration of China into the world economy by the mid 1990s. Since then, China has become a more active player on the international scene in the following periods by the successful outcomes of its open-door policy and the economic boom it experienced. While the end of the Cold War led to new discussions in Chinese domestic politics as such, the international concern for Chinese foreign policy in the post-Cold War period by neighbors in the Asia-Pacific region, specialists of international relations and Asian studies as well as

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<sup>5</sup> *China and the World: Chinese Foreign Policy in the Post-Mao Era* edited by Samuel S. Kim, 1984; *Chinese Foreign Policy: Theory and Practice* edited by T.W. Robinson and D. Shambaugh, 1994; Zhao Quansheng, *Interpreting Chinese Foreign Policy: Macro-Micro Linkages*, 1996.

<sup>6</sup> The "end of history" was declared by Fukuyama not just as a signal of the end of the Cold War, but also the end of the ideological evolution of mankind and the acceptance of a liberal democracy as the way of government (Fukuyama, 1992).

policy makers in Beijing and other capitals has risen, and the impact of China's successful transformation began to draw broader scholarly attention. Hence, a significant progress in the study of Chinese transformation and foreign policy has been witnessed day by day. As Zhao asserts, the "PRC's [People's Republic of China] ability to promote or to undermine international peace and stability has been an important concern of world community throughout its history" but the dynamics of the international system and the thriving performance of China on its reform caused the reemergence of these concerns in the literature of Chinese foreign policy and the renewal of the China threat debate (Zhao, 1996:7-8).

The question of "has China become a status-quo power or a revisionist one?" is the central question of the China threat debate. Critically looking through the roots of the debate, one should take into account that while the United States has appeared the dominant power in the post-Cold War *liberal* international system, China had been one of the few communist countries to successfully survive throughout the critical period of the break-up of the socialist systems around the world. The presence of a country having features that contradict with the ones of the new *liberal* international system coincided with the reemergence of the debate on whether China would be a status-quo power or not. The China threat debate has mainly originated from the policy debate on US post-Cold War foreign policy and its China policy specifically. The policy debate asks, "How should the *liberal* international system deal with China; should the strategy be engagement or containment?"

As in the US policy-making process, the debate over Chinese international behavior has been the central theme of many studies of Chinese foreign policy in the post-Cold War era. According to Zhao, "the policy debate" of Chinese international behavior as an expansionist power or a benign power "coincides with the theoretical debate between realism and liberalism among international relations scholars"(Zhao, 2004:3). While Realists assert that as China became more powerful, it became more assertive/expansionist on pursuing its interests in world politics, making it a threat to the international system and should therefore be contained. Liberals say that since the increasing interaction of China with the global world has resulted in reforms in the Chinese domestic politics and system transformation and made China the promoter of international regime, the international policy should aim at the engagement of China into world politics and economics fully (Zhao, 2004:3).

Ultimately, the policy and theoretical debate on Chinese post-Cold War foreign behavior has mainly originated from the legitimization of the current *liberal* international system and the interests of a Western-dominated capitalist world. Indeed, as Johnston points out, both scholars and politicians have characterized the international behavior of China as less accommodating to international rules and norms. Moreover, many realist scholars and journalists began to write that the possibility of the realization of “a Chinese-led anti-hegemonic coalition” has augmented (Johnston: 2003:5-6). These realist concerns have reached a peak by the more active foreign policy strategy China has pursued at both regional and global levels since the mid-1990s.

Chinese studies also prospered because of the new discourse on *Rising China* by the end of the 1990s. While many studies support the argument in *Rising China* as a new economic, diplomatic, and military power in the international scene, being the most significant development in recent world politics since the collapse of the Soviet Union. Others are skeptical about that rise and highlight the drawbacks of Chinese reform in terms of economics and domestic politics and the problems it faces and would face in near future such as rising unemployment, income gap between regions and different social classes, and pollution, and reached the conclusion of a prospective collapse of China in order to strengthen their countervailing arguments. One should not see the discussions on *Rising China* discourse as separate from the essence of Chinese studies developed since the 1990s, but they have been the reflections of the mainstream concerns of the Chinese presence in the current *liberal* international system in IR literature.

Although this can be qualified as a lack of comprehensive or theoretical examinations of the topic, in general, there are two thoughts (dominated by mainstream paradigm) on defining and conceptualizing *Rising China*'s foreign policy behavior since the mid 1990s. Some scholars from the liberal viewpoint argue that China has become more accommodating to international norms and standards, becoming a more status-quo power since the international circumstances or domestic conditions prepared such an outcome by transforming China (Yahuda, 2003; Medeiros and Fravel, 2003, Kim, 2004; Shambaugh, 2005; Ikenberry, 2008). However, the realists argue that China's integration into the capitalist world economy and its inter-state system should be seen as an extension of its grand

strategy of becoming a powerful nation on world scene again; rather than being more reliable, it has become a challenging one while pursuing its long term interests (Goldstein, 2005; Sutter, 2005; Yunling and Shiping, 2005).

Within this context, how can one analyze the foreign policy of *Rising China* different from the Orthodox paradigm? I will claim that the Chinese foreign policy analysis should be studied within a critical outlook. What should be the research question of the thesis for the analysis of Chinese foreign policy?

Different from the Chinese threat concerns of whether it would be a status-quo power or not, Gerald Segal tries to answer “does China matter?” in his same-titled 1999 article in *Foreign Affairs*. Although Segal changed the question asked, he also contributed to the neo-realist concerns by revising the image of China to find a long-term solution to accommodate China to the international system<sup>7</sup>. However, the question is the starting point for the emergence of a more critical outlook to the phenomenon. Taking a critical view of Segal’s argument, his colleagues who are China specialists published a book entitled *Does China Matter? A Reassessment: Essays in Memory of Gerald Segal*. The edition published by Buzan and Foot (2004) reassesses Segal’s argument and examines the importance of China on both global and regional levels looking through its presence in military, economic, political, and cultural fields. The contributors acknowledge that the question of “does China matter?” has remained the central theme of world politics; however, with a critical view of Segal’s argument, they reevaluate China’s position and try to answer to whom, how, and why China matters. The contributors of the book differ in their conceptualization of the importance of China, globally and regionally, economically and strategically, but the book is crucial for analyzing different aspects of China’s position in the world and highlights different angles to the questions of why China matters.

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<sup>7</sup> Segal (1999) criticizes the discourse of *Rising China* and acknowledges that China has been “overrated as a market, a power and a source of ideas”. In reality, he accepts that China is a second-rank middle power, but behaves as a big power in order to establish its interests in the world. However, the emphasis on the importance of China in the international scene is very much related to the exaggeration of China’s power by the West mainly because of the disbelief that China may tend to be a non-status quo power in future as Gerald points out. He adds that if we exaggerate the power of China more than its real potential, then the tendency to constrain or engage China will be enhanced. According to him, in order to accommodate China into the international arena through formulating a long-term policy, the image of China should be revised and become more realistic.



In his review article, Chan represents an important collection published by *Foreign Affairs* by the Council on Foreign Relations in New York between 1997 and 2002, entitled “The Rise of China” which questions the rise in China’s power through considering four factors. These four realms of study are: the main sub-topics of Chinese studies in the academic literature; its geopolitical significance; its relations with the US; its problems in development such as environmental problems and the changing aspects of its domestic politics with its integration into the world economy; and its foreign policy (Chan, 2005:310). Considering the studies made under these four sub-topics, at the end, Chan argues that the “study of China and the world has begun to move from Does China matter? to How does China matter, with whom and to what effect?” and adds, “collectively they form a road map showing the way to understand China and its value to world community”(Chan, 2005:316).

Understanding China requires a critical examination of how China impacts the regional and global economic and political systems as well as its domestic one. While these impacts have reshaped external and internal dynamics, they have also become influential on the subsequent Chinese response to changing conditions. That’s why the answers of to whom, how and to what China matters are significant in grasping the reasons behind the formation of new reform policies and foreign strategies by the Chinese leaders. In other words, there is a dual process behind the *Rising China* phenomenon. So, one should see the essence of the dual process before studying the dynamism behind Rising China.

### **Peaceful Rise:**

The concept of *Peaceful Rise* was initially created by Zheng Bijian, the chairman of the China Reform Forum, at the Bo’ao Forum<sup>8</sup> in 2003. The Peaceful Rise was used officially by Premier Wen Jiabao for the first time during his speech at Harvard University in 2003, when talking about China’s changing position within the international system (Medeiros, 2004:2). President Hu Jintao also used the concept several times in his speeches while indicating the shifting international view of China (Zheng and Tok, 2008:177). The concept defines Chinese development and the

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<sup>8</sup> Bo’ao Forum for Asia (BFA) is a regional forum initiated by the leadership of China as a version of the annual World Economic Forum.

character of its international behavior through emphasizing China's development would offer new opportunities to the world rather than be a threat to the world and its Asian neighbors. However, the term returned to the more modest concept, Peaceful Development, in 2004. For many, the two concepts are the same in essence regarding their assumptions and policies that would be followed. The main reason in the shift was the fear that the word *rise* could be understood wrong unintentionally by the external world; therefore, "development" was used as a more modest word to prevent wrong impressions as Zheng and Tok emphasize (Zheng and Tok, 2008:177). Since the creation of the concept, Peaceful Rise was presented as a sign of China's "new pathway and the strategic choice" for the future by specialists and officials (Medeiros, 2004:1). A new debate on the possible pathways of Rising China was highlighted by both scholars and policy makers.

Shambaugh states that the term should be seen "as an assertive propaganda campaign" and the term "was intended to rebut the twin China threat and China collapse theories" in international community (Shambaugh, 2005:23). But, as many scholars put forward, these kinds of explanations are insufficient for exploring the nature and the full reasons underlying the formation of the concept. In this regard, Bhattacharya tries to answer why the Chinese officials used the term as a new thinking while the "China threat theory" had "almost a decade old history"(Bhattacharya, 2005:62). Bhattacharya also highlights the importance of grasping the creation of the term within a broader perspective of Chinese foreign policy strategy development shaped by international and domestic challenges. In addition to external challenges, the "preservation of Chinese party-state, or in other words, the maintenance of regime's stability" is perceived as the essence of the concept by Bhattacharya (Bhattacharya, 2005:66). According to Bhattacharya, this is the motive behind the Chinese foreign policy formulation that is accommodating rather than challenging to the international system. It is mainly related to the internal security of China, and the term is used for "coping with the Chinese rapid rise both internally and externally" (Bhattacharya, 2005:67). While Bhattacharya emphasizes the promotion of internal security as the main reason for the formulation of new foreign policy strategy, some see the official usage of the concept as the indication of how China transformed into more responsible, cooperative actor in the existing international system through exploring the political and economic transformation of

China since *opening and reform*. The book *China's Peaceful Rise in the 21<sup>st</sup> Century: Domestic and International Conditions* edited by Sujian Guo (2006) also addresses the term and defines it as the signal of a new thinking in Chinese foreign policy that emerged in 2003. According to Guo, this new thinking kept features of Deng's strategy of "keep a low profile and never take the lead but differs from Zemin's adherence to multipolar world" in the sense that the strategy accepts unipolar world and US hegemony<sup>9</sup> (Guo, 2006:2). The other, most important feature of the concept is mentioned as its emphasis on economic development's first approach. Guo uses the Peaceful Rise to demonstrate the responsible, cooperative international behavior of China in the world; however, there is also the possibility of using the term for conceptualizing its rising as a soft power for the advancement of its status within the regional and global affairs and of its economic development (Guo, 2006:2). Indeed, China is not interested in being a regional or global hegemony or changing the international system, but peaceful development has become its priority. Thus, China will achieve its peaceful development objective in an era of deepening interdependency and globalization only if it can overcome the challenges and leverage the opportunities at the international and domestic levels by increasing its integration into the international system and world economy (Guo, 2006:8).

However, there are also many authors who promote the idea that the concept is not a sign of new thinking of Chinese foreign policy but this rhetoric is the essential part of China's grand strategy developed in the mid-1990s (or its post-Cold War strategy). Goldstein argues that the strategy of peaceful rise has been the extension of China's grand strategy developed in the mid 1990s "in order to cope with the global perceptions of China threat appearing on world community by the mid of the century". He adds that the strategy also aims "to provide a better international environment for its rise to a true great power"(Goldstein, 2005:12). Similarly, some authors define the strategy as a pragmatic one, as the reflection of an adoptive outward behavior of China to new international circumstances. In this regard, Sutter (2005) emphasizes that the Chinese emphasis on new thinking in its foreign policy is tactical, this rhetoric is seen as necessary for maintaining a cooperative relationship with the US and its allies for the advancement of the Chinese national development

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<sup>9</sup> Deng Xiaoping was the leading actor in the Second generation of leadership in China after the Maoist era, and Jiang Zemin was the one on the Third generation of Chinese leadership. The detailed analysis of their respective foreign policy lines will be made in the following chapters.

in the long-run, rather than indicating a true change in Chinese perception or thinking in the US policy in the region and its history-long national priority of preventing the dominance of any great power in its periphery. According to Sutter:

China is less a responsible power-fully embracing international norms in security and political affairs and more a responsive power, carefully maneuvering to preserve the long-standing interests in the changing circumstances (Sutter, 2005:16).

There have been different interpretations regarding the essence of the concept and its meaning for China's 21<sup>st</sup> century foreign policy strategy. Is the concept only a rhetorical tool formulated against China threat concerns or the reflection of a significant change in the Chinese foreign policy pattern is the new question of the mainstream Chinese foreign policy studies.

There are two reasons behind my choice of the "Peaceful Rise" as the object for the critical analysis of the Chinese post-Cold War foreign policy. Firstly, there is a connection with the Peaceful Rise discourse and the literature of the Chinese foreign policy developed after the end of the Cold War. Chinese foreign policy literature has been mainly written by the West based on the perceptions of China's presence in the world, but with a prejudicial view in order to legitimize the Western interests and their policies toward the integration/exclusion of China of/from the "liberal" international system. Different from the previous studies of the Chinese foreign policy based on the mainstream thinking, the focus of the analysis of the Peaceful Rise highlights a different interpretation and approach to China and its relations within international system. The term indicates China's response to these international concerns. The main idea behind the choice of the Peaceful Rise as the object of the thesis is that the Chinese international behavior should not be limited within the borders of the mainstream thinking. That is why the thesis makes a reserved reading of the phenomenon and recognizes its appropriateness for grasping the reality without a prejudiced one. Thus, rather than answering whether China will be a status-quo power or not, the study focuses on China's response to international concerns.

Secondly, the Chinese foreign policy studies dealt with answering the question of the China threat debate throughout the 1990s. However, the Chinese leadership

formed the concept as a response to international concerns by the early 2000s approximately ten years after the debate has started (Bhattacharya, 2005:62). At this point, the thesis assumes that the Chinese impact on world politics and international system had reached at a significant point during the late 1990s. The rising global impact of China and the reflections of that impact began to be an influential factor on the re-shaping of China's international behavior, its reform process, and foreign policy strategy. In this sense, the Chinese response has been shaped under the influence of the answers of to whom, to what and how China matters.

Within this context, the thesis aims to answer: how can one define Peaceful Rise; in theory, what does the Peaceful Rise mean; in rhetoric, for whom the Peaceful Rise was designed for; and in policy, how the Peaceful Rise was implemented?

The thesis argues that the definition of the Peaceful Rise emerged in the early 2000s could be explained better by taking into account the political economy of Rising China since the mid-1990s that was neglected in existing studies. Since Rising China was the outcome of the interaction of the domestic and external dynamics of previous periods (since the Communist Revolution of 1949), the study will explore a historical perspective of the Chinese political economy since the reform decision declared by Deng in the end of the 1970s. The thesis intends to examine the meaning of the Peaceful Rise through the approach of China's history-long "catching up" with core/West<sup>10</sup> objective that has been the main drive behind the determination and guidance of China's strategies at home and abroad throughout the political history of modern China. While the objective of catching up remained the same throughout China's political history, the strategy has altered in the context of the interaction of domestic and external dynamics and their impact on the perception of the Chinese elite over China and its status in the world order, creating a dynamic process. Moreover, China has not been a passive actor responding to the changes in external circumstances; rather China began to contribute to shaping the international environment since the early 1990s. This has been illustrated through the increasing concern of the international community over China's development and international behavior through forming China collapse, the China threat, and China Rising discourses respectively since the 1990s.

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<sup>10</sup> The thesis uses catching up with the West/ or the core analogously.

In this framework, Chapter 2 is designed as an introductory chapter, laying the foundation for arguments of the preceding chapters through highlighting the evolution of catching up strategies until the beginning of the 1990s. After the initial emphasis given to the political history during the era of Mao (1949-1976), the study will start with the analysis of the reform decisions taken by the Chinese leadership at the end of the 1970s. The analysis questions the change and continuity in the Chinese political economy from Mao to Deng.

Chapter 3 mainly discusses the main domestic and external dynamics of the 1980s. The basic characteristics of the Chinese reform of the 1980s based on the dual-track system are mentioned which will also include brief information about the differences of the Chinese and Soviet reform process in order to establish the origins of the domestic dynamics inside China until the 1990s. The main dynamics of the extended Chinese foreign policy of the period are also examined; peace and development are taken into account through both the impacts of domestic and external constraints on Chinese international behavior in the 1980s. Meanwhile, the impact of the Gorbachev's reform of glasnost and perestroika on the Chinese domestic dynamics and external constraints will be highlighted when studying the main determinants of the political uprising of Tiananmen in 1989. Before turning to the analysis of the post-Cold War strategy as the Chinese response to the new domestic and external dynamics of the 1990s, the thesis also indicates how the domestic crisis of Tiananmen and the external crisis of the collapsed Soviet Union altered the perception of the Chinese leadership in their approach to China and its status in the new international system in the early 1990s.

Chapter 4 is designed to examine the political, economic and social dynamics of the reform in the 1990s until the China's entry into the World Trade Organization (WTO) in 2001. The thesis initially studies the basic determinants of the domestic dynamics of the 1990s through studying the Chinese decision to enter the WTO and the process of accession. In order to indicate the different domestic interests within Chinese politics, the Chinese model will be compared with the East Asian developmental model, which assumes a monolithic state entity. Meanwhile, I will have the opportunity to indicate the challenges inherited with the Chinese model that would impact on the China's decision for WTO membership and the accession process. I will also explore the external changes within the international system and

the world economy in the 1990s and their impacts on the Chinese reform process and the decision to enter the WTO through exploring China's place within the international and regional production-trade system in East and Southeast Asia. Afterwards, the socio-economic dynamics of the reform process of the 1990s will be studied in detail to understand the effects of reform on the Chinese social transformation and the decision for the WTO membership. In this context, the main reasons for the Chinese entry to the WTO at the start of the 21<sup>st</sup> will be grasped.

In Chapter 5, the thesis will focus on the new dynamics of Chinese foreign policy as the extension of its new strategy created in the mid-1990s that would shape the important component of the international concerns of Rising China at the start of the 21<sup>st</sup> century. In this regard, emphasis will be given to Chinese relations with the major powers, with the Third World, and China's multilateral diplomacy with its neighbors, especially Southeast and Central Asia. Taking into account the Chinese Cold War foreign policy dynamics towards these relations, the thesis will explore the continuity and change of the Chinese international behavior after the mid-1990s through highlighting both changes in international system and domestic conditions in 1990s.

In Chapter 6, the thesis will focus on the meaning of the Peaceful Rise within the domestic and external context introduced in Chapters Four and Five respectively. In order to fully grasp the meaning of *Peaceful Rise*, the chapter initially starts with the answers of to whom, how and to what extent China matters based on global, regional and domestic level of analysis. The analysis is necessary in understanding how China has affected global, regional and domestic dynamics. While these impacts have reshaped external and internal dynamics, they have also become influential on the subsequent Chinese response to changing conditions in reshaping of its reform process and foreign policy since the early 21<sup>st</sup> century. Afterwards, Chinese leadership's formulation of the concept; Peaceful Rise will be highlighted through exploring its meaning in rhetoric, in theory and in policy while considering the political concerns of the CCP leadership at the start of the 21<sup>st</sup> century. The chapter concludes with the reflections of Peaceful Rise on new domestic and Chinese foreign policy dynamics since 2003.

In Chapter 7, the concluding chapter of the thesis, I will discuss the prospects of the domestic and external dynamics of the Peaceful Rise by referring to the findings of previous chapters and by taking into account the changing global trends in general.



## **CHAPTER 2**

### **FROM MAO TO DENG: CHANGE OR CONTINUITY?**

Dating back to the Age of the Dynasties in the 17<sup>th</sup> century, a regional China-centric diplomatic tributary trade system developed in Asia. Within this system, China was the center, and the peripheral states were seen as vassals who offered tribute to the emperor of China (Ikeda, 2003:170). This Sino-centered tributary system shaped the Chinese understanding of the international system throughout the Dynasties' Period by conceptualizing the world order using a three-layered hierarchical system where China was situated at the top. Neighbors or peripheral states were linked to the tributary system according to their level of Sinofication and placed in the middle. The West, viewed as barbaric, was firmly placed at the bottom (Yu, 1994:237). However, with the end of the Opium War in 1842, Chinese political history reached a crucial turning point: for the first time China was forced to open its Eastern ports to the West<sup>11</sup>. The Sino-centric tributary system could not withstand the new Western influence that began to flow into the region and soon collapsed. From this point till the end of World War II, China and its periphery lived under the oppression of imperialist powers (Aiguo, 2000:8-9). The collapse of the Chinese-centric world order via the passage of the Unequal Treaties with the imperialist powers reflected the unfavorable perception of the Chinese elite towards China and its place within the international system; the Chinese began referring to the years between 1840 and 1948 as the "Century of Humiliation".

While modernization and Westernization of the army was the initial responses of the Chinese rulers to the Western influence during the dynasties era, the Chinese expressed their objection to the ongoing Western influence through several anti-Western demonstrations including the Boxer Rebellion (1899-1901) and the May Fourth Movement (1919). The Western philosophy that emerged during the last years of the Imperial Era was discredited and more extremist teachings emerged.

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<sup>11</sup> The treaty of Nanjing, the first of many unequal treaties signed with Western powers, ended the Opium War in 1842, and opened up Chinese ports to the West. Hong Kong was also ceded to Great Britain through this Treaty (Hunter and Sexton, 1999:8).

These new teachings became the foundation for factionalism among Chinese politics between the right (Kuomintang Nationalist Party) and the left (Communist Party of China).

There was a struggle for power between the Nationalists and Communists, and a civil war ensued. Ultimately, however, the two factions of Chinese politics formed a united front in order to defeat the warlords and to unite the nation; the Republic of China was founded in 1911 under the leadership of revolutionary Sun Yat-Sen (Hunter and Sexton, 1999:14). The two factions formed yet another united front from 1937 to 1945 in order to fight against the Japanese invasion of the mainland (1931-1945), which was supported by European powers. After the Japanese invasion ended, internal strife returned, and a civil war between these two groups arose in 1946 again (Hunter and Sexton, 1999:22). The Communists received the support of the rural masses and announced the formation of the People's Republic of China (PRC) in 1949, while the Nationalists, relying on American support, fled to Taiwan<sup>12</sup>.

### **2.1. Maoist Period (1949-1976): The Socialist Way of Catching Up**

The main motives of the Communist Revolution of 1949 led by Mao Zedong were to build up national unity and to reconstruct the economy devastated by the war years. During this restoration period, the urgent need for technical and economic assistance was keenly felt as the primary method to provide the national unity and economic recovery at home (Hunter and Sexton, 1999:23).

The Korean War, the US military and economic aid to Taiwan, along with the Soviet support for Chinese national unification and similar ideologies shared by the Soviet and Chinese rulers all impacted the decisions of the Chinese Communist Party (CCP) and forced Mao to declare its position in the Soviet-American confrontation under the Theory of Two Worlds. This Theory clearly defined the existence of two worlds: socialist and capitalist, and the zone of conflict that exists between these two worlds that should be avoided (Gamer, 2003:74). Thus, with respect to this theory, China should have avoided conflict and chosen a side. The passage of the 30-year

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<sup>12</sup> The Taiwan issue originated from the struggle between the Nationalists and the Communists during the period between 1919 and 1949 and the US-Soviet Cold War hostility provided to fuel the struggle as the Communists were supported by the Soviet Union while the Nationalists by the US.

Treaty of Friendship between Moscow and Beijing in 1950 indicated the start of *lean to Soviet side* policy in China (Hunter and Sexton, 1999:181). In the years between 1949 and 1957, Chinese politics were dominated by the Stalinist model of development<sup>13</sup> and its Soviet-allied foreign policy extension.

However, Sino-Soviet relations changed significantly with the beginning of the Khrushchev era in the Soviet Union in 1956 due to his declaration of *the doctrine of Peaceful Coexistence* that accepted the coexistence of a capitalist system within a unified world economy. The Chinese leadership feared of any kind of US-Soviet rapprochement under the doctrine (Güler, 2001:288). Meanwhile, Mao began to criticize shortcomings in the Soviet model such as; repression of masses, promotion of technocratic class, centralized administrative principles) and the inherent contradictions of the Soviet strategy with the Chinese conditions and requirements for economic development (Wong, 2003:125). As Chinese dependence on the Soviet Union began to damage the interests of the Chinese Communist regime, both domestically and externally, Mao announced his own development model that provided an alternative to the Soviet one in 1958. This new model, known as the Great Leap Forward, emphasized the priority of the rural masses in Chinese industrialization. However, the Great Leap Forward (1958-1960)<sup>14</sup> resulted in a widespread economic crisis (Hunter and Sexton, 1999:566).

The disaster of the Great Leap Forward and the abandonment of Soviet assistance to China accelerated the Sino-Soviet dissolution by the beginning of the 1960s. Moreover, Soviet military assistance first to India in its fight against China in the Himalayas and then to Indonesia with the aim of raising Soviet influence in Asia caused hostility between the two powers (Gamer, 2003:206). China ultimately turned inward and decided to pursue its own development model based on the self-reliant logic in the Theory of Three Worlds formulated by Mao. Shifting dynamics externally and changing internal conditions had an important impact on Chinese

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<sup>13</sup> The government launched the first-year plan in 1953 based on the Soviet industrialization strategy emphasizing the development of heavy industry over light industry and agriculture. Furthermore Chinese national resources were used to earn foreign exchanges for the purchase of technology from the Soviet Union (Cumings, 1984:238). Thus, China became the periphery of the Soviet Union.

<sup>14</sup> The Great Leap Forward was the name of the second Five Year Plan (1958-1963). The mentality behind this strategy was to finance the development of heavy industry through the revitalization of agricultural production by decollectivization. This strategy envisioned the parallel development of both industry and agriculture.

foreign policy in the 1960s. The Chinese leadership tried to improve its relations with its Asian neighbors against the expansionist policies of both super-powers (the US and the Soviet Union) in its periphery. Additionally, China attempted to develop its relations with non-aligned nations in the Third World in order to increase its influence as the extension of its policy of independence from both superpowers (Robinson, 1994:566).

The debate over the developmental strategy amongst the Chinese political elite led to continued political conflicts between reformers and Maoists after the disastrous Great Leap Forward. While reformers, led by Lio Shaoqi and Deng Xiaoping, advocated for the promotion of individual incentives in a rural economy and for heavy industry based on expertise, Mao supported the use of socialist ideology to unite the masses for rural and industrial production.<sup>15</sup> In order to challenge his opponents within the Party, Mao<sup>16</sup> again tried to gain the support of the masses.<sup>17</sup> Mao successfully leveraged the conflict between the masses and the Party that stemmed from the cadre corruption and regained the leadership. However, support was not unanimous, leading to the rise of anti-communist sentiments that was repressed by the declaration of the Cultural Revolution in 1966 by the CCP (Gamer, 2003:80). During the initial three-year period, extreme Leftists under the leadership of the Gang of Four controlled the regime<sup>18</sup> (Hunter and Sexton, 1999:34). The foreign policy of the period was also under the control of radicals who encouraged the Chinese abroad to rebel against their host countries and support the world revolution. The language used by the radicals caused anxiety amongst China's

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<sup>15</sup> The struggle of the developmental model will be examined in detail in the next section.

<sup>16</sup> Mao Zedong withdrew from active politics after the Great Leap Forward disaster and left others responsible for improve the economy. However, they favored expertise rather than ideology in the management of national economy. Therefore, Mao and his supporters amongst the Chinese political elite united the Red Guards against the revisionists in order to regain power. The events led to political chaos and social disorder in China for ten years and ended with the death of Mao in 1976 (<http://www.sjsu.edu/faculty/watkins/cultrev.htm>).

<sup>17</sup> Under the "Fight Against Cadre Corruption" movement, Mao, ironically, gained the support of disadvantaged groups from the previous policies. These groups included: the PLA, city people from the bourgeoisie, former Kuomintang families, university students and unemployed youth (Gamer, 2003:80).

<sup>18</sup> The Gang of Four included Jian Qing (Mao's widow), Wang Hongwen, Yao Wenyuan, and Zhang Chunqiao who were all radical supporters of the Cultural Revolution.

neighbors. However, the rule of radicals ended when Mao called for the reestablishment of the army in 1968 (Gamer, 2003:207).

In the late 1960s, the central concern among the Chinese elite was the expansionist policies of the Soviet Union as the Vietnam War decreased the influence of the US in the region and increased the strength of the Soviets (Güler, 2001:291; Hunter and Sexton, 1999:182). Under Mao's leadership, China approached the US in 1971, who responded in kind with Nixon's visit to Beijing in 1972. To formalize the rapprochement, the Shanghai Communiqué was signed between the two powers in 1972 (McDougall, 1997:76).

By the early 1970s, Chinese politics experienced a battle between the Right and the Left that resulted in the victory of moderate Rightists. Consequently, Zhao Enlai as the Premier and Deng Xiaoping was appointed as Vice Premier. During his time in power, Zhao devised the Four Modernizations: a move to improve agriculture, industry, technology and military. However, the death of Zhao in 1976 led to disorder again and the Left dismissed Deng from his position. After the death of Mao in 1976, Huo Guofeng came to power via the support of the Left (Hunter and Sexton, 1999:37-38). Between the periods of 1976-78, Huo, as the successor of Mao, followed a development strategy similar with the ones pursued in the late 1950s. This strategy was based on heavy industry and self-reliance through the import of technology and the export of natural resources. However, the strategy collapsed due to its shortcomings and fed the political struggle for leadership that resulted in another victory for Deng Xiaoping (Cumings, 1984:239-242).

## **2.2. Seizing the Chance: The Decision on Reform**

At the Third Plenum of the 11<sup>th</sup> Central Committee in December 1978, the decision for reform (based on export-led growth and light industry development) was officially approved by the CCP two years after Mao's death. The reasons for initiating reform in 1978 require careful examination of both the internal and the external dynamics that favored this decision under Deng's leadership. Does the decision indicate continuity or change from Mao to Deng?

Naughton (1994) uses the international-system perspective in his analysis of China's reform through comparing its previous development strategies with the one

initiated after 1978. In this sense, the development strategies pursued before 1978 (as first the Soviet-inspired development strategy, followed by the self-reliant strategy) were “part of a larger package of political and economic strategies shaped by China’s perception of its international environment”. The strategy developed after 1978 were independent from any external constraints because of how the Chinese perceived relaxation of its international environment (Naughton, 1994:48, 50). Thus, this peaceful environment gave China the opportunity to look after its own domestic concerns rather than external security interests. In other words, through both the relaxation of the international environment and the US’ abandonment of its containment policy towards China, conditions became favorable for China’s turn outward. However, Naughton’s analysis of the international environment of the time requires further evaluation of the US strategy and China’s response.

The world-system analysts perceive 1967-1973 as a turning point in world history due to the fact that there was a decline in the US hegemony that altered the dynamics in the international system that was caused by a variety of factors including the Tet offensive<sup>19</sup>, a downturn process in the US-managed world economy, and a growing competitiveness of both Germany and Japan (Wallerstein, 1996:209; Reifer and Sudler, 1996:27). The alteration of the US perception in the international environment and its position within the system was also reflected in US global policy and resulted in the US détente with the Soviets starting in the 1970s. Meanwhile, the shift in American global containment policy with the Nixon Doctrine in 1969<sup>20</sup> and the dramatic opening to China through the Shanghai Communiqué in 1972 were seen as the implications of a new US strategy in the region (Reifer and Sudler, 1996:27).

The US-Sino rapprochement that came after the decline in US hegemony in the international system can be acknowledged as the main factor that molded the Chinese perception of the international environment as being secure and peaceful. Moreover, the Sino-US rapprochement was generally seen as a modification in the Chinese foreign policy against Soviet expansionism in its periphery and US

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<sup>19</sup> Tet Offensive was a series of surprise military attacks of North Vietnamese to the South Vietnam, and the forces of US and its allies. It was considered as the turning point of the Vietnamese War.

<sup>20</sup> Due to huge losses in the Vietnam War, the US changed its global strategy, resulting in the declaration of the Nixon, or Guam, Doctrine by President Nixon in 1969. The Doctrine aimed at devolving power to selected states that were allies of the US in the region rather than engaging in global containment policy itself (Reifer and Sudler, 1996:27).

abandonment of a containment policy towards China. However, the decision to opening up to the outside and the subsequent initiatives of reform were signs of change in the Chinese perception of the world system which dated back to the mid-1950s. As Cumings points out, when Khrushchev declared the doctrine of Peaceful Coexistence in the mid-1950s, China had two options: 1) either pursue a self-reliant strategy (de-linking from the superpowers)<sup>21</sup>; or 2) join the world-economy on best terms. Consequently, China chose the first choice and legitimized its policy choice through formulating the “Theory of Three Worlds” (Cumings, 1984:236).

This Theory indicated the Chinese acceptance of a unified world system and its modification of development strategy in accordance with that reality. However, China chose not to engage with the international system initially though it accepted the reality. The decision for China to integrate into the world economy through reform and opening up did not surface until 1978. Cumings highlights an important point that should be studied in detail in our analysis of China’s decision on reform in 1978: why did the Chinese leadership wait and make the decision to initiate reform at the end of the 1970s though they accepted the reality of a unified capitalist world system before?

Many see the main reason of reform in 1978 as the failure of the strategy pursued throughout the previous Maoist era and argue that the economic conditions of the previous period made the reform decision in China’s transition inevitable. The basic logic underlying such argument is that rural economies like China, who are rich in labor and poor in capital, cannot be managed by the strategy based on the development of heavy industry. However, the argument has been criticized by pointing out the improvements experienced under the plan. They argue that although the plan led to many economic problems, “there was nothing inevitable about the market reforms” that resulted in the decision of reform taken by the Chinese leadership at the end of the 1970s (Shirk, 1993:35; Aiguo, 2000:123). So what was the main reason?

Another reason put forward by the authors for the decision on reform is the political condition China experienced after the Cultural Revolution (1966-76). They

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<sup>21</sup> Amin and Frank argue, “De-linking is used by backward countries during periods of world capital contraction because de-linking enabled these countries to reintegrate into world-economy in stronger position later following periods of world capital expansion” (Amin (1990) and Frank (1969, 1978) quoted in Aiguo, 2000:80).

argue that the main force behind reforms initiated since 1978 revolved around the need to restore the CCP prestige that had been eroded by the Cultural Revolution. Because of this, the most urgent problem of China after the death of Mao was the survival of the communist regime and the power of the CCP. In this regard, the Chinese leadership saw improving the living standards of its people through strong economic performance as the only way to survive from that political legitimacy crisis (Shirk, 1993:23; Kornberg and Faust, 2005:66). Therefore, an elite consensus that supported the necessity of economic prosperity along with the development of a political survival strategy for the regime was established. However, there was no common formulated perspective as to how to achieve that progress (Shirk, 1993:23). Some elites favored a command economy, while others had doubts about central planning. The choice for initiating reforms under the leadership of Deng can be viewed as a reflection of this elite consensus among the factions of Chinese politics for the necessity of achieving economic development. However, this decision requires a further evaluation of the immediate political and economic context of China when the decision for reform and factional conflict within the Chinese political elite launched.

The leadership struggle between Hua Guofeng and Deng Xiaoping that occurred after the death of Mao in 1976 is a good starting point for clarifying the consensus behind Deng's rule that gave clues about the essence of reform. As Shirk asserts:

Deng took advantage of the economic crisis faced after the policies pursued under Hua's era and weaken(ed) the political coalition who supported the development strategy favored heavy industry based on the central planning (Shirk, 1993:35).

And he defines the Communist coalition as consisting of the inland provinces; heavy producer good industries, especially iron, steel and machine building; planning agencies; industrial ministries in the central government; and states where the interests of the Communist coalition were favored, subsidized and protected by the policies pursued under the command economy (Shirk, 1984:59). This Communist coalition became the major source of opposition to Deng's reforms, both at the initial phase and throughout the reform process.



For Shirk, Deng's market reform initiatives were both politically and economically advantageous in his struggle for leadership. Considering economic factors, the promotion of market incentives outside the system and the opening of the economy to the outside world were seen as the best solution for improving the economic performance of the country and raising the living standards of the people. Building a new coalition that supported his reforms through preserving the interests of different social classes can be explored as the political advantage he took from his decision (Shirk, 1993:36). Throughout the leadership struggle, while the coalition supported Deng's reforms with the conservative voices supporting a "bird-cage economic system"<sup>22</sup>, there were also more radicals who favored the creation of a full market-oriented economy (Shirk, 1993:36). However, the consensus among the Chinese political elite – especially between the moderate reformers and liberal reformers – supported developing a new strategy aimed at the Four Modernizations after the death of Mao in 1976 (Ross, 1994:444). Since the moderate reformers saw economic reforms as the means to modernization, they advocated controlled and limited market-oriented reforms and foreign capital inflow to the national economy, similar to a "bird in a cage". The liberal reformers supported the market-oriented policies and favored more liberalized initiatives as a way of advancing the Chinese national economy (Ross, 1994:446).

Because of this, many see Deng as pragmatist leader rather than a supporter of capitalism. Accordingly, his decision for reform and the initiative to open up the economy to market mechanism is explained as his pragmatic solution to China's problems. In this vein, Deng's decision for "reform and opening" was structured based on his observations of the international system, especially the successes of and the practices adopted by the Newly Industrialized Countries (NICs) in Asia and his acknowledgment that the market-oriented practices would result in immediate improvements to the problems of China (Kornberg and Faust, 2005:66-67).

However, the reform decisions taken under Deng's rule did not signify a concrete separation from the Maoist period. In fact, they could be seen as a

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<sup>22</sup> Bird cage economic system; while the economic activities (bird) should be given more freedom within the planned economic system (cage), they should not be allowed to act outside the control of the plan (Shirk, 1993:36).

continuation of the ones initiated under the rule of Mao<sup>23</sup>. As mentioned previously, there was a dynamic struggle between Mao and the CCP on the improvement of the economic system after the failure of the Great Leap Forward (1958-60) that caused the subsequent political crisis of the Cultural Revolution. What was the main reason behind the struggle? The main logic of the Great Leap Forward was to promote the best of the conditions present in poor and rural China; its motive was to use the energy of the rural masses for simultaneous agricultural and industrial development unlike the Soviet model that only focused on industry and left the country without food (Wong, 2003:125). In this sense, the model emphasized the decentralization of power and the formation of communes as the smallest units within local units<sup>24</sup>.

This model, however, collapsed by 1960. In response, the CCP recentralized the administration and created a program called the Four Modernizations in 1964 in order to improve the living conditions China faced after the Great Leap disaster (Cheek, 2006:60). While the program was initiated under the rule of Mao, it actually aimed to respond to the failures of Mao's Great Leap Forward. According to Cheek, it was a "technocratic model based on a fundamental reliance on the saving graces of science and technology and ordered social life based on rational, consultative administration under a rectified Communist Party" (Cheek, 2006:40). The basic principles of reform were formulated by the Party but the implementation of these reforms was suspended by Mao as a result of the tension between the Party's technocratic rationality and Mao's personal desires (Cheek, 2006:40). The aim of Mao was to strengthen China and its economy by the support of the masses –

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<sup>23</sup> There are also arguments supporting reform as an extension of the Maoist era and its development objectives in the sense that some identify the reform as the "logical outcome of the overall strategy of industrialization". For them, China ultimately became more economically and politically powerful as a result of Maoist strategy and the time to enter the world market as a relative equal came with the successful performance of industrialization experienced in the previous era (Deckers, 1994 quoted in Aiguo, 2000:121).

<sup>24</sup> Jinglian Wu (2005) argues that the transition of the Chinese system towards market economy started in 1956 with the decision of the CCP to launch the "economic management system reform"; the first reform decision came under via the "administrative decentralization" of 1958. The initiative was aimed towards delegating central power to lower levels. Thus, Wu indicates that the 1978 reforms were the second stage in the evolution of Chinese reform strategy by the fact that the reform was targeted at transformation "outside of the system". The transformation of the Chinese economy from a centrally planned one to market-oriented one has been the fundamental objective of the reform since 1956 as a result of Mao's recognition of major defects of the Soviet centrally planned model (Wu, 2005:43). However, the leaders responsible for the decision (or the rightists) were not supporters of decentralizing power during the Maoist period, although they also recognized the deficiencies in the Soviet model.

peasants and workers. His strategy was based on a decentralized model emphasizing high levels of investment in interior regions (Third Front regions) and local-national self-sufficiency (Naughton, 1994:49). However, the opposition (Liu and Deng) supported centralization based on trained experts with greater autonomy given to rural people for making a profit (Gamer, 2003:79).

The struggle resulted in the Cultural Revolution and continued till the death of Mao, dating Deng's reform policies through the struggle between Mao and the CCP to the 1960s. While Deng continued to rely on Maoism in rhetoric since Mao was the touchstone for CCP political legitimacy, Deng's strategy was easily distinguishable from the Maoist one as a socialist model. Deng made a careful de-Maoification and avoided the threat of charismatic leadership through the abolishment of the "Chairman" role and restored the Leninist administrative order (Cheek, 2006:60) based on the centralized power of the CCP.

Considering the various dynamics mentioned above, the internal factors of the reform are generally summarized through: the poor performance of the Chinese economic system in the previous periods; the political crisis and confidence factors at the elite and mass levels in the Party as a consequence of the Cultural Revolution; and the leadership struggle between Hua Guofeng and Deng Xiaoping.

Cumings (1984) criticizes the explanation of the reform decision in China through only exploring internal dynamics, and he advocates the understanding of the "West<sup>25</sup>'s structuring impact on China" to view the decision within a broader comparative and international perspective (Cumings, 1984:235). In this regard, although Cumings also explains the main internal sources of reform<sup>26</sup>, he highlights the importance of the structural impact of the US and its China policy on Chinese decision to implement "reform and opening" (Cumings, 1984:249). In addition to the strategic needs, there was an economic logic behind the US rapprochement with China that sought a China who would be fully integrated and dependent on a US-centered world economy (Cumings, 1984:251). Therefore, China adopted a

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<sup>25</sup> The West is defined as the hegemonic US and the world economy that it shapes by Cumings (Cumings, 1984:236).

<sup>26</sup> He sees the failure of the periods between 1976 and 1978 as stemming from the strategy of late industrial development based on the import-substitution-industrialization model, specifically the oil and coal recovery problem, as the main reason for reform (Cumings, 1984:249).

development strategy favorable towards the US and the capitalist world regime that opposed hegemony (the Soviet Union) but not to capitalism (the US) (Cumings, 1984:249). In this regard, Cumings indicates the similarity between US relations with Japan, Taiwan, and South Korea after the Cold War and China-US relations during 1970s.

The analysis of Western (especially the US) impact on China's reform should be examined critically through a historical perspective starting with the analysis of the strategy pursued by the US on the region throughout the Cold War era. The Truman Doctrine (1947)<sup>27</sup>, one of the most important documents reflecting US Cold War strategy, revealed the position of the US and stated that the "Soviet Union and its allies were expansionist and totalitarian, and had to be contained by economic, political and military power. Thus, communism would be confronted in the world, at almost any cost" (Hunter and Sexton, 1999:190). Since 1947, the US worked to create politico-military alliances, especially with all major industrial countries with the aim of reconstructing an inter-state system in line with capitalist multilateral integration and expansion. In this regard, the US leadership tried to build up "the conditions for multilateral economic integration and capitalist cooperation under its leadership through reconstructing Japan and Germany as the regional workshops of Asia and Europe and reintegrating them with their peripheral zones" (Rieffer and Sudler, 1996:16). Document NSC 48<sup>28</sup> extended "Truman's Containment Doctrine of 1947" to the Far East. This key US document offered a strategy based on regional economic integration centered on Japan, including both Northeast and Southeast Asia. The logic of the document is stated as follows:

Backing up the Pacific Rimlands, containing Communism by cutting the economic link between Japan and China through ensuring Japan's economic access to Southeast Asia and by driving a wedge between the Soviets and

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<sup>27</sup> The Truman Doctrine (1947) "effectively reoriented U.S. foreign policy, away from its usual stance of withdrawal from regional conflicts not directly involving the United States, to one of possible intervention in far away conflicts". In this sense, the US approved financial aid given to Turkey and Greece for their wars against communism. (<http://www.state.gov/r/pa/ho/time/cwr/82210.htm>)

<sup>28</sup> Document NSC 48 was the US National Security Council's report 48 issued in 1949 that outlined the US security interests and objectives in Asia. For more detailed analysis see: Daniel C. Sneider, the US and the Northeast Asia: the Cold War legacy in:

[http://iis-db.stanford.edu/pubs/21990/11\\_Sneider\\_FINAL\\_CC2007.pdf](http://iis-db.stanford.edu/pubs/21990/11_Sneider_FINAL_CC2007.pdf)

Chinese until the latter could be integrated into the Asian political economy under US patronage (Rieffer and Sudler, 1996:19).

American containment in Asia was directed against the communist Soviets and the Chinese. The US strategy of containment was pursued by the bilateral security agreements made with: Japan (1951), Australia and New Zealand (ANZUS, 1951), Taiwan (1954), South Korea (1954), Thailand and the Philippines (1954), and Southeast Asia Treaty Organization (SEATO)<sup>29</sup> established by the Manila Treaty (1954) (McDougall, 1997:19).

The US-Japan alliance was designed as the cornerstone of the American-led order in the East Asia as it began to take shape in the post-war era. In reality, the US offered Japan (and the region) a post-war bargain, according to Ikenberry:

It would provide Japan and other countries with security protection and access to the American markets, technology and supplies within an open economy; in return, Japan and other countries in the region would become stable partners that would provide diplomatic, economic and logistical support for the US as it led the wider American-centered anti-Communist world order (Ikenberry, 2004:355).

There was the coexistence of the bilateral American-led security order and the US-led Japan centered regional economic flux in the East Asia. The US presence in the region on one hand guaranteed the economic reconstruction of regional states through giving foreign aid and opening US markets to their goods, and on the other hand, Japan and East Asian allies could open up their markets to each confidently under the US security umbrella (Ikenberry, 2004:355). Therefore, there was a complex of political and economic interdependencies emerged in the region as a consequence of US Cold War strategy and this regional order survived the end of the Cold War. (Ikenberry, 2004:353).

On the one hand, the US containment policy created promising conditions for Japan and other US allies in East Asia. The Chinese capitalist Diaspora living in the

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<sup>29</sup> SEATO was an international coalition for collective defense. Under the leadership of the United States, the Southeast Asia Treaty Organization, or SEATO was formed in 1954 with the participation of France, Great Britain, New Zealand, Australia, the Philippines, Thailand and Pakistan in order to prevent the communism from gaining strength in Asia Pacific. (<http://www.state.gov/r/pa/ho/time/lw/88315.htm>)

region also benefited from the US policy indirectly because policies contributed to enhancing the trading network, capital accumulation and business expertise among the Diaspora (Aiguo, 2000:154). The economic activities of the Diaspora in the Asian NIEs such as Hong Kong and Taiwan influenced the decision since the reform process in the Mainland was hugely supported and financed by the Diaspora. On the other hand, the US began to provide security to China during the 1970s in response to Soviet expansionism. Thus, Cumings states that like other countries in the region, the US provided security in return for the enmeshment of China in the world economy's division of labor based on the principle of comparative advantage; for China that meant export growth through light-industrial products (Cumings, 1984:255).

However, China's decision for reform cannot be fully explained as the consequence of the extension of US Cold War politics as a one-way process, though the impact of US Cold War politics on the region is undeniable. Turning to other external dynamics, the world economy also experienced a structural transformation in the 1970s. The 1973 oil shock crisis not only altered the dynamics in the international system, it also contributed to important shifts in the world economic structure as a result of the decline in the rates of profit in the production sector. The rise in production costs led to the shift in loci-production areas from the core to both the periphery and semi-periphery of the world economy (Wallerstein, 1996:213; Ikeda, 1996:39).

In order to lower the production costs, European and Japanese corporations began to invest in the low-labor cost periphery. In the 1970s, the FDI flow to the production sector was mainly led by these states (Ikeda, 1996:44). During the 1980s, each Transnational Corporation (TNC) group formed its network in different regions through integrating the periphery and semi-periphery as a consequence of intra-core TNC competition in the 1970s and 1980s in the production sector. Japan was the main engine behind this shift amongst the periphery-oriented direction of Japanese corporations and their emerging post-Fordist production schemes. The Japanese network was formed in East and Southeast Asia (Ikeda, 1996:53). The Japanese corporations started with small-scale Foreign Direct Investment (FDI) flow into Taiwan in the 1960s, and then shifted their operations to Eastern and Southeast Asian countries in the 1970s (Ikeda, 1996:52). Therefore, as Ikeda points out, throughout

the period, some East Asian states entered the semi-periphery while new peripheral zones were created as sources of cheap labor with the reintegration of former socialist countries into commodity chains of the world economy (Ikeda, 2003:163). Thus, there was also a structural change experienced in the world economy, refusing China the ability to remain an outsider due to its economic-political crisis at home.

Herein, the more detailed-historical-explanatory analysis of the relation between the reform and the structural impact of world-economy is needed. Aiguo defines China's incorporation into the world-economy as a historical process caused by "different results at different times"(Aiguo, 2000:3). However, rather than perceiving this historical process as only the consequences of the expansion of the capitalist world economy, he focuses on the Chinese responses to the processes and outcomes; he sees the Chinese as active agents who tried to improve their positions in the hierarchy of the world-economy.

Accordingly, China's incorporation into the world economy began around the 1840s as a result of the intervention of Western powers. Since then, throughout its political history, China's response to the expansion of the world economy has been characterized as "catching up with the core" (Aiguo, 2000:5-7). In this sense, the reform period was only a new stage in the Chinese history-long national objective of catching up (Aiguo, 2000:119). From the 1840s to the Communist Revolution, the Chinese rulers responded to the changing domestic and external circumstances by the modernization and Westernization under the influence of the imperial powers. With the national unification in 1949, catching up with the core became the ultimate national objective under new communist regime. The Communists accepted that socialism would be the way of catching up (Aiguo, 2000:9).

This choice was determined by both the domestic conditions of China at the end of the 1940s and the external constraints through the emergence of a bi-polar international order based on the existence of capitalist-socialist blocs. Accordingly, China pursued the Soviet development model and leaned towards a one-side policy until the end of the 1950s. When the internal dynamics and external constraints began to change in the mid 1950s, the Chinese political leadership also modified China's "catching up" strategy. This new strategy of self-reliance and extended foreign policy of non-alignment was pursued until the early 1970s. However, by the

end of the 1970s, the Chinese leadership demolished this strategy of catching up. What would the sustainable future strategy for China be?

Wallerstein identifies three strategies used by countries in order to move upwards in the hierarchy of the world economy. These are: 1) promotion by invitation, 2) seizing the chance, and 3) self-reliance. Wallerstein defines the successes of East Asian countries as the case of “promotion by invitation”<sup>30</sup> (Wallerstein, 1997 quoted in Aiguo, 2000:127). In accordance with Wallerstein’s categorization, Aiguo asserts that the reform decisions in China were indicative of the shift from the strategy of self-reliance to seizing the chance since China had the two pre-conditions for seizing the chance: 1) they were a strong state; and 2) they had an industrial base when deciding on new strategy. As Aiguo asserts;

During periods of world-market construction, when the terms of trade are worsening for the primary exports of countries on the periphery, the government of these countries may experience financial difficulties that force them to search for unusual solutions. One solution may be import-substitution, but, whatever the solution, it is a matter of seizing the chance, since it involves aggressive state action (Aiguo, 2000; 127).

Only through a historical perspective can the mentality behind the reform decision be grasped. The reform of 1978 was a new stage in China’s history aimed at achieving prosperity and strength in China. While the ultimate objective remained same, the strategy redefined reform and opening. In this regard, the anti-Communist US policy in the region and the structural transformation of the world economy prepared the conditions for the Chinese decision of reform targeted towards the integration of China into the world economy through export-oriented industrialization. In addition, the political and economic factors caused the emergence of the coalition that supported Deng in his decision for reform and his leadership throughout the 1980s. The changing dynamics continued to constrain the evolution of reform and opening during the 1980s but did not hamper its ultimate objective of “catching up”. Both domestic dynamics and external constraints affected the formation of a new Chinese strategy for the post-Cold War era.

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<sup>30</sup> East Asian countries were promoted to join the Club of Rich countries due to the US Cold War strategy by the conditions created by the US security umbrella and economic-technological packages to the regional states.



## CHAPTER 3

### TOWARDS THE TIANANMEN UPRISING

By the end of the 1980s, China had experienced a tremendous swing in its development pattern as a result of the reform policies first initiated under Deng. However, these reforms did not come without their own challenges: from these policies, socio-economic problems manifested, eventually resulting in the political uprising of Tiananmen in 1989. Meanwhile, the Soviet Union, the unrivaled symbol of socialism in the world, was also witnessing transformation under Gorbachev's perestroika and glasnost policies, which resulted in the collapse of the Soviet rule. Although the Soviet model was different from the Chinese's in terms of the approach and the priorities pursued, the Soviet experience greatly impacted Chinese domestic dynamics and the perception of Chinese leadership on the existence of Communist rule within the new post-Cold War international order. Thus, both the Tiananmen experience of 1989 and the collapse of the Soviet Union acted as catalysts for the formulation of Chinese post-Cold War strategy of playing "catch-up". How did the domestic and external dynamics impact the formulation of this new strategy of the post-Cold War period?

#### **3.1. Reform and Opening: The Chinese Style of Reform?**

The Chinese reform has followed an export-led development plan that is based on developing light industry in the rural regions and opening up this industry to the global economy, using the principle of comparative advantages for international trade. For the first stage of this reform initiative, China began with the countryside in the first half of the 1980s by replacing the communes with a new Household Responsibility System (HRS)<sup>31</sup>. Under this new system, the decision-making

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<sup>31</sup> Under the Household Responsibility System, each family was assigned a plot of collective land and was responsible for cultivating that land. They were required to provide a certain amount of crops to the state (the amount was determined through signed contracts with production teams); the remainder was allowed to be sold for a profit. This profit was then invested to buy necessary equipment or to engage in private marketing or manufacturing (Shirk, 1993:38).

authority was transferred from the collective production units to the individual family (Yabuki and Harner, 1999:30). Different from land reform or selling off the land, this new decollectivization of agriculture based on *households* was pursued to increase individual incentives by giving the rights to cultivate contracted lands (Aiguo, 2000:131). By 1983, the decollectivization of agriculture was completed and land was either state or collective property (Hunter and Sexton, 1999:74).

Besides reform in agriculture, the most important development in the countryside was the emergence of the Township and Village Enterprises (TVEs). The decollectivization of agriculture contributed to the development of TVEs as the main driving force of the national economy through the revitalization of the rural economy (Yabuki and Harner, 1999:30) because the growth of agricultural productivity resulted in greater rural incomes (Hunter and Sexton, 1999:38). Consequently, the local authorities ordained these TVEs into a type of rural cooperative, responsible for responding to the demand for light industrial products.

For the second stage of reform, the Chinese leadership opened up its cities to foreign capital by establishing the Special Economic Zones (SEZs) in the coastal regions of the Southern China (Yabuki and Harner, 1999:30). The first wave of flexibility to foreign capital was seen between 1979 and 1986, and China gradually opened its national and local economies to the global economy<sup>32</sup> (Breslin, 2007; 84). In 1979, the expansion of foreign trade through the establishment of SEZs in the coastal regions and the allowance of foreign investment in Chinese enterprises were initially approved in order to accelerate China's modernization and to achieve equal levels of prosperity with its Asian neighbors (Shirk, 1993:47).

The success of the SEZs resulted in the decision to open up more cities to trade in 1984.<sup>33</sup> During the initial phase, foreign investment was permitted in the form of Sino-foreign joint ventures (Ross, 1994:444); however, by the mid-1980s, the

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<sup>32</sup> In 1980, the Guangdong and Fujian provinces were given special treatment for opening up their local economies to the world economy, and later, SEZs were set up in Shenzhen, Zhuhai, Shantou and Xiamen as experiments (Wu, 2005:295).

<sup>33</sup> In 1984, fourteen coastal port cities were opened up to the outside world. These were Dalian, Qinhuangdao, Tianjin, Yantai, Qingdao, Lianyungang, Nantong, Shanghai, Ningbo, Wenzhou, Fuzhou, Guangzhou, Zhanjiang, and Beihai. The Yangtze River Delta, the Pearl River Delta, the Xiamen-Zhangzhou-Qianzhou Triangle in South Fujian, the Jiodong Peninsula and the Liodong Peninsula were determined as open economic regions in 1985 (Wu, 2005:296). By 1993, 9000 economic zones were established in the mostly coastal regions of China (World Bank, 1997:11).

investment conditions were improved with Twenty-Two Regulations in 1986, which were designed to create a better environment for foreign investors and give them the right to establish foreign-owned enterprises<sup>34</sup> (Breslin, 2007:85). According to Breslin, the FDI flowing into China was accelerated by these regulations – not only for production in China, but also for production of exports outside. In fact export-based investment became the main reason for the flow and subsequently, *major motor* of Chinese economic growth (Breslin, 2007:86).

There is a common attitude used to define the central features of China's reform until the 1990s giving reference to the distinction between the *shock-therapy* approach and the *gradual/incremental* approach. Though many of the transitional economies of the former Communist Bloc chose the shock-therapy approach as a way of transforming their centrally-planned economic systems, the transition of China was realized by an incremental or gradual approach characterized by great flexibility and pragmatism in comparison to the ones followed by the Eastern European countries. While the shock-therapy approach supports rapid transition to the market economy through the adaptation of various market mechanisms, the gradualist school advocates a gradual way of transformation towards a market-led economic system using the support and guidance of the state as Guthrie emphasizes (Guthrie, 2006:11-12). Although the two schools have different approaches to the role of the state in the reform process as well as the political aspects of the process, they both share the idea that reform is ultimately aimed at transition to a market economy. Therefore, it can be concluded that the Chinese reforms were aimed at the market-oriented system from initiation. However, that point should be clarified by highlighting the political and economic dynamics behind the choice of the Chinese way of reform.

Differing from the common view on transforming the Chinese economy into a market-oriented one, the only objective stated in this new view was reforming the Chinese economy and achieving economic prosperity. However, this was easier said than done, as the Chinese leadership possessed no clear vision on how to obtain that objective. In addition, faith in the old system was still evident amongst some factions

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<sup>34</sup> The foreign investors were released from setting up joint ventures after the Wholly Foreign Owned Enterprise Law in 1986. But the restrictions on foreign investment still place on with state control establishment based on specific industries with special conditions such as; exporting most of their products and transferring technology to Chinese market (Breslin, 2007:47- 48).

of the Chinese political elite, especially the conservatives; this prevented the leadership to take radical measures until the mid-1990s until an agreement was reached for introducing market mechanisms to increase individual initiatives for promoting economic activity among the people (Gang, 1994:1). In other words, the reform did not have a well-established or well-defined objective as the market economy was not declared the aim of the reform during the initial stages per se, and some market mechanisms were allowed to function for the provision of greater efficiency and higher quality in Chinese domestic production (Aiguo, 2000:126).

Apart from the confusion in the minds of the Chinese political elite, another reason to choose a gradual approach by the Chinese leadership was the uncertainty surrounding the outcome of *reform and opening* because the Chinese people had misgivings about the consequences of entering a world market dominated by the West. This was a direct result of historical legacies, including years of perceived humiliation and previous experiences of integration into the world economy. That led to the emergence of the “*guide change and correct errors which might occur*” mentality among the Chinese elite and leadership (Aiguo, 2000:126). Therefore, the Chinese leadership did not pursue an established reform program. Rather, they created new objectives when the previous ones were realized successfully.

Thus, the reform was implemented in an experimental fashion: after reaching successful consequences in selected areas, the reform was directed to other regions or sectors. This feature of reform was executed as such due to the size of the Chinese population and area. The transition of a massive country like China needed this kind of approach; if not for this tactic, the result could have led to the collapse of the country. Accordingly, the unique character of Chinese reform was stemmed from the right-leaning policies, which suited the conditions of China (Wong, 2003:127) as the “fundamental guideline for sequencing incremental reform” was “to introduce reform in sectors or areas of least resistance, not necessarily in the largest sector”(Gang, 1994:2).

However, as some authors point out, a more fundamental reason behind the choice for the incremental approach was the nature of the political coalition behind the reform decision along with the socio-economic transformation China was

experiencing during the time (Gang, 1994:1)<sup>35</sup>. Although Deng's reforms were not aimed at market reforms in the initial stage, the reform put into practice the policies that would work against the interests of social groups who benefited from the centrally planned system of the Maoist period in China. In this sense, China differed greatly from the Eastern European countries. Rather than emphasizing the reform of existing State Owned Enterprises (SOEs), China followed a different strategy by focusing on non-state sectors, especially in rural areas and coastal regions which were referred to as "the strategy of outside the system preceding inside the system"(Wu, 2005:64). This allowed them to circumvent the urban workers, the central bureaucrats, and the conservative CCP officials whose interests would be harmed by an inside-the-system reform.

Additionally, some authors assert that the preservation of the socialist character of the economy and the maintenance of a centralized political control of the Communist Party were the basic characteristics of Chinese reform (Harvie, 1999:1093). These authors believe that domestic stability was the essential motive behind the reform process rather than others that caused dramatic changes, especially in political conditions. From its initial stages, Chinese reform was directed towards economic development first. This was the fundamental difference between Chinese and Soviet reforms, the latter being one which was directed towards economic reform accompanied by political reform. Apart from the maintenance of stability, the emphasis on economic reform was explained as the consequence of the Chinese acceptance of the Asian unaltered authoritarian political system as its role model rather than the Soviet one, especially after the collapse of the Soviet Union (Aiguo, 2000:127; Hua, 2005).

The Chinese reform was incremental/gradual, pragmatic, and experimental due to the specific conditions China experienced when the decision was taken. All these features were seen in the decisions and implementations of reform policies, most specifically in the areas of agriculture, rural economics, and opening up the

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<sup>35</sup> As Gang puts forward, the incremental approach is mainly chosen by countries when the majority does not accept the reform policies completely or the pro-reform groups are not strong enough to pursue their radical program without political conflict. This is because of the fact that the incremental approach does not break down the old system immediately but allows the new system to coexist with the old one in tandem. That led to the reduction of resistance coming from the lobby groups whose interests would be damaged by the reform (Gang, 1994:1).

economy. Although some may accept that reform was aimed at market transition from the initial stage<sup>36</sup>, the reality is that the target of the reform has been to “*catch up*”, but the reform process has been a political one. As referenced by the aforementioned authors, the reform policies have been determined in the process. On one hand, the political-economic conditions led the Chinese leadership to pursue such a kind of reform strategy defined as gradual; on the other hand, the reform was shaped by the same political-economic dynamics throughout the process. Thus, the understanding the reform process requires understanding these dynamics. The study of the reform process in the 1990s (in chapter 4) will be made based on these assumptions.

The system that emerged after the beginning of the reform process was called the *dual-track system*, referring to “developing the elements of a new system side by side with the old unreformed system and then, if things go well, reforming the old system in line with the positive developments emerging from the new components of the economy”(Gang, 1994:1). While the system emerged as a consequence of the gradual approach required by the political-economic conditions of the initial phase of reform until the 1990s, the dual-track system was one of the dynamics that has affected Chinese politics since the mid-1980s, ultimately becoming one fundamental reason for the social and political uprising experienced in Tiananmen Square in 1989.

### **3.2. Modernization Diplomacy: Independence and Peace**

While a gradualist approach was pursued on the Chinese reform path at home, China also improved its relations with the external world, especially with the Western world and its neighbors during the 1980s. Since the period of Deng was one where Chinese leadership was determined to achieve reform and modernization at home in order to regain the trust lost during the Communist rule and to strengthen its power base through revitalization of national economy, the most crucial aim of the Chinese foreign policy during time was to implement the reform objectives and to realize the goals of the Four Modernizations. In this regard, some define the Chinese foreign policy in this period as *modernization diplomacy* (Cheng and Wankun, 2004:183).

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<sup>36</sup> See Wu (2005) and Riedel, Jing and Jian (2007).

Since the external environment and, more specifically, the region were, till this point, controlled by the West, the Chinese modernization required a pragmatic strategy which would evaluate the impact of changes in its external surrounding on its national interests and readjust its foreign policies respectively. The ideological concerns and nationalist sentiments that resulted from changing domestic conditions affected the foreign policies of China from time to time; since the late 1970s, the priority of the Chinese foreign policy has remained the “pragmatic quest for a stable international environment needed for effective modernization and development” (Sutter, 2005:37). Therefore, the subsequent Chinese alignment with the United States at the start of the 1970s was reinforced by focusing on the economic modernization of Deng’s reforms in the domestic realm. China began to develop its relations with the West and pro-US governments in its periphery further in order to get technology, technical assistance, trade and capital for its objective of modernization, which was seen as essential for internal order (Sutter, 2005:36-7; Hunter and Sexton, 1999:184). Rather than perceiving the alliance with the US a de-facto one against the potential Soviet threat, the Chinese leadership began to see the West as a long-term partner for economic modernization by the 1980s<sup>37</sup> (Goldstein, 2005:43). Furthermore, the threat of Soviet expansionism by the late 1970s (Soviet support for the Vietnamese intervention in Cambodia in late 1978, involvement in Afghanistan in 1979) also led the Chinese leadership to adopt strategic alliances with the US and other Western powers. To protect its own interests, China acted together with the US and ASEAN countries<sup>38</sup> against the Vietnamese intervention in Cambodia in 1978 (McDougall, 1997:5). Meanwhile, China ended its Cold War strategy of supporting the Communist or revolutionary movements in Southeast Asia. The basic motive behind these experiences was the pursuit of the Chinese national interests regarding the Soviet expansionism in the region and the need for modernization on the home front.

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<sup>37</sup> China became member of the World Bank (WB) and International Monetary Fund (IMF) in 1980 (Hunter and Sexton, 1999:185).

<sup>38</sup> ASEAN (Association of Southeast Asian Nations) was established in 1967 by five countries; Indonesia, Malaysia, the Philippines, Singapore, and Thailand. Later members were Brunei Darussalam in 1984, Vietnam in 1995, Lao PDR and Myanmar in 1997, and Cambodia in 1999 (<http://www.aseansec.org/64.htm>).

However, there were also changes in the international system in the early 1980s that would impact the perception of the Chinese leadership within the realm of China's external environment and interests. Both the Iranian Revolution (1979) and the Soviet invasion of Afghanistan helped the USA renew the Cold War ambiance throughout the 1980s<sup>39</sup>, and the US began to renew its military assertiveness during the Reagan administration. Against the new US military assertiveness, and in line with the reform logic at home, *anti-hegemonism* became one of the essential motives behind Chinese foreign policy in the early 1980s. By this time, hegemonism and power politics were seen by the Chinese leadership as the main threats to international system as well as its peace and stability (Cheng and Wankun, 2004:183); ultimately threatening the Chinese reform process. Therefore, the strategy of *independence and peace* was formulated as the main principle of the Chinese foreign policy; this was also written into the 1982 Constitution. The report on the Seventh Five-Year Plan (1986-1990) published by the CCP in 1986 introduced the principles of Chinese foreign policy. These were stated as: defending world peace, opposing hegemonism, supporting for the Third World, observing Five Principles of Peaceful Coexistence<sup>40</sup>, emphasizing its position on arms control, disarmament and its open-door policy, supporting for the United Nations. Apart from considering bilateral relations, the report prevented the formation of a strategic alliance with any one super power (cited in Cheng and Wankun, 2004:183). Moreover, as Cheng and Wankun emphasize:

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<sup>39</sup> Rather than relying on regional powers, the US began to increase its military expenditures to confront the USSR and challenges in the Third World (Reifer and Sudler, 1996:31). The renewed Soviet assertiveness was also used by the US to effectively slow down the growing demands of both Europe and Japan for political autonomy from the US leadership in world politics (Wallerstein, 1996:220).

<sup>40</sup> The Five Principles of Peaceful Coexistence summarized as;

1. Each country should have the right to choose its own political, economic, and social system in line with its own circumstances,
2. All nations of the world, especially the big powers, should strictly abide by the principle of not interfering in other nations' affairs,
3. All nations should respect and treat other equally, cherish mutually beneficial cooperation, exist in harmony, and seek common ground while resolving difference,
4. International conflicts should be resolved fairly through peaceful means, not through the use or threat of force,
5. Each country, no matter how big or small, strong or weak, should have the equal right to participate in consultations to settle world affairs (Kornberg and Faust, 2005:211).



China's relations with various countries would not be determined by their social systems and ideologies, and that China's position on various international issues would be guided by the criteria of defending world peace, developing relationships of friendship and cooperation among various countries, and promoting international prosperity (Cheng and Wankun, 2004: 183).

Easing Soviet power and the rise in US militarism by the 1980s altered the Chinese perception of the international environment. This led to contradictory relations with the US throughout the 1980s and renewed relations with Moscow. The Chinese leadership emphasized that China would be against any kind of hegemonism. Thus, a "relative equidistance between US and USSR" was realized by China on its policy of independence and peace. This distance made the Chinese leadership able to promote flexible policies for its national objectives (Robinson, 1994:574). China also began to review its relations with the Third World under via military assistance programs to some selected countries such as Iran, Syria, Iraq, and Pakistan. The main reason for the emphasis on the Third World was economic since these countries were seen as market for Chinese products. An additional incentive was asserting political influence in these regions through military assistance or arms' sales for diplomatic reasons as the Chinese leadership realized the importance of the of Third World votes in the United Nations in 1971<sup>41</sup> (Robinson, 1994:575-576).

While the changes in the international constraints were significant on more confident Chinese foreign policy, the conditions at home were also influential. Through this, the reform began to bear fruit in terms of high economic growth rates, improving living standards in general. The success of reform in selected areas, and regions motivated the leadership to initiate further reform since the process also began to receive support from some factions of the Chinese elite.

China began to formulate a more independent foreign policy apart from the demands of both superpowers as a consequence of them both changing dynamics in the international system along with the rise in Chinese economic, political power domestically since the mid-1980s. However, there were undesirable consequences of

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<sup>41</sup> The diplomatic recognition of China and the votes for necessary for its entry into the United Nations in 1971 were the outcomes of these attempts. The Republic of China (Taipei) held the Chinese seat in UN organizations previously (Ross, 1994:442).

China's policy of independence and peace on its position in the international system. Since China was not an active player in world politics and could not take joint actions with other powers, its influence in the shaping of the international political and economic order was diminished. Meanwhile, China had to accept the norms of the Western-dominated international system and compete under these rules on its periphery (Cheng and Wankun, 2004:185). But it did not pursue a foreign policy pattern or challenge the US-led international order due to the fact that the Chinese leadership was well aware of the reality that China needed to move faster in catching up with its neighbors and the West to regain its position in the region and international system. Besides, the Chinese leadership began facing new challenges of reform at home in the mid-1980s (Robinson, 1994:583-585).

### **3.3. Tiananmen Political Uprising: The Collapse of China?**

The Tiananmen Uprising in 1989 was the turning point in Chinese political history as it reflected the displeasure of the reform process by some interest groups.

The essential factor in the political uprising of 1989 was the socio-economic problems that resulted from the nature of the initial stage of reform. The dual system that was in place for both the price system and the structure of the national economy<sup>42</sup> contributed to the flourishing of market mechanisms while giving rise to inflation and corruption at the same time. As a result of the allowance of world-level prices in some parts of the economy, a small minority who had connections with managerial and official classes leveraged their connections in arbitrage (buying inputs at low prices and selling the products on the free market) (Hunter and Sexton, 1999:41-42).

Specifically, the corruption in cadres was the outcome of the decline of the central party's control over its agents. This was mainly related to the important

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<sup>42</sup> The foreign-invested enterprises and rural enterprises mainly located in the Southern China were allowed to operate using market conditions and at world prices while their counterparts in the interior regions of China operated within levels determined by local and central authorities. Such a dual system also existed domestically through the coexistence of state and non-state enterprises in the economy (Naughton, 1994:56). While state enterprises operated under centrally planned levels, non-state enterprises (foreign-invested, joint ventures, rural cooperatives) were under the jurisdiction of the market.

feature of the reform, which was fiscal decentralization.<sup>43</sup> The rise in revenue collection in local areas and “local economic development” were the objectives when initiating fiscal reform. However, as stated, “fiscal decentralization has created multiple power centers, and it has had a lasting economic and political effect on other reforms” (Qian, 1999:7). The new fiscal system gave local cadres more autonomy and responsibilities; consequently, more power. Thus, the abuse of that power was the main reason for rampant corruption (Guthrie, 2006:267-268). Secondly, another outcome of the initial reform process was unemployment. With the dissolution of Communes, rural underemployment turned into actual employment in urban areas because those who could not find a job in the rural industry began to migrate to the urban areas and created a new urban underclass (Hunter and Sexton, 1999:42). Thirdly, the gap between the rich and the poor was widened due to inflation and corruption. Since strategies applied differently to different regions and economic sectors, the gap among social groups and also regions widened too. Additionally, financial conditions in the inefficient state industry deteriorated as a result of the emergence of an efficient private industry which caused the fiscal deficit that provided the persistence of inflation. Lastly, the emergence of a new private economy provided social benefits to the people whereby this mechanism became inefficient (Kornberg and Faust, 2005:84).

As mentioned above, the problems arising from the deficiencies of reform strategy led to many losers in the Chinese community. The three social groups who initially benefited from Deng’s reforms were the peasants, party bureaucrats in coastal regions, and urban workers who could form cooperatives. Students, intellectuals, central planners and workers in state industries were the losers of initial reform (Gamer, 2003:82). Therefore, the demonstrations of university students at Tiananmen Square protesting against inflation and official corruption gained huge support from other social classes who had been vulnerable to the consequences of reform (Hunter and Sexton, 1999:41).

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<sup>43</sup> The former system, named the “unified revenue and unified expenditure” system, was one where the central authority had the final say on the amounts of both local revenues and expenditures. This system was replaced with the “fiscal contracting system” in the 1980s. Under this new system, all revenues were allocated in two separate ways: central fixed revenue and shared local revenue based on contracting schemes (Qian, 1999:7).

The political uprising coincided with the visit of Soviet leader Mikhail Gorbachev to China. The reform of the Soviet model under Gorbachev's policies of *glasnost* and *perestroika* were also shared by some factions of the Chinese masses, especially by intellectuals, urban youth, and university students who had been repressed by the policies of the Cultural Revolution and opposed official corruption. They called for political reform. Moreover, urban workers and other disadvantaged groups who lost due to the reform policies also joined in the demonstrations (Cheek, 2006:69-70).

A point that should be clarified is that the Chinese leadership realized the challenges of reform prior to the Tiananmen Uprising. In this sense, while the benefits of the dual-track system were supported by some social groups, especially by local cadres in South China and State Owned Enterprises (SOEs) leaders, the Chinese government shifted its focus from rural to urban in the second half of the 1980s in order to reduce the social tensions by eliminating the dual-track system. Subsequently, the CCP declared its objective to be one of "establishing and developing a socialist commodity economy" (Wu, 2005:75). The plan to coordinate reform that focused on price, taxation and fiscal systems would eliminate the dual-system in economy was made in 1986 (Wu, 2005: 75) and coincided with the Chinese application to resume contracting the party status of GATT.<sup>44</sup> However, while the plan could not be implemented, the socio-economic conditions of China by the mid-1980s permitted the leadership to focus only on reforming the SOEs by some repairs (Baijia, 2004:68).

In the period between 1986 and 1991, China experienced economic fluctuation which resulted in the economic crisis of 1988 and the political uprising of 1989. After Tiananmen, the drive to reform and liberalize the economy was delayed since the conservative faction of the Chinese political elite raised its voice within the CCP (Feng, 2006:55). The conservatives blamed the market incentives taken during the

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<sup>44</sup> When the General Agreement on Tariffs and Trade (GATT) was signed in 1948, China was one of the parties who signed the agreement. When the Communist Revolution happened in 1949, the government in Taipei announced its withdrawal from the GATT system. Although the Communist administration in Beijing did not recognize this decision, China notified GATT to resume its status as contracting party in 1986 (WTO Document, 2001). ([www.wto.org/english/thewto\\_e/acc\\_e/chinabknot\\_feb01.doc](http://www.wto.org/english/thewto_e/acc_e/chinabknot_feb01.doc))

previous reform stage as the main reasons behind the economic and political instability in China.

### **3.4. China's Response: Formulation of the New Strategy of Catching Up**

After Tiananmen, the stabilization of the economy became the main task of the CCP rule in order to overcome the political instabilities of the mid-1980s that emerged from the dual-track system. On the other side, the need for maintaining reform and opening led China to take measures to “break the sanctions imposed by the West”<sup>45</sup> (Baijia, 2004:63). While the Chinese leadership had been dealing with the challenges of the reform domestically in tandem with the sanctions imposed by the West, the world began to experience significant changes in the international system as a direct result of Gorbachev's glasnost and perestroika policies. The problematic reform process with the Soviet transition and its subsequent collapse both changed the international system and caused new debates regarding whether China would collapse or not. These developments both at home and internationally also reshaped Chinese leaders' perceptions, which impacted reform as well as the direction of foreign policy in the post-Cold War era following the isolation of China between the years of 1989-91 and the rising wave of conservatism at home.

Responding to both domestic and external developments, the Chinese leadership argued that lessons should be learned from the experience of the Soviet Union and its peaceful evolution<sup>46</sup>, especially after the experience of the Tiananmen political uprising. In this vein, Baijia states Jiang Zemin's views on the peaceful evolution of the pre-communist states as:

Jiang Zemin believed that China should draw several lessons from this: never give up the ruling position of the communist party, retain the socialist economic system with public ownership as the main part of the economy, and

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<sup>45</sup> The Western countries imposed sanctions on military and economic exchanges with China to criticize the bloody repression of the Tiananmen Movement and the abuse of human rights by the Communist regime.

<sup>46</sup> The Chinese leadership believed that the West assisted the peaceful evolution of pre-Soviet countries from communism to democracy by facilitating the forces of economic and political liberalization. The sanction imposed by Western countries on China after the Tiananmen events raised concerns of a peaceful evolution in China through the Western demands for democratization of the regime.

never lessen the absolute control of the army by the party. The best way to prevent collapse from peaceful evolution was to handle domestic matters well and to uphold reform and openness. There should not be two central tasks; there should be one- development (Baijia, 2004:63-64).

The collapse of communism in the former Soviet Union and Eastern Europe impacted the Chinese leadership; after the collapse “*regime survival*” became their top priority which required the meeting of two basic conditions. Firstly, the regime could not give any opportunities to social forces – this emerged as a consequence of economic reforms with power to express their interests through political reform. But “the leadership needed to adjust the political system in accordance with the changing social and economic situation without input from any social forces” (Zheng, 2004:54). Secondly, the regime had to develop better living conditions for the people through initiating radical reform measures in order to strengthen its political legitimacy that had been tarnished during the 1989 events and the collapse of communist regimes throughout the world (Zheng, 2004:54).

The crisis of political legitimacy that was a consequence of the damaged trust after the Tiananmen movement; the reemergence of conservative thinking among the Chinese political elite on reform that supported a planned economy; and the concerns of a peaceful evolution in China by the US-led international system highlighted through the Chinese political elite were all challenges to China’s ability to catch up in the following period. Herein, the question that needs further attention is: how did China manage the political crisis of the time domestically and internationally?

Deng’s tour of Southern China<sup>47</sup> in 1992 was the turning point in terms of providing a new impetus for reform. After Deng’s tour, the aim of establishing a *socialist market economy* as the primary objective of reform was put forward by the leadership at the 14<sup>th</sup> National Congress of the CPC in October 1992 (Wu, 2005:82). China officially became a socialist market economy at the 8<sup>th</sup> National People’s Congress in March 1993 (Wong, 2003:128). Thus, for the first time, the Chinese leadership set a clear goal for reform; the *socialist market economy* throughout the reform process since 1978 had deep meaning for China. Firstly, it indicated a new

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<sup>47</sup> In 1992, Deng made his famous Southern Tour of China in order to reassert his economic agenda due to the reemergence and dominance of conservative elements in the Chinese top elite after Tiananmen. During his tour, Deng made various speeches to get the support of the people for his reformist line. He emphasized the significance of the economic reform and openness for the development of China.

stage for reform in terms of fulfilling comprehensive reform and opening up. Secondly, this eliminated uncertainty among the elite and the domination of conservative thinking since 1988 (Baijia, 2004:70).

The decision for comprehensive economic reform came with the “Decision on Issues Regarding the Establishment of a Socialist Market Economic System” adopted at the 14<sup>th</sup> Central Committee of Chinese Communist Party (CCCCP) in November 1993 (Wong, 2003:127-128). In accordance with the Decision of 1993, two points were clues to how the reform would be initiated in the following periods. First of all, the new reform strategy meant that China would have to deal with the inside of the system or state sector. Secondly, the strategy indicated which sectors the reform would be initiated: banking, taxation, foreign exchange control, enterprise, and social security were all systems that would be affected (Wu, 2005:83). The decision for comprehensive economic reform came with the idea that the incremental approach could not be utilized for macroeconomic reform measures but these measures should be dealt with comprehensively as they were interrelated (Wong, 2003:127). Thus, the reform strategy shifted to a coherent package. But what was the meaning of a socialist market economy?

This shift in ideology of the regime was first explicitly seen in 1978 when *Mao's Orthodoxy Version of Marxism-Leninism* based on class struggle was replaced by Deng's pragmatism aimed at economic development as the political priority of the CCP rule (Breslin, 2007:47). During the initial steps, the leadership did not put forward its objective as being market transition, and the idea was “planning as a principal part and market as a supplementary one” (Qian, 1999:9). In 1984, the Decision on the Reform of the Economic Structure defined the economy as “*a planned commodity economy*” where the state played crucial role in driving the national economy towards industrialization and modernization although the emergence of “non-state controlled but not really private enterprises” in the form of both Sino-foreign joint ventures and TVEs were encouraged by the leadership (Breslin, 2007:47). The reform measures favoring market mechanisms were broadened as a result of the successful outcomes reached at the initial phase of the reform process; however the state sector remained intact (Baijia, 2004:68). While there was a short delay in the decision for promoting the non-state sector due to the reemergence of conservative thinking by the end of the 1980s, Deng supported the

“emergence of proto-capitalist practices in open-areas and called for a new policy of rapid economic reform and further opening” during his famous Southern tour. Thus, Deng advocated paying special attention to the importance of a non-state sector to achieve development (Breslin, 2007:51), and the term signified an ideological breakthrough for China and its catching up strategy.

While the aim of the reform was not stated as being market economy initially, the Chinese political elite were not opposed to carrying out market measures to implement economic development from the start, although “ideologically they were unwilling to legitimize capitalism” as Zheng states (Zheng, 2004:65). However, the successful outcomes of initial reforms led the leadership to legitimize market measures step by step which was seen from the official usage of the concept. According to Zheng, the usage of a socialist market economy as the goal for reform ended the official debate on socialism and capitalism since it demonstrated capitalism as its choice. Although the leadership used capitalist measures in order to establish market economy, it legitimized its way using the term “socialist” market economy. In this regard, China chose to use the Western product of capitalism through innovation, redefining its model as a socialist market economy not to contradict the regime’s essence of being a socialist one (Zheng, 2004; 58).<sup>48</sup>

The Chinese leadership defined market forces as value-neutral mechanisms that both socialist and capitalist systems can use. In several speeches, Deng made the distinction between socialism and capitalism as:

The essential disparity between socialism and capitalism does not rest on the ration of plan or market. Planning does not equal socialism, for capitalism has plans. Market does not equal capitalism, for socialism has markets. Both planning and market are tools to develop the economy (quoted in Wu Enyuan, 2007:1-2).

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<sup>48</sup> Some criticize the arguments and declare “post-Mao China has been moving toward capitalism” (Guo, 1998:33). Sujian Guo argues that under Lenin’s New Economic Policy (NEP), there was also tolerance towards market mechanisms and private business in order to supplement the socialist economy at the socialist primary phase (Guo, 1998:35). However, since 1992, that tolerance morphed into encouragement as a result of difficulties (unemployment and social stability) experienced in reaching the goal of making the socialist market economy the immediate one. And the attempt of enhancing the role of the market is defined as “only an expedient measure for overcoming economic difficulties rather than a long-term goal of the CCP since at the end the economy to be restructured must be socialist rather than capitalist” (Guo, 1998:34-35).



The official usage of the socialist market economy signified an important development in the Chinese reform process. The interpretation of the concept and the speeches of Deng were challenged as either being the signs of his pragmatism or as rhetorical legitimization of capitalist measures by the communist regime. But one should realize that the regime could manage the political and economic crisis of the time successfully, and the reform process continued on an accelerated manner with the definition of new strategy of catching up.

While dealing with treatment of its domestic environment, the Chinese leadership was also busy grasping the new emerging international system and the realities of the post-Cold War world that could challenge the regime and its survival both domestically and externally. As some authors assert, during the initial phase, the Chinese leadership was hopeful that a new international system would be established by the end of the Cold War, and they “advocated a new international political order based on [the] Five Principles of Peaceful Coexistence and a new international economic order based on equality and mutual benefit” (Baijia, 2004:64). Besides expressing the philosophy of the Chinese foreign policy of the 1980s, on one of his speeches, Deng argued that the *Five Principles of Peaceful Coexistence* could be the basic principles for the post-Cold War international order as a result of its potential of wider application (Cheng and Wankun, 2004:185). Thus, the Chinese leadership hoped that China would make its contribution to the establishment of new international system (Cheng and Wankun, 2004:186).

In line with the initial perception and conceptualization of the new period, some argue that the general line of Chinese foreign policy in the post-Cold War era did not change, and Deng’s statement of “*peace and development*” has remained the basic themes guiding Chinese foreign relations. Since the agenda of “*reform and openness*” was not replaced by the Chinese leadership as the main task of the regime in the following periods, the maintenance of a peaceful international environment continued to be the objective of foreign policy as in the case of the previous period. And for these arguments, China would continue to pursue an independent and peaceful foreign policy based on the Five Principles of Peaceful Coexistence (Baijia, 2004:64).

However, by the start of the 1990s, there was a change in the Chinese perception of the international system. The Chinese leadership began to perceive the post-Cold War international environment as being unstable since the Gulf War emerged after the Iraqi invasion of Kuwait in 1990 was viewed as a continued danger of hegemony by the US (Baijia, 2004:63). The dangers came to surface with the reemergence of the conflicting Sino-US interests on issues such as: Taiwan, human rights, and regime types. According to Goldstein, there was a “renewed American hostility toward the communist regime after the events of June 1989”, and this ideology became the basic determinants of Sino-US relations during the 1990s though the Chinese motivation towards full communism had been delayed. The basic reason for the tensions that flourished between China and the US was expressed as a new global strategy in the US for the promotion of enlargement of democracies (Goldstein, 2003:135). Thus, the US hegemony was not only seen a threat to China in terms of its external security, but also for its internal security in terms of political stability and regime survival.

As a result of these developments, multi-polarity became the “dominant and official perception” in the early 1990s in the official speeches of Chinese leaders (Zhao, 2004:142) as a consequence of the Chinese preference for the multi-polar system to a US-led uni-polar system. This perception was rooted in problems with the US on various issues, especially the regime type. However, as many authors point out, while the Chinese leadership principally encouraged the establishment of a multi-polar world for the post-Cold War international environment, they accommodated the uni-polar reality of a new age and adopted its foreign policies to that reality pragmatically (Zhao, 2004:141; Baijia, 2004:79).

In this sense, China began to pursue a kind of *realpolitik* after its assessment of the new international system as uni-polar one. Moreover, the rehabilitation of the reform process and the accelerated re-opening of China to the outside world after three years of isolation encouraged China to follow a more assertive foreign policy. Taking into account the changing dynamics of the international system, the initial Chinese efforts were to “augment its capabilities” through military modernization and to “search for a strategically weighty international partner” like Russia who had become nervous about US dominance by 1993 (Goldstein, 2003:137). China pursued an assertive foreign policy, especially in its periphery. Between the years of 1994 and

1996, China used coercive diplomacy in the disputed issues with regional states in its periphery. In this context, China pursued an aggressive approach to its claims to disputed territory in the South China Sea. It also began military exercises in the Taiwan Straits in order to demonstrate its willingness to use force to regain power in Taiwan (Goldstein, 2003:137).

However, the assertive policies of China in its periphery, the success of rehabilitating its reform process, the attempts to modernize its military, the history-long perception of China as the hegemony of the Asian region, and the candidate for great power caused a rise in the international perception of a possible “China threat” to the international and regional systems (Goldstein, 2005:47).

Meanwhile, the concerns of the international community increased after the transformation experienced in the global and regional order in the mid-1990s. The emergence of the US as the only super power in the international system was not only a result from the collapse of the Soviet Union, but also the decline of Japan and Europe in the 1990s. Japan experienced an economic downturn due to the stagnation of the Japanese economy while Europe (especially Germany) was dealing with the re-integration of post-Soviet East European countries into the European Union (Ikeda, 2003:164-165).

While the international perception of China changed, China’s self-perception also altered in the mid-1990s after Deng’s tour on Southern China when the regime regained its confidence for survival since the leadership overcame the conservative voices for reform and regained their political support. Moreover, the leadership also realized China’s potential economic and military power (Goldstein, 2001:838). The Chinese began to view these international concerns of a “Chinese threat” as a “part of an attempt to justify efforts to keep China down” (Goldstein, 2005:78). This was especially true in the US’ efforts to create a platform for updating its Cold War alliance in the Asia-Pacific<sup>49</sup> region against China (Goldstein, 2001:840) in addition to American critics commenting on the regime type in China. However, the Chinese leadership also acknowledged that these international concerns could become obstacles to China’s re-opening to the regional economies and inhibit economic development (Goldstein, 2001:838). Therefore, a new strategy aimed at the maintenance of conditions required for the Chinese economic development and the

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<sup>49</sup> See Chapter 2 for the Cold War alliances of the US in the region.

prevention of a formation of a united front against China, especially in the region, was formulated in the mid-1990s.

Although there has been no official declaration, some authors also argue that a grand strategy that sought to promote the conditions required for China's development and to reduce the possibility of a united front against China emerged by the mid-1990s (Goldstein, 2001:838; Swaine, 2000:274). Goldstein defines this shift in approach as an indication for the formulation of the "Grand Strategy" of the post-Cold War China. This shift was also a transitional one since its logic "fit the requirements of an emerging China during the era of uni-polarity" until the rise of China (Goldstein, 2005:38). Swaine defines the Chinese post-Cold War strategy as a calculative one in the sense that the strategy was neither assertive nor cooperative considering the Chinese need for economic exchanges, transfer of technology and peaceful international environment in order to secure both its external and internal interests (Swaine, 2000:275). Moreover, the calculative strategy has three interrelated objectives: 1) the preservation of a domestic environment through the provision of well-being to the people; 2) the guarantee of its national sovereignty and territorial integrity; and 3) the regaining of geopolitical influence "as a major or primary state in the Asia-Pacific region, possibly beyond"(Swaine, 2000:274). Therefore, the guiding elements of the strategy included a pragmatic policy approach tied to economic growth, restraint in the use of military force, and accelerated involvement into regional and global politics (Swaine, 2000:275).<sup>50</sup> Yunling and Shiping define the central goal of the grand strategy that China formulated by the mid-1990s as one to "secure and shape a security, economic and political environment that is conducive to China concentrating on its economic, social and political development" (Yunling and Shiping, 2005:48).

Whether or not China formulated a grand strategy in the mid-1990s is debatable; it can be argued that there was a shift seen in the overall strategy of catching up in the mid-1990s. Regardless of whether it can be defined as transitional or calculative, it is also essential to argue that China was searching for a rightful place in the new international order due to both internal and external challenges to the regime's survival that emerged in the early 1990s. In addition, China also

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<sup>50</sup> Also see Michael D. Swaine and Ashley J. Tellis, authors of *Interpreting China's Grand Strategy: Past, Present and Future*, 2000.

wanted to contribute to reshaping the new international order. How? The leadership understood that the realization of both objectives depended on the continuation of China's history-long process of catching up with core/West that had two dimensions: domestic and foreign policy. At the domestic level, the Chinese leadership agreed that China had to continue its reform process to reach the objective of a socialist market economy and to adapt its policies to solve the challenges within the system. In this regard, the WTO accession process was seen as a good opportunity to realize these objectives at home through legitimizing the reform policies that would be against the vested interests of some social groups and masses in China.

At the foreign policy level, the new dynamics of the Chinese post-Cold War foreign policy had to be formulated in order to secure the external environment that would be a different challenge to the reform at home. Moreover, China had to guarantee the flow of technology (from the Western world), inputs (from the peripheral states) and natural resources (from the Third World) to the mainland and the flow of the exports to international markets. Indeed, China had to develop its relations with the peripheral regional states further in order to sustain its central position within the regional trade-investment nexus. China had to secure its external environment without raising international fears on China's development. China also wanted to contribute to the process of shaping the international order and to regain its status of a great power. On one hand, China should have contributed to the development of a multi-polar world order (Gungwu and Yongnian, 2008:6); on the other hand, China should have protected its distinctiveness in the international system (Gungwu and Yongnian, 2008:7). Thus, the promotion of multi-polarity became the main determinant of the Chinese foreign policy and the New Security Concept (NSC)<sup>51</sup> formulated by the Chinese leadership in the mid-1990s which defined the principles for a new Chinese foreign policy pattern. How has China turned its grand objectives into reality since the mid-1990s?

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<sup>51</sup> The New Security Concept will be examined in detail in chapter 5.

## **CHAPTER 4**

### **DYNAMICS OF THE SOCIALIST MARKET ECONOMY AND CHINA'S ACCESSION TO THE WTO**

The political uprising of 1989, the US domination within the international system, and the Western objection to the Chinese-communist rule led to regime insecurity amongst Chinese leadership. While the Chinese leaders declared their determination to the reform process at the hands of a socialist market economy, the inherited contradictions within the Chinese administrative system, the structural changes in international system and world economy, and the political requirements of the regime made WTO membership urgent for the leadership. What were the political-economic (both internal and external) dynamics of the 1990s when the decision of China's membership to the WTO was made? What was the meaning of membership into the WTO for the Chinese leaders? How did these dynamics affect the structure of Chinese society?

#### **4.1. New Version of the East Asian Development Model?**

The Chinese reform process has previously been a state-induced process. However, the nature of the Chinese party-state revealed challenges that impacted the dynamics of the reform process and its evolution to the WTO in 2001.

Many see the Chinese party-state as exhibiting the features of the "*East Asian developmental state*" on the reform process. The East Asian Developmental State model assumes that the regional states play a central role in the guidance and management of the economy backed by a strong bureaucracy who has the technical expertise and impartial rationale from political considerations/interests (Feng, 2006:4-5). McNally and Chu define Asia's developmental states:

These states are conceived to have perfected methods of state intervention in the economy while heeding market forces. Intervention tended to focus on the continuous upgrading of industrial structures by devising a variety of trade, monetary and financial incentives to guide and direct the economic activities of private enterprises. In turn, the capability to plan smartly and carry out industrial policies depended on the existence of a small; inexpensive but elite

bureaucracy....State elites could undertake transformative policies that harmed the interests of other dominant classes (McNally and Chu, 2006:36).

Herein, the developmental state model is based on the “effective allocation of finance in targeted production sectors of the economy” by the authorities, and the model emphasizes the role of the central state as the main promoter of growth (Tsai, 2004:2). Accordingly, as Pearson argues, the “leadership metavision- which focuses on state control of key sectors, the desire to create profitable new national champions and continued commitment to certain social and distributive goals - is crucial”. This resulted in restrictions to market entry by other firms except state enterprises and limited competition on state-controlled industries such as telecommunications, energy, and banking (Pearson, 2005:320).

There are common points between the developmental state of the East Asian countries and the Chinese party-state in its role for reform in terms of both the state rulers’ incentives to reform and the nature of state-society relations (or the relative autonomy of the state from society in the policy-making process).

Like other Asian late developers, China also faced threats to the regime survival and stability when the reform decision was declared. Since the Cultural Revolution led many to question the legitimacy of the socialist revolution, the CCP redefined its political objective as being the Four Modernizations in order to catch up with core states. Meanwhile, Chinese leadership recognized the importance of a strong state to finance the late development as in the case of its neighbors (McNally and Chu, 2006:46). Thus, the challenges to regime (both for its survival and legitimacy) required a strong state. The leadership had cleverly benefited from the experiences of its neighboring countries, and the structural shift in world-economy or had seized the chance to realize its objectives by the end of the 1970s.

There was also a high level of political autonomy in China because the party-state apparatus were reorganized based on Leninist principles while rejecting the extreme Maoist ideology. Thus, a more technocratic model of the party-state emerged in the CCP leadership-society relationship due to Deng’s reforms. The party-state mainly managed the relocation of resources in order to create incentives for the promotion of development and growth. Therefore, the social interests outside the party-state apparatus had limited power to change these reform measures taken by the CCP during the reform process (McNally and Chu, 2006:47). In other words,

the party-state had considerable autonomy from society in its policy-reform formulations. As Nee, Opper, and Wong argue, China's model is one example of the developmental state model based on "strong authoritarian leadership and an elite state bureaucracy pursuing developmentally oriented policies"(Nee, Opper and Wong, 2007:20).

However, the Chinese party-state apparatus was not a homogenous or monolithic entity as assumed by the East Asian Developmental State model. Moreover, the differentiation of interests within the party-state increased after the reform process (Feng, 2006:5) in terms of the opposition of the central bureaucracy to reform, the factionalism among the CCP elites, and the tensions between central and local officials within the Chinese administrative structure. Meanwhile, the external actors also gained more weight and influence within the Chinese reform process (We will return to external dynamics in the following parts of the chapter).

In general, the reformist faction headed by Deng had dominance over the Chinese top leadership since the reform decision of 1979. After Deng's leadership, the power of ultra-leftists and leftists decreased, and their influence in the policymaking process fell greatly. When the consensus of reform reached at the top of Chinese leadership, two factions amongst the CCP political elite, conservatives<sup>52</sup> and reformists, were allied though their views on the speed and content of reform; however, their approach to opening up the economy was different (Feng, 2006: 67-68). While the differences amongst the parties increased in the early 1980s, and the gap has further widened since then. Throughout the 1980s, the struggle between the two factions caused "rounds of economic and policy cycles". The reformists, led by Deng, favored expansion of the economy by decentralizing authority, raising the incentives given to local authorities, and raising extra-budgetary revenue that resulted in high rates of inflation and huge budget deficits. In turn, the Conservatives, led by Chen Yun, tried to re-constrain the economy by recentralizing authority and

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<sup>52</sup> Since the Maoist era, the leftists were those who supported the class struggle and the socialist revolution. The rightists were those who reacted to the socialist revolution. While all defined themselves as leftist/socialist, the ones who promoted reform and opening were called reformists and the ones who were hesitant to reform were called conservatives. The conservative faction also had a heterogeneous structure including ultra leftists, nationalists and new leftists. Considering their attitudes toward reform, the New Leftist faction was more dominant than the conservatives (Feng, 2006:67).



ending extra-revenues that flowed from expansionist policies of the reformist faction (Feng, 2006: 93).

While a conservative dominance was experienced for a short time after the Tiananmen Uprising, the dominance of a reformist group (later headed by Jiang Zemin and Premier Zhu Rongji) by the mid-1990s marginalized the conservative faction within the Chinese leadership especially after “the ideological breakthrough” in 1992, when the objective of reform was declared as being a socialist market economy (Feng, 2006: 92). At the beginning of the 1990s, Jiang Zemin became the President, and Zhu Rongji became the premier. By 1997, when Deng died, the conflict between the two factions turned into a new confrontation but now under the leadership of Jiang Zemin, Zhu Rongji (reformist), and Li Peng (conservative) (Feng, 2006: 94).

The central bureaucracy was the other component of the Chinese party-state. Inherited from the legacy of the Soviet planning system and based on the Leninist state model, the party was the principle, and the government bureaucracy was the agent. In other words, the party determined the policies and had full control over the implementation of these policies while it required special knowledge of officials and their technical expertise. However, the party-bureaucracy structure was based on a parallel-rule principle. According to the parallel-rule principle, both party and government had “their sets of bureaucracies with government institutions overseen by their counterparts in the Party” in order to guarantee the implementation of the Party’s preferences in policy implementation (Feng, 2006: 116). Thus, the real power was concentrated within the Party. However, since the system caused bureaucratic duplication and inefficiency due to the control of the uneducated party members in technical issues, a reform was made to separate the Party and the government by the mid-1980s. With this reform, institutions within the Party that had overlapping duties with government agencies were abolished, and the Party delegated much of its responsibilities to the bureaucracy. This increased the bargaining power of bureaucracy in policy issues (Feng, 2006: 117).

In addition to fragmented authorities in the Party and the bureaucracy, there was also a fragmented administrative structure within the bureaucracy. The jurisdiction of many ministries, commissions, and agencies within the central bureaucracy also overlapped with each other. Thus, the institutions with overlapping

jurisdictions were required to consult with each other and reach a consensus in order to implement certain policies. Since each participant had veto power in the process, this complicated the policy-implementation process and gave space to the participants to protect their own institutional interests (Feng, 2006: 117). The structure of the central bureaucracy prevented the decision and implementation of certain policies that were against the interests of institutions who participated in the policy-making process such as the SOEs reforms of the 1980s.

The Chinese administrative system and the decision-making process becomes more complicated when the central-local relations is added to the analysis. Within the central-local administration, the central government set the goals and gave incentives to local governments, and the local governments directly implemented the reform at their localities and determined the outcomes (C. Qi, 1992:101). The main source of incentive that gave local governments to organize each local economies and to promote its development was the right of “the extraction of profits from enterprises” given by the fiscal decentralization principle (C. Qi, 1992:118). The intervention and coordination of the local authority on collectively owned enterprises, its selective allocation of resources to key local enterprises, and control over the investment decisions through controlling credit flows as the guarantor consequently became the basic activities of local governments in order to promote local development (C. Qi, 1992:124). Jean C. Qi defines the center-local relation as a “local state corporatism” where the “workings of a local government that coordinates economic enterprises in its territory as if it were a diversified business corporation”(C. Qi, 1992:100-101). Montinola, Qian, and Weingast argue that the emergence of a new political system or “federalism with Chinese style” based on a decentralized authority with primary authority of local governments over their local economies provided the conditions for a good performance of reform (Montinola, Qian and Weingast, 1996: 52). However, the fragmented administrative structure within the Chinese local-central administration system also led to negative outcomes from the reform drive.

First of all, since the institutional arrangements of the developmental state in Japan and others such as; a supra-ministerial pilot agency did not exist in China; the reform process was not coordinated from one authority (McNally and Chu, 2006: 54). Moreover, the autonomy of local governments resulted in the emergence of new

power structures within the Chinese administrative system; the political power of local authorities could limit any attempt of the center to shift the reform pattern (Montinola, Qian and Weingast, 1996:52).

Secondly, there was no centrally well-designed or targeted state credit used to subsidize the local economy. The finance of local economy could only rely on informal finance based on the business networks built on casual ties between entrepreneurs and local officials (McNally and Chu, 2006: 54). In addition, the local authorities financed their economies through taking take credit easily from the local branches of the central bank and state-specialized banks due to their relatively autonomous power at these localities (Montinola, Qian and Weingast, 1996:67). Therefore, McNally and Chu referred to China as a “diffuse developmental state” because while the central government determined the incentives and set the policies, the interventions were made by locally directly (McNally and Chu, 2006:54). However, the extra-budgetary and self-raised funds collected by the local governments were used for non-productive economic purposes and caused the emergence of official corruption as a big problem in China.

The national government could not manage the conditions for a common market which resulted in protectionist attempts by local governments to prevent the free flow of capital and labor (Montinola, Qian and Weingast, 1996:66). Moreover, the fiscal decentralization fed local protectionism by copying the successful practices of initiatives at various local levels (McNally and Chu, 2006:19) and competing with one and another for factors and markets.

Although the Chinese model is a variant of the East Asian model (considering its sui-generis local-central relationship and its Part-state structure inherited from the Soviet style) White states, the development pattern followed by China indicated the basic features of an “East Asian model of developmental dictatorship” that is distinct from the one drawn based on neo-liberal principles. As he argues:

It is a variant of the East Asian model with distinct characteristics which derive partly from the political and institutional heritage of state socialism and partly from the country’s size and complexity. Particularly important has been developmentally positive interplay between centre and localities which constitutes perhaps the Chinese model’s most distinctive source of dynamism and flexibility. In many areas of policy, reform has been a ‘down-up-down’ process whereby local experiments were encouraged, alternative local models

were developed in different areas and experience was from them to inform national policy. This policy dynamism has been a consistent element of the economic reforms since their beginning in the late 1970s (White, 1996:7).

However, it must be argued that China did not pursue a coherent strategy of development like its East Asian neighbors due to the political demands coming within the Party-State and from the other social groups. These demands stemmed from the local-central relationships, the bureaucracy, the CCP leadership, and the reformist-conservatives factions within the CCP (Breslin, 1996:689).

The lack of a concrete model of development seen in the Chinese way of catching up caused uneven development and inefficiency in economic management, and official corruption has plagued the leadership since Tiananmen. Moreover, the fragmented structure of the Chinese party-state resulted in the emergence of obstacles in the formulation and implementation of the reform process further especially in the decisions of more sensitive issues like SOEs reform and WTO membership.

#### **4.2. China Outweighs Japan?**

Regional-global dynamics and constraints along with the interaction of external and internal actors (both state and non-state) also influenced the evolution of Chinese reform and the decision for the accession into the WTO. Why?

Herein, Arrighi's three-stage rocket model is helpful to see the whole picture in a historical perspective by taking into account regional and non-regional dynamics although Arrighi uses the three-stage rocket model in order to explain the pattern of regionalism in the East Asia. The first stage was when the US, through its Cold War foreign policy, became the main motive for regionalism. The expansion of the US-induced Japanese economy and its corporations throughout the region during the 1970s-1980s were viewed as the second stage (These two stages are mentioned in Chapter 2). The Chinese government (its policies of reform and opening) and the Chinese Capitalist Diaspora have become the main agents promoting regional growth since the 1990s, the third stage (Arrighi, 1994 quoted in Aiguo, 2000:160). The outcome of the Chinese reform's evolution was re-shaped by Chinese leadership due

to a shift in regional dynamics in the early 1990s. What was the shift experienced in the regional economy and its power configuration in the 1990s?

The region became the major centre of production and accumulation by the 1980s due to the anti-communist policies of the US during the 1950s-60s and the subcontracting enterprise network formed by Japanese corporations throughout the 1970s and 1980s. Indeed, the 1980s began to be called the “*Pacific century*”. Some argued that *the East Asian Miracle* was a phenomenon created by the spread of export-led industrialization from Japan to Taiwan in the 1960s; South Korea, Hong Kong and Singapore in the 1970s; and Thailand, Malaysia, and Indonesia in the 1980s (Ikeda, 2003:163). For many, a hierarchical economic relationship emerged among the regional economies, known as the “flying geese model”. The model assumes that there has been an investment flow from high-income to low-income countries in return for exports of labor-intensive products from low-income to high-income economies. The economic logic behind regional integration in the investment-trade nexus is the relocation of production to low-cost economies (Aiguo, 2000: 159). The emergence of the East Asian developmental states among the region, copied from the Japan’s approach to development, was seen as the reason of the high level of growth rates in the regional economies in the East Asia. Japan had a central role in the regional economic integration through its model of development and by the investment flow of Japanese corporations to the export-oriented manufacturing sectors of regional economies in the 1980s as the leading geese.

However, the Japanese central position in the regional economic dynamics was not a separate phenomenon from the pre-dominance of the US in the region since the Cold War but rather the reflection of the US-induced Cold War strategy of making Japan the promoter of capitalism in the region. Thus, Wallerstein explains the re-integration of the regional states into the world economy and its successful pattern of development as a “promotion by invitation”. Like Japan, the East Asian countries were also promoted to join the club of wealthy nations as a consequence of the favorable conditions created by the US for their integration into the international division of labor using the US security umbrella and economic-technological packages given to the regional states (Wallerstein, 1979 quoted in Aiguo, 2000:127).

The most important consequence of the US-induced Japan-centered Cold War strategy in the region was the symbiotic economic relationship that emerged between

the US and Japan and the participation of the East Asian states in that relation. After the US abandonment of the gold standard system in 1970s, the US became free to run large current account deficits since the dollar that paid for US imports could not be equated to the gold held by the Federal Reserve. The dollar flowed into the global economy because US imports accumulated within the foreign reserves of many states when they sold off their US Treasury Bonds. Thus, the US could finance its current account deficits through the trade surpluses of Japan and East Asia. In addition, the US guaranteed the dominance of the dollar as a world currency and became the center of world finance (Nordhaug, 2005:104).

While the asset markets of core states began to open up to finance the US deficit in the 1970s, the East Asian markets were closed to free flowing assets until the 1980s and 1990s. However, the high growth rates of Japan and other East Asian economies (current account surpluses) made the capital markets of these countries (after opening their capital markets to international finance) a crucial source for financing US deficits. By the start of the 1990s, an interdependent economic relationship existed between the US and the East Asia. On one hand, the US economy depended on the investment of East Asian dollars in US capital markets in order to finance its huge deficits that resulted from the expansionist policies of Reagan. On the other hand, the export-oriented production of the East Asia depended on the US market for the destination of its exports (Nordhaug, 2005:107).

By the early 1990s, the power configuration of the Pacific also began to alter. Though the US economy did not show a good performance in the 1980s compared to Germany, Japan, and the Asian tigers (South Korea, Hong Kong, Taiwan and Singapore), the US emerged as the only super power of the world after the collapse of the Soviet Union and falls of its rivals. The European Union (EU) began to deal with the collapsed East Soviet countries and their political and economic re-integration into Europe. Japan experienced an economic recession in the 1990s, possessing a huge amount of non-performing loans due to the bubble created in the Japanese economy throughout the 1980s (Ikeda, 2003:164-165).

The economic recession in Japan deteriorated its position within the regional economy as a source of FDI. Moreover, the over accumulation of dollars due to trade surpluses in East Asian economies caused financial instability in the region that resulted in the East Asian economic crisis of 1997 (Nordhaug, 2005: 107). The East

Asian economies mainly invested in US capital markets to finance deficits; because of this, countries such as South Korea, Indonesia, Malaysia, and Thailand suffered most from the crisis. However, the Chinese peripheral regional states of Singapore, Taiwan and Hong Kong that had closed economic links with China, and China escaped the crisis (Ikeda, 2003: 172).

The crisis affected the growth pattern of the region in general. The regional economies tried to manage the outcomes of the crisis through adapting structural adjustment programs imposed by the IMF in return for a financial rescue (Nordhaug, 2005:111). How was China affected by the structural changes experienced in the world and regional dynamics during the 1990s?

As mentioned, the Chinese state seized the chance of using the structural shift in world economy to its advantage in the 1970s and chose to re-integrate its economy to the international division of labor as mentioned in Chapter 2. China participated in the regional trade-production system as a low-end producer in the 1980s. Due to the reform drive since 1978, and its further opening up to the world economy, FDI began to flow to China (Ikeda, 2003: 164-165). The flow of FDI contributed to the rise in economic growth and exports, which in turn accelerated the new flow of FDI to the country, creating an “FDI-trade nexus”. This, Ohashi argues, led to the rise of China becoming the “factory of the world” since the 1990s (Ohashi, 2005: 71). China had become the second largest recipient of FDI in the world by the 1990s and the largest among the developing world (Breslin, 2007: 110).

The Chinese state was not a passive actor during the process of China’s re-integration into the world economy. The establishment of the SEZs in Southern China, the allowance for the formation of joint ventures and foreign investment in the coastal provinces, the creation of a friendlier environment to foreign investment through implementing further liberalized policies such as the 22 Regulations of 1986 (Breslin, 2007:84-85) all signified the role of the state guiding the Chinese economy. While China formulated more liberal rules and regulations in order to attract foreign capital to produce for the international markets, it kept a relatively closed domestic economy; which sector receives foreign investment and under what conditions was determined and outlined by Chinese officials. Moreover, state enterprises were protected from international competition, and domestic exporters (especially the TVEs) were encouraged by various types of incentives such as tax exemptions or

import restrictions (Breslin, 2007:87). Thus, there was a selective liberalization of the Chinese economy and integration to the world economy. Breslin concludes:

In its own terms, the policy was a great success- domestic producers were protected from competition, domestic exporters were helped to gain a competitive foothold, and investment to produce exports increase.....Perhaps even more than the first generation of late developing states, China's re-engagement with the global economy appeared to be a great example of how to reap the benefits of the global market-place whilst maintaining strong defenses against the dangers of globalization. (Breslin, 2007:89)

However, the re-integration of China into the world economy was not only a state-directed process. The reason for Chinese leaders to promote the re-integration process was also impacted by the structuring of International Political Economy (interactions of different interests and power relations at home and outside). As Moore expresses, there was also a global logic in the evolution of reform due China's position as latecomer. Therefore, non-state sectors, especially the Foreign-Invested Enterprises (FIEs) and TVEs in China, were the main market players behind the deepening integration of China into the world economy that responded to the signals of the market by focusing on production of manufacturing goods based on comparative advantage. Foreign capital was mainly controlled by local governments who gave various incentives to foreign investor to promote foreign capital inflow to the mainland China (Moore, 1996). There were two basic sources of foreign capital into China; knowledge of these is helpful to grasp the global logic behind the deepening Chinese economic integration into global economy in the 1990s and its economic boom.

The first main source was the Chinese Diaspora. The Chinese capitalist Diaspora referred to when Chinese businessmen relocated with their capital and other assets to Taiwan, Hong Kong, Southeast Asia, and the US. The Chinese Diaspora was an essential factor in the process of China's re-integration into the world economy in two ways. The first way was that the accumulated economic capital and business expertise of the Chinese Capitalist Diaspora throughout the Cold War caused positive response to the reform decision of 1978 (Aiguo, 2000:154). The



second way was the special link between the networks of the Chinese Diaspora<sup>53</sup> and the international business world, known called as “bamboo networks” that linked China to the global economy (Breslin, 2007:118).

The Diaspora invested in the mainland due to the climate of reform and the favorable conditions created by their investments in the Chinese state.<sup>54</sup> Indeed, Aiguo asserts that the initial Coastal Development Strategy was aimed at attracting overseas capital through establishing zones closer to Taiwan, Hong Kong, and Macao, where the majority was living (Aiguo, 2000:155-156). While there are 60 million expatriate Chinese living in different parts of the world, mainly in Southeast Asia, some of them dominate the economies of Indonesia, Singapore, Malaysia, Thailand, the Philippines, Burma, and China itself (Gamer, 2003, 174). As Cheng expresses, “In 1999, the ten largest Chinese enterprises of five of the ASEAN countries shared a great percentage in their respective countries’ GDP (Singapore 47.41%, Indonesia 11.88%, Malaysia 20.61, Philippines 12.72%, and Thailand 10.70%)” (Cheung, 2005:65). While the economic power of the Diaspora increased in the 1990s, their investment on mainland expanded.

The second source was non-Sino foreign capital flow by the Multinational Corporations (MNCs). Since the MNCs used different production methods, their influence on the deepening Chinese integration into the world economy was not easy.

The first method of production was the Original Equipment Manufacturing (OEM)<sup>55</sup> used mainly by Taiwanese firms in order to produce computer-related consumer goods in China. One-third of computer related products produced by Taiwanese firms in the mainland was based on OEM contracts with American and Japanese companies such as Mitsumi, Intel, and Microsoft in Southern China. As Breslin points out, “these Taiwanese invested factories in China represent the end stage of a production process that spans the most industrialized global economies

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<sup>53</sup> Since their relocation dated to the 16<sup>th</sup> century, they were “serving as the middlemen in trade transactions between China and non-Chinese parts of the world”(Gamer, 2003:156). Although the mainland policies towards Chinese overseas altered from time to time, they all have been viewed by the leadership as the source of financial and political support for China’s power both on the mainland and its periphery since the end of the Qing dynasty in 1911(Gamer, 2003:157-8).

<sup>54</sup> See Thuno (2001) for further reading of the policies towards the Chinese expatriates since the reform.

<sup>55</sup> Original Equipment Manufacturing (OEM): companies putting their own brand name on components produced by another company under a special agreement with the original manufacturer. For example, drivers of Mitsumi have also been used by other PC producers.

such as the US and Japan, intermediate states such as Taiwan and developing ones as China” (Breslin, 2007:125).

The second method was the establishment of the subsidiaries in Hong Kong. Many firms (including the Taiwanese ones due to the diplomatic and political problems between mainland and Taiwan) made their investments in China through their subsidiaries in East Asia, mainly in Hong Kong. They primarily used Hong Kong as a gateway to China through setting up companies to invest in China (Ohashi, 2004:84). Breslin conceptualizes this kind of foreign investment as *foreign indirect investment* (Breslin, 2007:125).

The third method was based on sub-contracting production found mostly in manufacturing and production of such items as textiles, toys, shoes, and electronics. Rather than directly invest in China or invest through subsidiaries in Hong Kong, the major company made a contract with an intermediary company that already had production established in China or had a contract with another Chinese firm. As an illustration, the intermediary company (x) produced shoes for a major company (Adidas) in China. While the product was made in China, it was sold under the brand name of Adidas (Breslin, 2007:126).

The undeniable importance of Hong Kong and Taiwan<sup>56</sup> in building a link between MNCs and mainland China and also the flow of investment from Chinese living abroad in Hong Kong, Macao, Taiwan, and Singapore caused many to explain the phenomenon through the concept of Greater China<sup>57</sup> as a sub-region in Eastern Asia.

The policies of Chinese leadership, the network of the Chinese Capitalist Diaspora, and the Greater China phenomenon made them the main agents of regional growth after the recession of the Japanese economy (Arrighi, 1994 quoted in Aiguo, 2000:160) in the 1990s, which in turn re-positioned China in an important place in

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<sup>56</sup> Hong Kong and Taiwan were the first ranking countries where the FDI to China originated; 70% of the FDI in mainland China came from Hong Kong and Taiwan in 200 (Chyun and Wang, 2004:42).

<sup>57</sup> Many authors define Greater China as a “sub-regional economic zone” in East Asia (Chyun and Wang, 2004:38). According to Kerr, “Greater China” meant “the integration of China’s southern provinces with Hong Kong, Macao and Taiwan based on the sub-regional division of labor, capital and technology outside the PRC, land and labor amongst countries have different levels of development”(Kerr, 2004:78). Breslin conceptualizes “Greater China” as a type of micro regionalization in the sense that rather than emerging as a plan-induced or states-directed process, the creation of the production-trade dynamics of the world economy was not limited to the ones of the sub-region (Breslin, 2004:7).

the regional economic network and the motor of dynamism in East Asia. On one hand, the Chinese state prevented China from suffering during the East Asian crisis by selective liberalization; on the other hand, the further liberalization of the economy since the mid-1990s caused a rise in the flow of international capital to China within the Greater China network. Moreover, the East Asian economic crisis of 1997 increased the importance for the continuation of reform in China for regional economic development and growth. This idea was also shared by Chinese leaders. Thus, both internal dynamics and external dynamics led the state to reformulate new policies to further liberalize, and its participation in the international division of labor as a *low-end producer* (Moore, 1996) resulted in the commitment of China's leaders into the WTO accession process around the mid-1990s.

#### **4.3. The Dragon Enters the WTO**

The WTO accession process should not be seen only as an attempt to get membership into the global free trade club, but what was a more significant component of Chinese domestic reform were a set of reforms (in economic and legal sectors) to perform economic growth in China through further opening up its economy and to manage the negative outcomes of previous reform policies. So, the WTO membership coincided with the objectives of domestic reform. In addition, the success in the accession process was grasped by the reformist Chinese leadership as an important factor for continuing the legitimacy of the CCP rule. Thus, the WTO membership was seen as a crucial tool in bringing profound and comprehensive changes to China for its economic development that might have otherwise been challenged by the opposition. Therefore, the WTO issue was at the top of the political agenda of the Chinese leadership during the mid-1990s (Feng, 2006: 33).

The first initiative of China for joining the global free market system was its memberships into the World Bank (WB) and International Monetary Fund (IMF) in 1980. In 1986, China applied to resume its contracting party status in GATT. The fluctuation in the economy between 1986 and 1989, the Tiananmen Uprising of 1989, and the resulting Western economic sanctions delayed the process. The negotiation did not start till 1991; China started the membership negotiations in 1995 (Feng, 2006: 55- 57).

However, both external and domestic challenges emerged and complicated the issue. The economic sanctions from the West imposed on China after Tiananmen, the rise in ideological difference between US and China, and the remaining superpower status of the US after the Cold War caused a distrust within the international system on the side of the Chinese. This distrust was fed by the conservative sentiments that re-emerged within the Chinese political elite after 1989 at home. In bilateral talks, US officials required harsh conditions for Chinese entry which challenged the protectionist demands of the bureaucracy and conservative factions of the elite, though Deng's 1992 Southern tour marginalized these elements within Chinese policy making. In addition, the international concern over China's impressive economic performance as well as its size and export growth led many developing countries to reconsider the Chinese entry with more detail that, in turn, made the accession negotiations more difficult (Feng, 2006: 55- 57) and delayed the process further after 1995.

A debate emerged amongst the leadership about China's membership. On one hand, there was the recognition that China needed to engage with the global economy in order to promote its economic growth, garnering political stability at home. On the other hand, there was the fear that China's closer integration with the external world would increase its vulnerability to globalization that would be contradicted by its national concerns of sovereignty both in terms of economic and other security-political issues (Breslin, 2003, 215). Though there was opposition within the Chinese party-state factions that included the central bureaucracy of the old planned system and the conservative political elite of the CCP that delayed the process until 1995, the political leadership was the main driver of the WTO accession in the mid-1990s. In this context, China's WTO accession was "a state-led, leadership-driven and top-down political process"(Feng, 2006: 6). However, that did not mean that the leadership who favored the accession was composed of the liberals. As Feng points out:

However, the mainstream support of joining the liberal regime does not mean that Chinese leaders in favor of the WTO are themselves liberals. Their willingness to lead the country in the international economic system is not based on deeply held beliefs in the liberal regime rooted in a liberal society on the Western model. Rather, they are pragmatist realists and neo-mercantilists who stress an activist, interventionist state promoting a unified national

interest. Their decision to join the global trade regime is based on their belief that China can and should use globalization to its advantage which will strengthen China's position in the world (Feng, 2006: 77).

The reformist leadership saw the accession as an important dynamic that could be used as a legitimate tool to solve the problems within the Chinese domestic system caused by the previous reform policies. These included the status of the SOEs, the corruption amongst officials, and the sustainability of economic growth while attracting more foreign investment and promoting export growth after the Asian crisis of 1997. Above all, the most important issue was the reform of SOEs. The rise in competition due to the emergence of more efficient private or joint enterprises in urban areas worsened the financial conditions of SOEs which began to be financed by state subsidies or credits from state banks. The increased financial burden of SOEs on the national budget due to these non-performing loans and inefficient functioning of these enterprises created the need for reform in the state sector.

Along with the accession process, the leadership started to initiate new reforms and implement new policies within the fiscal and financial system of China by the mid-1990s. In 1994, the Chinese fiscal system was re-structured. The system was transferred from the fiscal contracting system to a tax sharing system in order to recentralize the fiscal system and to raise the central revenues. But, the incentives given to local officials did not change many since the fees collected by the local governments remained same (Qian, 1999:7).

Considering the financial sector, the non-performing loans of the SOEs were the most important problem to be solved. The problem was inherited from the structure of the Chinese financial system that gave rise to political influence in financial lending. The banks did not lend according to commercial criteria. One-third of their investment lending flowed to projects determined by the State Planning Commission, and the remaining investment was shared among provinces based on "informal government influence"(Qian, 1999:19). Therefore, there was huge political influence in the allocation of loans, especially the ones of local authorities. The new budget reform introduced in 1995 restricted the central government to finance its current account deficits from the Central Bank. The reform also prohibited local governments from borrowing from financial markets (Qian, 1999:19). The leadership also passed several laws for centralizing and liberalizing the Central Bank in order to

diminish the influence of local governments on the monetary policies of the Central Bank and its credit allocation decisions on local branches (Qian, 1999:20).

The main objective of the reforms in the fiscal and financial systems was to create the pre-conditions of the most problematic SOEs' reform in China. Due to the socio-economic considerations, the reform for restructuring the SOEs (state sector) was hard to manage and was delayed in previous periods. Though Deng's Southern Tour in 1992 accelerated the reform drive through redefining the Chinese economic system as a *socialist market economy* and took the initiative to restructure the ownership system<sup>58</sup>, the bureaucracy due to its administrative structure continuously delayed the reform of the SOEs. As mentioned, the previous structure of domestic bureaucracy was "functionally divided among units with similar rankings requiring consensus building when more than one ministries involved on an issue"; this complicated the policy-making and implementation process (Feng, 2006: 6).

The harder budget constraints emerged due to the fiscal and financial reforms seen in the mid-1990s aimed at the recentralization of fiscal power in the center and the enhancement of the competition within the state sector by introducing more efficient TVEs and foreign-owned enterprises in the economy. The leadership to incentivize the local officials to re-structure the SOEs also used measures. As Cao, Qian and Weingast assert: "the Chinese style federal structure provides the local governments with the incentives to privatize"(Cao, Qian and Weingast, 1997:24). According to Yongshun, the reforms of the financial (especially the banking system) system and the relaxation of the negative attitude of the central government on privatization by the 15<sup>th</sup> Party Congress in 1997 was recognized by its declaring the private sector as part of the socialist economy. Afterwards, the local political and

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<sup>58</sup> Although the profound reform on SOEs started in 1994, there were many amendments made in their management until 1994 in order to increase efficiency. The leadership tried to promote the managerial autonomy and efficiency initially through the decentralization of management between the period of 1979-87 and the separation of ownership and management based on the system of *contractual management responsibility* between 1987 and 1992. As the last stage of ownership reform, since 1992, the leadership continued to promote the expansion of a non-state sector while at the same time attempted to restructure the SOEs through introducing a modern corporate system (Guo, 2003:556). The former SOEs reforms aimed at the promotion of the efficiency through giving autonomy to managers was successful in the sense that the dual-track system of the economy gave the opportunity to sell more products at market prices, improving resource allocation. However, besides economic functions, the SOEs also had social functions such as housing, education, health care, and job security which added more financial burdens on them compared to private firms (World Bank, 1997:12).

economic incentives towards SOE reform were encouraged by the center (Yongshun, 2002:101).

The turning point in the leadership determination of SOE reform and WTO accession was the Asian financial crisis of 1997. While China was not affected by the crisis as much as its neighbors due to a more closed Chinese financial system, the crisis slowed down the economic growth of China. One of the main sources of the economic slowdown was the status of SOEs that further deteriorated during the Asian financial crisis (Feng, 2006: 72). Although many skeptics argued that China could escape the trappings of the Asian crisis of 1997 due to the nature of its financial structure (Breslin, 2003, 223), the leadership realized that the economic necessity for reform in the SOEs was urgent. They concluded that WTO membership would be a good way to justify reforming the SOEs and domestic banks in accordance with international conditions (Feng, 2006: 74). Additionally, the leadership was also aware that they should have uncovered new ways of generating economic growth since the Chinese economy was mainly fed by the dynamic growth patterns of the regional industrializing economies. Membership guaranteed access of the Chinese products to the major Western markets, particularly the American market, and eliminated the uncertainty of the annual MFN (Most Favored Nation) status<sup>59</sup> which caused hot political discussions between the US and China because of China's trade surplus and human rights records (Breslin, 2003, 224). Moreover, there were many issues related to China's economic interests that would eventually be discussed in the forthcoming Seattle Round of the WTO. It was advantageous for China to be involved in the formulation of the new rules of international trade (Feng, 2006: 63). Through membership, China would have a vote on the formulation of the new international rules of trade, which would greatly influence its prospective growth and development pattern. Furthermore, it would create the opportunity to "access to dispute resolution process in the WTO, reducing the threat of unilaterally imposed restrictions on Chinese exports" (Morrison, 2001:2). Besides formal international recognition of China's growing economic power, its membership and subsequent reliance on international practices would lead to its recognition as responsible economic player, eliminating the Chinese-threat arguments found in the

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<sup>59</sup> Most Favored Nation (MFN) status is the method of free international trade. It is based on the principle of "if one country is given better trade terms by another than all other states must get the same".

international scene (Baijia, 2004:79). The WTO membership was not only an economic issue that would stimulate export growth, but it was one that also had political implications for China. This was especially true when considering elimination of the cycles of inflation the country experienced as a result of an overburdened national budget, promotion of growth, creation of employment and reform inefficiencies on the system (Breslin, 2007:93). Baijia argues that membership established opportunities for China to solve all the challenges of reform through restructuring the domestic production and economic system in accordance to the rise in competitiveness in Chinese enterprises (Baijia, 2004:75).

Though the Asian crisis raised awareness of the WTO accession being a “double-edged sword”, the leadership accepted that the gains would be higher than the losses (Feng, 2006: 65). Under Premier Zhu Rongji, the accession process was re-accelerated following the implementation of government structuring reform in 1998 in order to recentralize the decision making system and to provide a consensus on WTO policy within the Chinese administration. Hui Feng expresses that the 1998 reform was aimed at eliminating the beneficial relationships between enterprises and the bureaucracy (mainly the industrial agencies that were against reform and WTO membership). In other words, the 1998 reform was the pursuit to lessen the micro-management of the government over the economy and to strengthen its macro-management of the economy. That also prevented the necessity for the coordination of industrial ministries in WTO policymaking process (Feng, 2006: 129).

Meanwhile, the Chinese leadership began to implement the SOE reform under the policy of “*grasping the big and letting go of the small*” (corporatization strategy). This meant transforming small SOEs into private ownership and raising the efficiency of medium and large SOEs through various means of ownership reform such as shareholding or joint ventures within the non-state sector. Under the policy, small SOEs were sold to individuals or private owners but the larger SOEs were re-established as “large conglomerates” through mergers and consolidations but remained within the public sector in order to make them the “national champions of



global economy”); this inspiration came from the South Korean SOE reforms as Breslin states (Breslin, 2007:52).<sup>60</sup>

In 1999, China agreed to make a more substantial concession to its accession to the WTO under the leadership of the reformist Premier Rongji. Between 1999 and 2001, the negotiations with the US and the EU were the top issue of the political agenda of the Chinese leadership that resulted in the Chinese entry to the global trade club of the WTO in 2001. While the Chinese administrative system and national economy were adjusted to conditions of the international trade system, the Chinese political and social dynamics were reshaped throughout the evolution of the Chinese reform towards WTO membership.

#### **4.4. From Revolutionary to Liberal Society? Emergence of New Middle Class and Re-Birth of Chinese Nationalism**

Every leadership, even an authoritarian one, should take into account the political constraints when shaping the strategies of reform and managing the dynamics of the process (Laffard and Qian, 1999:1107). In China, political constraints also shaped the reform and caused a gradual style of reform. The modest reforms were implemented in areas or sectors where the losers would be few, and the gainers of reform (supporters of the regime) would be high. In this sense, the reform started in rural areas and coastal regions since major pre-reform interests and political power highly dominated the intra-industries and the urban areas (Laffard and Qian, 1999:1112). The collectivization of agriculture along with the establishment of the TVEs in rural areas and of the SEZs in the coastal regions did not contradict the vested interest of the center at the start but caused the emergence of new power groups within the Chinese administrative structure that, in turn, impacted reform dynamics.

While owned by the public, the TVEs were controlled by township and village governments. Moreover, the revenues TVEs collected were mainly used for supporting local governments. The local cadres became the official managers of the TVEs who were facilitated at their local regions. As a result, local cadres benefited greatly from the reform of the rural economy (Laffard and Qian, 1999:1113). The

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<sup>60</sup> There is a debate within Chinese reform studies as to whether the SOE reforms changed the ownership structure of the Chinese economy or not. For more on the different interpretations of the debate see Guo (2003), Yongshun (2002).

SEZs were created in China's Southern coast near Hong Kong as the gateway between the mainland and the Chinese world. The firms that were initially joint ventures between the government and foreign investors established themselves in these regions where there was no big state sector. They only produced for export markets and imported raw materials and transferred technology to the mainland as not to damage the domestic economy and the interests of state-firms in the center (Laffard and Qian, 1999:1113). The government tried to promote economic growth through various means in the global economy but also resisted the elements deemed as a threat to domestic interests and stability. In other words, the market was used where it was beneficial but resisted where its impacts were feared. As an illustration, while the import of components that would be re-exported was allowed, there were restrictions on the imports of agricultural products or goods produced by state industries in China (Breslin, 2003:214).

As Breslin puts forward, until the mid 1990s, there was a careful balance sought by the Chinese leadership between the objective of economic modernization and reform and the protection of the interests of the social groups that may suffer from the reform policies. In her words:

Policy thus represented a compromise between the embedded residual socialist system and the ever increasing importance of market liberalization...As such, we can think of the way in which China managed the relationship between conflicting interests as an embedded socialist compromise (Breslin, 2007:45).

Qian also argues that reform policies were initiated in the form of "particularistic contracting schemes"<sup>61</sup> at the initial stage of reform (1979-1993) to improve the incentives of economic agents while protecting the existing interests. That structure was replaced by "universalistic rules and market-supporting institutions by 1994 after the final objective of reform was defined as being a socialist market system"(Qian, 1999:15-16). The declaration of a socialist market economy as the objective of reform in 1993 after Deng's Southern tour indicated a turning point in Chinese history (Qian, 1999:3) and the unofficial declaration of its

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<sup>61</sup> The reform policies were implemented under the "form of particular contracting between the government and the subordinate units such as; agricultural contracting between government and households, fiscal contracting between the central and local governments, and industrial profit contracting between the government and state enterprises" in order to encourage individual incentives by sharing the benefits of the efforts (Qian, 1999:15).

objective of WTO membership. However, the “domestic embedded socialist compromise” was threatened by the Chinese search for entry to the WTO since previously protected groups such as domestic producers, rural people, and urban workers would be highly damaged by the accession.

In the mid 1990s, the initial reforms caused economic instabilities (regional gaps, inflation, and rural unemployment) and created many losers. However, the outcome of reform was a rise in GDP levels, and economic growth in general began to be seen as a means for legitimacy by the CCP that was highly contested by the international community after the Tiananmen Uprising and the collapse of Communist regimes all over the world. Besides, *reform* decisions began to receive support from the winners of the previous reforms in struggles with the conservatives after Tiananmen. In addition to the economic necessities of the preoccupation of the problems of the dual-track system, the political condition in China now required comprehensive reform including the reform of SOEs under the new socialist market economy since the reform changed the vested interests and power relations, thereby changing political constraints on the leadership. Herein, WTO membership was seen as a good opportunity by the Chinese leadership to realize the new imperatives of reform.

There was opposition to WTO membership within the Chinese party-state. However, the domestic conditions of China were reshaped throughout the reform process that caused the emergence of new supporters of reform. The bureaucrats gaining from the management of small SOEs began to lose due to the fall of profits backed by the under-competitiveness of the state sector. While the reforms in SOEs were seen as threatening in terms of political and social stability by the leadership, these changing dynamics in the domestic realm altered the calculations of interests within the system. Afterwards, small SOEs began to be sold<sup>62</sup> to joint ventures and domestic non-state firms while the big ones re-structured as conglomerates. And by 1997, private ownership was legitimized in official declarations as the essential part of the economy (Laffard and Qian, 1999:1113-4).

Additionally, Chinese businessmen also accommodated their view on WTO entry by the end of 1990s. They realized that the industrial sectors protected by the

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<sup>62</sup> Some argue that the Chinese leadership sold the SOEs to prior central industrialists or to the relatives of party officials locally (Breslin, 2007:52).

state could not compete in international markets and succeed in comparison with the early opening industries like textiles, machinery, and electronics. They also began to see the WTO accession process as a guarantee for further reform, both economically and legally (Baijia, 2004:76).

The impact of external factors in the process of the Chinese accession process into the WTO increased through the deepening integration of China into the international division of labor. In addition, local cadres along with the children of high-ranking officials in the central government began to gain much from the economic zones established in their localities (Laffard and Qian, 1999:1112). Although some factions within the party-state were against WTO membership, the new interest groups inside and outside China were the main supporters of reformist leadership on the road to the WTO.

Though the influence of society on the policy-making process of reform was limited due to the authoritarian feature of the Chinese state and its relative autonomy from society, the reform altered the composition of the social strata in China. While a new middle class began to emerge, the “weakened groups” of the reform – peasants and urban workers who were laid off by the reform in the SOEs – ended their support for reform (Lewis and Litai, 2003:929). However, China continued to experience high levels of growth and social progress without a large political uprising when compared to the changes experienced in the composition of Chinese society. One source of the success was that the leadership balanced between development and stability. There are two ways the Chinese leadership managed the socio-economic outcomes of the reform and provided support to the people in order to sustain stability; one was the promotion of the existence of the middle class, and the other was the re-birth of Chinese nationalism.

While development seemed necessary for the promotion of stability, the political support for the rising middle class was also seen urgent (Lewis and Litai, 2003:933). Therefore, the leadership continued to give economic benefits to those groups and decided to promote their social status in order to prevent the emergence of a strong opposition to the reform (Lewis and Litai, 2003:934).

Zheng argues that the regime needed a reconstruction of its political interests (Zheng, 2004: 65) and that reconstruction could be made through using “capitalism to strengthen its political legitimacy, while fending off any negative political

consequences associated with capitalism”(Zheng, 2004:66). In other words, the economic expansion and subsequent emergence of an interest-based social order through capitalism was consciously pursued by the leaders who were motivated by reconstructing their social base for the regime’s political legitimacy which was seriously damaged with the changes experienced in domestic and external dynamics by the end of the 1980s as Zheng asserts (Zheng, 2004:66). In this sense, a new middle class whom had close contacts with state officials and also foreign capital emerged. There are two reasons why the CCP would wish to expand the size of the middle class. First of all, there was a lack of homogeneity among the new middle class. Second were the close relations of the largest section of the class with the party-state. As Breslin says, “large sections of the middle class are state functionaries who benefit from the continued existence of authoritarian state power. Many depended on continued state power for their status”(Breslin, 2007:180). Zheng also added that the profitable private arena also attracted the party cadres and officials who were “encouraged by the leadership to turn to business”. In 1992, the second-ranking group amongst entrepreneurs with a 25.5 percentage was the party cadres and government officials. By the mid 1990s, they had become the largest one (Zheng, 2004: 70).

The relationship between the party-state and the newly emerged middle class and their mutual interactions with foreign capital was also influential on China’s decision to WTO entry. According to Breslin, the internal changes were further promoted by “globalizing state bureaucrats”. In other words, the new group began to argue for the reform of China in accordance with a more liberalized and integrated economic regime (Breslin, 2003:227). In this sense, Breslin defines the existing system in China as a “state regulation of a hybrid economic system with the existence of a private economic sphere that remains very close to the state system that spawned it”(Breslin, 2007:80). The system worked because it served the political and economic interests of those (party-state, local authorities, private entrepreneurs at local levels, and external actors who had interactions with them) who had the most control over its evolution.

The leadership legitimized the existence of a new social order initially through the protection of private ownership via an amendment to the constitution in 1997, and later through the formulation of the “*Theory of Three Representatives*”. The

theoretical framework of legitimization and the aspiration of the middle class were formulated by Jiang Zemin in 2001 and it opened CCP membership to the middle class. As Song says, “The theory of Three Represents claims that the CCP has been a representative of advanced productive forces, of advanced culture and of the interests of the majority people in China”(Song, 2005:26). Song argues that the formula of Three Representatives made the leadership understand the social outcomes and political changes of the reform process through the re-conceptualization of a new social reality and its education of the masses in China (Song, 2005:30).

The rebirth of official nationalism was another way of educating the masses (especially the losers of the reform) that was cleverly used by the Chinese leadership. In the early 1990s, China faced the reality of “ideological insecurity”, and nationalism has gradually replaced the ideology as a tool of legitimacy within the system. In addition to the collapse of communism throughout the world, the decline in social-political values of equality, and even the development at home through the outcomes of reform until the 1990s was adjusted by promoting other elements (Bhalla, 2005:210). In addition to independence, national unity, economic development and political stability became the elements of official nationalism because the CCP realized it could not only claim its power based on independence as its past leaders did. Nationalism has gradually replaced the ideological-theoretical explanations for reform (Zhimin, 2005:49).

The contradiction between socialism and capitalism (as seen from official declaration of socialism within China as a socialist market economy formulated in the early 1990s) also led questioning the legitimacy of the communist rule and the logic behind it (Pak, 2007:59). In this regard, the Chinese leadership began to give more emphasis on *nationalism*, though in rhetoric, communism remained the righteous path. The Chinese leadership chose to use their old rhetoric of communism for several reasons. First of all, the regime was called “*communist*”, and the name of the ruling party was the Chinese *Communist* Party (CCP). Secondly, that was also viewed as a tool for uniting people on behalf of the Chinese state against the hostile external world and against the threat of peaceful evolution (experienced in the communist regimes after the collapse of the Soviet Union). Thirdly, this also

demonstrated China's distinctiveness and its own political identity to the outside world (Kane, 2001:52-53).

The official nationalism is a top-down approach in the sense that the official usage of nationalism is an "affirmative" one (pro-state, pro-CCP) which has been perceived as significant for the maintenance of political stability and national unity against both domestic and external challenges to the regime at home. In order to accommodate these challenges, both positive nationalism and economic prosperity were used as propaganda tools by the regime. The political interest of the CCP's preservation of the system began to relate to the national interests of China as the CCP was presented as the only power that could save or develop the country. As the extension of the official nationalism, the political reform initiated under the Three Representatives was significant since the CCP redefined its core objective as promoting and serving the interests of the Chinese people rather than only the Proletarians (Zhimin, 2005:51).

Since the mid 1990s, however, bottom-up nationalism (popular nationalism) has appeared and complimented the official nationalism as the outcome of self-confidence seen among Chinese people through the rise of the Chinese economy and regional influence (Zhimin, 2005:50). The popular nationalism was somehow more assertive when compared to official discourse. Nevertheless, the influence of the popular nationalism has been limited since the official discourse or positive nationalism of the CCP was taken as dominate (Zhimin, 2005:51).

In line with the Chinese reform evolution during the 1990s, how did the Chinese international behavior adjust to both domestic and external dynamics in the period?

## CHAPTER 5

### DYNAMICS OF THE NEW SECURITY CONCEPT

The foreign policy extension of the post-Cold War era laid the foundation for new domestic conditions and realities of the new international system. In accordance with these changes, the Chinese leadership issued the “New Security Concept” (NSC)<sup>63</sup> in 1996. Some argue that the New Security Concept was formulated using the essence of the Five Principles of Peaceful Coexistence<sup>64</sup> dating back to the 1970s (Gill, 2005:248). This concept requires further examination because Chinese diplomacy since the mid-1990s has been based on the basic principles of the NSC.

The main reason for the Chinese formation of the NSC was China’s changing national concerns throughout the 1990s. The international conditions after the break-up the Soviet Union and the realization of the interaction of internal and external challenges within the regime after Tiananmen led China to form its new security strategy like other countries (Wu Baiyi, 2001:277-278). In this sense, the new security concept indicated the Chinese recognition of the interaction of external and internal security challenges as Baiyi asserts:

On the one hand, the concept reflects China’s increased awareness of the risks of accommodating international regimes. On the other hand, as its economy and society rapidly open up, the boundaries of Chinese national interests are increasingly blurred. It seems that Beijing has acknowledged this fact (Baiyi, 2001:281).

As Baiyi argues, the essence of “natural security” shifted from one based on a “security of existence” to a “security of sustained development” that resulted from the recognition of the importance of the “internationalization process” for the development of the country (Baiyi, 2001:281). Thus, the new concept gave

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<sup>63</sup> Many first heard about the new security concept when the concept was written in the Defense White Paper in July 1998. However, the concept was first officially used at a meeting of ASEAN Regional Forum in 1997 (Finkelstein, 2003).

<sup>64</sup> Mutual respect for territorial integrity and sovereignty, non-aggression, non-interference in each other’s internal affairs, equality and mutual benefit, peaceful coexistence (Yahuda, 2008:88).



significant importance to economic security along with high politics that contrasted from the previous policies.

In this context, the NSC highlighted major changes in the new strategic thinking that was dominant during the Cold War era and put new principles on the Chinese foreign policy agenda. One principle was the emphasis on common security that abolished the Cold War one-sided security. Another principle was cooperative security that expressed the importance of cooperation amongst the parties involved in the promotion of security. This reflected the idea that the security of one nation could not be sustained without the cooperation of others in an interdependent world. The other important principle was the comprehensive security. Combined, the new security measures included political, economic, social, and scientific-technological security provisions in addition to military security (Wang, 2008:116). For Finkelstein, “the concept is much more a political and economic construct rather than a military one”(Finkelstein, 2003). The Chinese leadership realized that military force was not the only means to seek security but regional and international cooperation in economics, environmental issues, social affairs, and could also promote a secure external environment (Wang, 2008:117).

The Chinese leadership began to call for the establishment of a new international order based on the NSC (Gill, 2005:248) against the old Cold War mentality of “establishing one’s security on the insecurity of the opponent”(Li Qinggong and Wei Wei, 1997). As Jiang Zemin said in 1999 during one of his speeches:

The world is undergoing profound change which require the discard of the Cold War mentality and the development of a new security concept and a new international political, economic and security order responsive to the needs of our times.....The core of the new security concept should be mutual trust, mutual benefit, equality and cooperation. The UN Charter, the Five Principles of Peaceful Coexistence and other universally recognized principles governing international relations should serve as the political basis for safeguarding peace while mutually beneficial cooperation and common prosperity are its economic guarantee. To conduct dialogue, consultation and negotiation on an equal footing is the right way to solve disputes and safeguard peace.....Only by developing a new security concept and establishing a fair and reasonable new international order can world peace and security be fundamentally guaranteed (cited in Gill, 2005:248).

While many perceived the new concept as a “repackaging of China’s time-honored Five Principles of Peaceful Coexistence”, Finkelstein argues that taking into account the official speeches of Jiang Zemin as the one above; the Chinese leadership began to highlight an alternative post-Cold War world way of thinking to international community. The mentality behind the usage of the concept did not coincide with Deng’s strategy of “*keep a low profile and never take the lead*”. The concept indicated the Chinese discontent with the international system that emerged after the Cold War which was a US led uni-polar system. This concept was formulated as a “theoretical device” providing the framework of a prospective multi-polar international system. More specifically, the concept was a reflection of Chinese concerns over the US policies and actions in the world, especially in the region because US initiatives were used in updating its Cold War alliances with neighboring states (Finkelstein, 2003).

The new security concept also indicated the Chinese post-Cold War attempt to present itself as friendly and responsible to neighboring countries that were anxious about China’s rising economic and military power; this notion was initially addressed at an ASEAN meeting (Finkelstein, 2003). The NSC also indicated that the post-Cold War foreign policy objectives of China as a growing power wanted to shape its international environment in accordance with its interests without taking attention away from the international community. In line with this, as Roy asserts:

China desired to promote multi-polarity, weaken US containment, and prepare the ground for Chinese regional influence. But China had to do so in a way that would improve China’s international image as a responsible, principled leader and marginalize the view of China as a growing threat to its Asian neighbors. The New Security Concept contributed to all these objectives through rejecting US-led Cold War mentality, promoting peaceful co-prosperity as an alternative way for international system and emphasizing cooperative security based on multilateralism (Roy, 2003:2).

The New Security Concept determined the Chinese approach to its international relations after the mid-1990s. Its basic principles reflected Chinese diplomacy during the post-Cold War era. Among these principles was the promotion of multi-polarity in the new international system, seen as the basic motive behind Chinese international behavior since the mid-1990s. In this sense, China has used

two methods: one for replacing of China as one pole in the newly emerging international system, and the other one for using a multilateral approach when deemed useful. The great power diplomacy, resource diplomacy, multilateral diplomacy, and good neighbor diplomacy, all were commitments to the promotion of the multi-polar international system, designed to reposition China as one pole in the prospective multi-polar order.

### **5.1. Strategic Partnerships: New Style of Great Power Diplomacy**

The triggering economic performance of the country since the early 1980s and the re-emergence of Chinese nationalism in the mid-1990s strengthened the long history of self-image of China as a great power. One way of redefining the position of China in the new international system and projecting China as a great power to the outside world was the formulation of workable relations with the major powers in the regional and international system (Cheng and Wankun, 2004:186). In this sense, since the mid-1990s, the Chinese leadership has tried to develop a network of partnerships with the major powers, including the US, Russia, Japan, France, and regional organizations ASEAN and the EU.

The underlying logic of the emphasis on development of *partnerships* was mentioned in the prevention of a full dependence on one power through an alliance and the promotion of flexibility among its relations which would give space to both cooperation and competition based on mutual benefits, cooperation, and coordination among various areas (Goldstein, 2005:131). Through the new network of partnerships, China, on one hand, sought to promote the emergence of a multi-polar world and reposition itself at one pole. China further tried to deal with the American dominance in the existing uni-polar world through formulating an alternative method of state-to-state relations with major powers without drawing an anti-US stand directly (Goldstein, 2005:132). Through this, on the other hand, China developed relations with major powers that it deemed necessary for the transfer of technology and military equipment, the export of its commodities to the Western markets, and the promotion of a stable external environment in order to realize the statist objective of Four Modernizations and the ultimate aim of catching up with West.

Not establishing alliances was one of the basic determinants of China's 1980s independence and peace (Cheng and Wankun, 2004:184). Some view these partnerships as an extension of the Five Principles of Peaceful Coexistence when its rejection of forming alliance with superpowers as a reflection of Cold War mentality is considered along with its promotion of independence within foreign policy (Cheng and Wankun, 2004:185). However, the Chinese had to face a different reality after the end of the Cold War as the uni-polar dominance of the US power in international system remained untouched. Moreover, the Gulf War, the Taiwan crises of 1995-6, and the subsequent eastward expansion of NATO and US military interventionism in Kosovo in the mid-1990s revealed Chinese concerns about "unmatched US capabilities" and its intentions in the world and the Chinese domestic regime. During the second wave of US domination over the international system, China began to fear of a potential US intervention on Taiwan (Goldstein, 2005:138). In this vein, the promotion of multi-polarity in the international system was the basic motive behind China's objective of building partnerships with major powers and re-positioning itself at one pole.

Taking into account the changing dynamics within the international system in the mid-1990s, the Sino-Russian strategic partnership of 1997 is a good illustration to indicate the nature of the partnership networks. Both Russia and China shared common concerns over US unchecked power and its prospective impacts on their periphery respectively; (Goldstein, 2005:138) both nations confirmed their commitment to the multi-polarity of the international system as the basic feature underlying the partnership (Sutter, 2005:114). While the strategic partnership explored the Chinese preference for multi-polarity in the international system, China avoided forming an alliance-based relationship with Russia. Rhetorically, both sides signaled their opposition to hegemony of any power and promotion of multi-polar world. But no formal alignment formed between Russia and China after this alliance to oppose US-dominated international order (Dittmer, 2004:213). Learning their lesson, the Chinese leadership was careful not take attract the attention of the international community with regards to the Chinese active diplomacy with Russia. In order to reveal the benign nature of its diplomacy of partnerships, China gave special attention to relations with the US and worked hard to form its strategic partnership with the US, although there has always been volatility in these relations

dating from the end of the Cold War due to American criticisms against the communist regime in China, the human rights issues revealed after the Tiananmen Uprising, and the trade restrictions between two parties. According to Goldstein, the Chinese leadership supported their choice of strategy for preserving constructive bilateral relations with the US. As he asserts:

While they readily conceded that fundamental political differences with the US and unexpected international events ensured there would be ups and downs in Sino-American relations, they insisted that China's interests would be best served by a strategic partnership that emphasized linkages and contingent cooperation. The confrontational alternative that critics of the partnership policy presented allegedly risked triggering a decisive shift by the US toward a policy of Cold War style containment (Goldstein, 2005:149).

In addition to promotion of a multi-polar international system, the Chinese leadership also aimed efforts towards preventing an atmosphere that would promote the establishment of a united front against China's rise to the great power status. As Goldstein said, "cultivating various types of partnerships, Beijing sought to increase the perceived benefits that other great powers would gain by working with China and to underscore the opportunity costs of working against it"(Goldstein, 2005: 118).

The idea of building a network of partnerships was also compatible with the modernization objectives of the Chinese leadership for the promotion of reform at home and also the legitimization of the authoritarian rule of the CCP. The bilateral interactions on economic and technological exchanges promoted China's cooperative approach to the US, the European powers, Japan and Russia since its economic modernization and development depended on these exchanges and the openness of its economy to the international economy. Japan and the US had a central position in Chinese external economic relations since they were the top two trading partners of China; Chinese trade with both the US and Japan accounted 33.8 percent of China's total trade in 1998 (Zhao, 2001:666). Moreover, the Chinese leadership viewed both the US and Japan as the main source for technology and foreign capital since the beginning of reforms (Zhao, 2001:667). China's WTO accession process and the American and European dominance in the issue were also an important factor for China's more accommodative stand toward its bilateral relations with the US and the EU. The purchase of military equipment and technology was an indispensable

component of the military modernization of China, and China became relatively dependant on importing military technology and equipments in order to reach its goal of modernization. Due to sanctions imposed on China by the West and the previous military model based on Soviet equipments, the Chinese purchase of military equipment from the Western world was limited, and China became relatively dependant on Russian sources (Dittmer, 2004: 215). Another dynamic was the potential of the major powers' domestic markets for cheap products from Chinese.

While the transfer of technology, military equipment was essential, a peaceful external environment promoting the easy flow of FDI to China and Chinese exports outside, further progressed Chinese bilateral relations with regional organizations, improving China's image while allowing it to concentrate on economic development at home as was deemed necessary (Sutter, 2005:127).

## **5.2. New Third World-ism?**

China's Third World diplomacy went back to the 1960s-1970s with its adherence to the non-alignment movement under Mao's Theory of Three Worlds and the pursuit of leadership of Third World against the two superpowers of the Cold War era. The closer relations of China with the Third World throughout the 1960s resulted in the diplomatic recognition of China at the UN as the represent of the People's Republic of China (rather than the government in Taipei). Thus, the diplomacy also had strategic importance for China in addition to the ideological meaning of the promotion of relations with the Third World throughout the 1960s and 1970s.

The Chinese leadership's attention to the Third World began to augment in the 1990s. There were many reasons for explaining the growing attention, but the basic motive was the accelerated need of China for the inflow of natural resources from the resource-rich Third World countries to the mainland in return for the outflow of Chinese investment and arms sales to the peripheral regions of the world.

Chinese natural resources were unable to compensate for their triggering economic performance in the 1980s. More specifically, China became a net importer

of oil in 1993<sup>65</sup> (Kenny, 2004:37). Demands for other resources and raw materials such as iron ore, titanium, copper, uranium, aluminum, manganese and timber have also deepened since the mid-1990s (Meidan, 2006:76).

While China and the region surrounding China (except Central Asia) had a huge lack of energy reserves needed for the growth of the new Asian giants: China, South Korea, and India (except the South China Sea). The competition for limited resources in the South China Sea<sup>66</sup> led China to turn to other regions (especially the Third World) to find alternative sources of energy resources and raw materials. As Ziegler asserts:

China's energy requirements constitute one significant factor driving Beijing to move beyond regionalism; China is indeed becoming a global power. ....Energy demands have caused China's business elites and government officials to move beyond a regional focus on the Asia-Pacific, developing joint ventures and acquiring properties in Central Asia, Africa and Latin America (Ziegler, 2006:20).

Another reason behind the rise in attention to the Third World was the diminishing influence of the previous Cold War confrontation of superpowers in these regions, specifically in Central Asia and the Middle East. The choice of regions or countries where the US-led liberal system had no impact coincided with the Chinese diplomacy of avoiding confrontation with the US (Calder, 2006:54).

The Middle East had a central position in the Chinese resource diplomacy. In the early 1990s, more than half of the oil that China imported came from the oil producing countries of the Middle East (Shichor, 2006:51). However, the external dynamics that emerged since the mid-1990s in the region (due to the Iraq-Kuwait War in 1991) altered the central position of the Middle East in Chinese resource diplomacy. The growing influence of the US in the oil-producing countries in the Middle East after the US intervention to Iraq in 1991, caused instability in the region. Since the Middle Eastern oil imported by China has to pass through the Indian Ocean

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<sup>65</sup> In 2003, China passed Japan as the second largest importer of oil in the world after the US (Kenny, 2004:37).

<sup>66</sup> The South China Sea and its mostly uninhabited islands have proven oil and gas reserves. They are subject to several competing claims of sovereignty by neighboring nations for ownership of the Sea and its resources.

through the Strait of Malacca<sup>67</sup> (Kenny, 2004:42), important security challenges to China surfaced because the sea lines were vulnerable to external threats. The Chinese leadership turned to other regions for natural resources in order to diversify its energy supply. The African continent also regained its place on the list after Central Asia (as mentioned above).

The energy resources (mainly oil and natural gas) in Central Asia (and the Caspian Sea Basin) represented an alternative for diversification in China's sources of energy supply needed for its modernization objectives (Pham, 2006:57). In addition to the development of bilateral relations with the Central Asian states, the Chinese leadership formulated a new framework for the Chinese presence in the regions through the mechanism of the Shanghai Five build in 1995, and later re-institutionalized as the SCO in 2001.<sup>68</sup>

Although the African continent has been always important in the Chinese Third World policy (especially in the UN), a shift occurred in Sino-African relationships in the late 1990s. One reason for this shift was China's growing demand for raw materials that were abundant in the continent and the other was related with international concerns of the long-term objective of China's rising economic and political power in the international scene (Meidan, 2006:76). In 2000, the Forum of China and Africa Cooperation (FOCAC) was established in order to increase the political-economic interaction of each party under the logic of South-South cooperation (Meidan, 2006:70). Since then, China's involvement in the region has grown.

In general, China has used bilateral ties in its relations with energy supplier states. The Chinese interests in energy supply have consistently clashed with the ones of other crucial energy demanders, particularly the US and the EU. In order to manage its resource diplomacy, the Chinese leadership used different methods of diplomacy such as direct investment of Chinese corporations in the regions, bilateral economic interactions, and foreign aid. In this context, the initial Chinese

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<sup>67</sup> The Strait of Malacca is one of the most crucial sea lanes in the world. The majority of imported oil in China from the Persian Gulf and must pass through the Straits. However, due to the maritime disputes on the South China Sea, the control over the security of the Straits could not be managed (Kenny, 2004:42).

<sup>68</sup> We will turn to China's diplomacy towards the Central Asian region within the framework of the SCO in the following parts.



investments in the Third World were based on construction services – mainly in the Middle East – due to the opportunity to pool the over-supply labor force. This labor that could be used for the construction services of Chinese investment in the oil-rich countries where there was lack of labor and technology (Shichor, 2006:43). However, the Chinese investment profile in the Third World began to change by the late 1990s; this change coincided with China’s increasing demand for natural resources.

The Chinese leadership has formulated new policies in order to manage the increasing Chinese demand for energy resources. One policy was encouraging Chinese national oil companies to increase their influence on the international production through buying rights to find and sell oil and gas worldwide; this was known as the “*go out strategy*” (Meidan, 2006:78; Ziegler, 2006:5). Moreover, the Chinese government started to form partnerships with the state-owned Chinese national oil companies to increase China’s share in the world energy exploration and production (Ziegler, 2006:8). The three largest Chinese oil and gas corporations, China Petroleum and Chemical Cooperation (Sinopec), CNPC, and CNOOC, expanded their share in international ventures worldwide after the mid-1990s (Calder, 2006:61).

The Chinese authorities have taken measures to prevent its energy supply dependence on one region. In doing so, China invested in energy infrastructure projects (oilfields and pipelines) in various countries in the Third World in order to secure its access to energy resources (Shichor, 2006:53). Sudan, Saddam Hussein’s Iraq, and Iran were the countries where China increased its involvement of energy production, exploration and development after the mid-1990s, particularly in Middle East. China began to invest in the development of the energy sector in Central Asia also. Additionally, Chinese companies began to increase their direct investment in Africa<sup>69</sup>, targeting energy resources in the region. While the Chinese FDI, low for Africa, was less than 5 million dollars in 1991, the amount rose to 100 million dollars in 1999 (Liang, 2007:139). The Chinese state-owned companies made deals with the Kazaks to control major oilfields in the western part of the country. There were also

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<sup>69</sup> Nigeria, Angola, Sudan, Kenya, Chad, Gabon, Mauritania, the Republic of Congo, Equatorial Guinea, Ethiopia where the Chinese companies have flowed millions dollars for drilling, exploration and extraction facilities (Liang, 2007:139).

several pipeline projects<sup>70</sup> that materialized which would have brought the resources of the region to the rising China (Ong, 2005:431-432). The projection for building up pipeline projects between the Central Asian states and China also highlights China's long-term objective of being a bridge between the region and key Asian consumers like Japan and South Korea (Pham, 2006:58).

Another method for diplomacy was using bilateral economic interactions between China and Third World countries. Since the Cold War era, arms sales to the Third World have been an indispensable point in bilateral economic interactions, mainly between China and the Middle East (Shichor, 2006:51). While arms sales has continued to be an important dynamic of bilateral interactions, China began to export consumer goods and technology to the Third World in return for imported natural resources and raw materials since the 1990s.

China has tried to increase its economic and political dominance in the region by directing the means of development aids. Different from the foreign aid that flowed to the regions from the Western countries, China has not attached special political or economic conditions – governance, transparency, regulation of national economies, democracy – to these countries in return. Thus, the Chinese style of involvement in the region became an alternative to the Western model (Meidan, 2006:90-91). The Chinese model has also been appreciated by the people in the region opposed to the US' exporting of democracy (Shickor, 2006:66).

While China's purchase of large amounts of oil and natural gas and its involvement in trade and investment in the Third World expanded its influence, China's developmental style was also accepted as an alternative role model by the authoritarian regional states of Central Asia, Africa and the Middle East in comparison to the Western style of economic development accompanied by political liberalization (Wu and Chen, 2004:1062; Ong, 2005:432).

Among Chinese resource diplomacy with the Third World, the Chinese relations with pariah states<sup>71</sup> and the nature of Chinese interests in these regimes garnered more international attention. China's bilateral relations with Iran, Saddam

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<sup>70</sup> An oil pipeline from Kazakhstan (Atyrau) to China (Alashankou) opens to operation in 2008, and also a gas pipeline project from Turkmenistan to Kazakhstan to Xingjian (Central Asia-China gas pipeline or known as Turkmenistan-China gas pipeline is planned).

<sup>71</sup> The US regarded the following as oil rich countries where China has close contacts as pariah states. These states included Sudan, Iran, Burma, Venezuela (Ziegler, 2006:8).

Hussein's Iraq, and Sudan deepened in the early 1990s. The main sources of China's interaction were arms exports, nuclear proliferation, and economic aid to these states. China's relations with the pariah states gained a new momentum by the end of the 1990s as a consequence of China's expanding economy and need for energy resources. "China began to take advantage of its long-standing friendship with pariah regimes and the minimal competition in such countries from Western companies; it became one of the largest investors and trading partners of rogue states," as Kleine and Small state (Kleine-Ahlbrant and Small, 2008). The Chinese national companies were also supported by China's go-out strategy promoting investment in these regions. Thus, Chinese relations with these states gained a new importance due to huge Chinese investment in these countries that was aimed to secure the Chinese energy supply for its sustainable economic performance.

While the Chinese relations with pariah states were criticized by West as the sign of the Chinese promotion of anti-systemic regimes in the international system, it must be argued that the Chinese new resource diplomacy in the Third World provided an alternative security, economic and cultural partnerships with these states who were reluctant to be part of the Western dominated bilateral interactions. Thus, while directly contributing to the Chinese national interests, the new Third World diplomacy also indirectly promoted multi-polarity, and the Chinese gained a great-power image amongst the developing world.

### **5.3. Chinese Style of Multilateralism**

China was somewhat reluctant to participate in international and regional multilateral forums until the mid-1990s because the Chinese leadership believed that the major powers in these multilateral arrangements would manipulate and encourage others to take decision against the Chinese national interests and challenge the Chinese sovereignty (Cheng-Chwee, 2005:102). However, China recognized the benefits of multilateralism by the mid-1990s because the Chinese leadership began to use the multilateral framework as a more effective tool to address China's interests within the New Security Concept.

However, China was highly selective in its response to participate in these multilateral arrangements. The Chinese understanding of multilateral diplomacy was

reflected in the types of multilateral arrangements which China has participated (Wu and Lansdowne, 2008:6). In this sense, China preferred to participate in the multilateral platforms where China could strengthen its status as a regional and global power and would not be bound to the restrictions of the multilateral coordination. The Chinese leadership attitudes towards the United Nations (UN) and G8<sup>72</sup> multilateral mechanism were different from each as Wu and Lansdowne point out. Since China had a privileged position in the UN as one of the five permanent members of UN Security Council who has veto power, and as an undemocratic developing country, they were given more space to act in its own interests while. However, since G8 has a Western-dominated framework that may take joint actions or decisions against Chinese interests, the Chinese leadership was hesitant to participate in the multilateral arrangement (Wu and Lansdowne, 2008:6).

The other important criterion for the selection of multilateral institutions was the expectation of the Chinese leadership to play a more leading role in the multilateral platforms. The Chinese leadership preferred regional platforms where the predominance of another major power, more specifically the US has been limited (Wu and Lansdowne, 2008:7). Therefore, China chose multilateral efforts where it could shape and guide the directive of these efforts such as the Chinese interest in the establishment of the SCO (Shanghai Cooperation Organization), the ASEAN plus one mechanism<sup>73</sup>, or its participation to the Four-Party Talks<sup>74</sup> on the resolution to the crisis of the North Korea nuclear regime by the end of the 1990s (Foot, 2006:86). Moreover, as Wu and Lansdowne say, the Chinese leadership wanted to develop China-dominated multilateral arrangements rather than the ones giving emphasis on equal participation of parties involved in these arrangements (Wu and Lansdowne, 2008:12).

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<sup>72</sup> G8 nations are Russia, Great Britain, France, Germany, Canada, the United States, Japan, and Italy. It is an international forum designed for the governments of participant nations.

<sup>73</sup> ASEAN plus one mechanism is a regional multilateral platform that was created for the establishment of a Free Trade Area between China and ASEAN.

<sup>74</sup> After the collapse of the 1994 Agreed Framework, Northern Korea's secret researches on nuclear weapons with highly enriched uranium were discovered (Dittmer, 2008:31). Four-Party Talks were made between the periods of 1997-1998 with the participation of four main regional states: the US, the People's Republic of China, North Korea and South Korea in order to resolve the crisis of nuclear regime in North Korea (Foot, 2006:86).

Another reason for China's willingness to participate in the regional multilateral efforts rather than the global ones (except the WTO) was the fact that the Asian multilateral forums operated on the basis of voluntarism for the parties, including a consensual decision-making mechanism and non-interference in domestic affairs. There was no enforcement mechanism for policy implementation in the Asian multilateral arrangement compared to the Western ones such as those in the EU (Yahuda, 2008:76). Therefore, the Chinese understanding of multilateralism was different from the mainstream Western dominated multilateral approach and can be characterized as a partial or conditional one. In other words, China did not want to be bound by the multilateral mechanism on issues dealing with the Chinese core national interests (Hughes, 2005:133). Thus, China has rejected the discussions on the Taiwan issue (as its own internal problem) and the resolution of sensitive sovereignty issues on multilateral level (Goldstein, 2005:126). As Hughes claims, "Beijing multilateralism does not represent a departure from its state-centric understanding of international relations or a dilution of nationalistic issues that are so vital to the legitimacy of its leaders"(Hughes, 2005:134).

China has had also "a skill in capitalizing on the reciprocal relationship between multilateralism and bilateralism"(Cheng-Chwee, 2005:111). As seen in the formulation of partnerships with various states (particularly with the great powers) along with its relations with resource-rich Third World countries, China continued to use both bilateral and unilateral arrangements as the platform of its diplomacy in areas where China does not want to be restricted by the multilateral approach (Wu and Lansdowne, 2008:7). The Chinese leadership increased China's involvement into multilateral arrangements since the mid-1990s due to the emerging approach of Chinese foreign policy-making based on the NSC. Why multilateralism was perceived as an indispensable part of the new Chinese diplomacy can be explained through several reasons.

First of all, as mentioned, its participation in the multilateral forums enforced its identity as a more responsible power and released the China threat arguments which were highlighted after the more active foreign policy years in the periods of 1994 and 1995. China was now able to dismiss Chinese threat concerns successfully through participating and promoting multilateral arrangements for preserving peace and stability on its periphery (Goldstein, 2005:120). Through participating in the

regional and global multilateral efforts, China increasingly promoted its national image and economic leverage. Thus, the Chinese soft power was also augmented by its increasing influence on these efforts (Cheng-Chwee, 2005:113). Secondly, China realized its strategic interests in the region through the multilateral framework without raising Western attention to its actions but expanding its political influence (Cheng-Chwee, 2005:114). Thirdly, China began to shape the rules of the game in regards to its foreign policy concerns. Especially considering the institutions which China was actively engaged in their formulation and establishments such as the SCO, ASEAN-led institutions, ASEM (Asia-Europe Meeting), China has a say on their designs and directions (Cheng-Chwee, 2005:115).

And most importantly, the Chinese multilateral diplomacy contributed its emphasis to the promotion of the multi-polarity in the international system. The mentality behind its usage of multilateral diplomacy was very much related to the logic of its new security concept and its commitment to the multi-polarity of the international system. The new security concept formulated by China in the mid-1990s addressed a “realist state-centric understanding of multilateralism” as Hughes emphasizes (Hughes, 2005:129). In other words, its multilateral diplomacy was based on the state-centric approach rather than a supranational decision-making process or policy implementation restrictions. That approach gave China the space to enhance its national interests without engaging in an alliance politics or antagonizing the US on its actions at the regional and global level (Hughes, 2005:129). The Chinese leadership used the combination of multilateralism and the commitment to multi-polarity as a strategy to deal with the US and to shape the new international order that China desired. As Hughes emphasizes:

The only alternative way for balancing US power is to reduce bilateral frictions and raise China’s status in the international mainstream by winning the support of the majority of states for the international norms that it advocates. In this way, Beijing can manage China’s relations with the superpower and work towards building the rules of a new international order through multilateral security dialogue and with cooperation of (multilateral) organizations (Hughes, 2005:127).

To sum up, there was a correlation between the Chinese power and its multilateral efforts. China did not want to be part of any multilateral arrangements

when its relative power decreased. China used multilateralism as a tool to increase its influence on the regions where China had the capacity to do so (or where there was no hitherto predominance of any great power). In this sense, China wanted to develop China-dominated multilateral arrangements in its periphery mainly in two regions: Southeast Asia and Central Asia (Wu and Lansdowne, 2008:12). China has highly participated in the formation of new regional multilateral security and economic arrangements since the mid-1990s in order to be more active in shaping of its external environment (Wu and Lansdowne, 2008:13).

However, the Chinese leadership did not follow a unified model of multilateral diplomacy but there was a flexible approach to its multilateral diplomacy in its periphery. In other words, China modified its multilateral approach to the conditions of different regions accordingly. In Southeast Asia, the Chinese leadership recognized the American presence in the region as a stabilizing factor. Therefore, China pursued a more “open-ended or loosely structured” multilateralism. The priority was given to economic issues rather than security ones. But in Central Asia, China demonstrated more effort for building an institutionalized framework where the US has no pre-dominance in the region, (until 9/11) and the Chinese diplomacy to SCO also indicated its new approach to neighborhood diplomacy based on the NSC. In Central Asia, security issues had priority over the economic ones while China realized that economic rationale had been an indispensable part of the formation of regional multilateralism (Wang, 2008:120).

#### **5.4. China's Backyard and ASEAN**

During the Cold War, ideological contradictions prevailed in Chinese-Southeast Asian relations. The communist rule in China saw the promotion of a socialist revolution over the region as the ultimate objective of its foreign relations with the regional states. Until the 1980s, the PRC gave moral and material support for the communist regimes or communist revolutionary movements in the region. Southeast Asia was an important component to the Chinese ideological campaign in its periphery. Under these circumstances, the ASEAN was founded in 1968 as a military alliance against China. However, China's diplomatic opening to the Western World in the early 1970s after the signing of the Shanghai Communiqué with the US

altered Chinese foreign policy dynamics as well as its attitude towards Southeast Asia. Beginning in the early 1980s, the PRC stopped its support for the communist parties in the Southeast Asian countries (Zheng and Tok, 2008:185).

China's ASEAN policy gained a new impetus a few years after the Tiananmen Uprising and the end of the Cold War. While the Western states imposed strict economic and military sanctions on China after Tiananmen Uprising, the regional states followed a softer diplomacy to China. That graded up Chinese relations with regional states after Tiananmen (Zheng and Tok, 2008:186). The economic interaction between China and ASEAN was the driving force in the creation of mutually beneficial relations throughout the 1990s.

China became a more active player in the region after the early 1990s. First, it became an observer country in ASEAN in 1992 and then joined the ASEAN Regional Forum (ARF)<sup>75</sup> in 1994. In 1996, China became a full dialogue partner of the ASEAN and participated in other mechanisms such as the formation of ASEAN plus three forums<sup>76</sup> and the ASEAN-China summit in 1997. After the mid-1990s China increased its interaction in ASEAN platforms, while ASEAN also pursued a "constructive engagement" with China in the regional and international system. ASEAN fully supported China's accession to the WTO from the start (Zheng and Tok, 2008:186). What were the reasons of China's increasing involvement in the regional multilateral economic arrangements?

China's economic performance following the 1980s led to many concerns amongst the regional states about their individual future economic development. Since their economies were substitutes for China's economy (rather than compatible), they were fearful that the Chinese economic development would cause a decay of their economic performance as more FDI shifted to China. Since Chinese threat concerns among the regional states were an important obstacle in restoring

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<sup>75</sup> ASEAN Regional Forum was an organization built for multilateral dialogue on Asia-Pacific Security Issues in 1994.

<sup>76</sup> The first regional initiative included the 10 member states of ASEAN, Japan, South Korea and China was based on regional economic cooperation independent from Western and American influence. The importance of the forum has increased since the Asian crisis of 1997 and gained a new objective of securing the regional states against the vulnerabilities of globalization. The anti-Western and anti-American sentiments resulted from the way in which the IMF and the US behaved during the financial crisis (JoonAhn, 2004:24). In 1999, the forum was institutionalized; however, the US and Japan are against the further development of the forum.



friendlier relations with these states, China tried to manage these economic concerns through developing its relations with ASEAN further.

Meanwhile, the regional economic structure began to change due to both the Japanese economic stagnancy in the 1990s and the Asian financial crisis of 1997. These emerging dynamics influenced the economic conditions of ASEAN states whose export-oriented economies depended on Japanese investment and the US-led regional finance system. In addition to the changes seen in the regional economic dynamics by the mid-1990s, the economic performance of China (especially throughout the 1990s) accelerated China's importance as a new engine of growth as China became the main market for regional exports that were re-exported to the West and Japan. China emerged as a "hub of trade, investment and production networks" in the manufacturing sector (JoonAhn, 2004:22).

That was seen as an opportunity by the Chinese leadership to promote its regional image and to alleviate fears amongst the ASEAN states that China would not be a challenge to their economic development in order to prevent a more general fear about China's growth. The Chinese leadership decided to make China the engine of regional economic growth through opening its markets to the imports coming from regional states and transferring technology and investment to the region. They provided the peripheral states with an opportunity rather than a threat (Yunling and Shiping, 2005:51). Moreover, China's responsible behaviors during the Asian Crisis including the offer of 1 billion dollars to Thailand to finance its deficits, not devaluing the Chinese currency when others did (mainly Japan), and contributing 4-6 billion dollars to IMF rescue package, all enhanced the image of China as a responsible regional power (Dittmer, 2008:29).

Chinese leaders also chose multilateral arrangements as the way to conduct diplomacy with regional states. Through these, China called for the establishment of a Free Trade Area (FTA) between China and ASEAN in 2000. The framework agreement for the creation of the FTA was signed in 2002. According to De Castro, through the FTA, China expressed that it would share the economic benefits of its growing with ASEAN states in return for its political influence on the region (De Castro, 2006:95). In addition to the Chinese diplomatic activism and its economic relations with regional states, China also proposed an "alternative security

blueprint”<sup>77</sup> based on multilateral regional security framework (De Castro, 2006:93). The mentality behind the initiative was expressed by Yunling and Shiping as enhancement relationships with regional states in order to prevent an establishment of an anti-China coalition led by the great powers in the region, particularly the US and Japan. In addition to forming various partnerships with great powers that had influence in the region, China tried to increase its hands through forming a multilateral framework dealing with the security issues at the regional level (Yunling and Shiping, 2005:51).

Many argue that China recognized the significant role played by the US in the region as a regional stabilizer and its unique position defined by the times. Thus, rather than pushing the US from the region or challenging its dominance through establishing an anti-US alliance, Chinese leaders accepted the reality that the US played a constructive role in the region (balancing Japan) and accommodated their international behavior considering that reality (Yunling and Shiping, 2005:57). Therefore, China did not challenge the American alliance system in the region directly. That was seen crucial for attracting ASEAN states to its regional efforts because they did not have to choose between the US and China. Since their reliance on the American strategic presence would continue, they could confidently respond to the regional initiatives of China in the region (Yahuda, 2008:79). China decided to coexist with the US in the region while developing its relations with the regional states further using multilateral arrangements where the US influence was limited (Wu and Lansdowne, 2008:8).

Starting in the mid-1990s, China had increased its participation in the ASEAN Regional forum and the security dialogue among the regional states. Besides using forum, China initiated dialogue directly with ASEAN. In 2002, ASEAN and China agreed on the “Declaration on the Conduct of Parties in the South China Sea” in order to cooperate in finding a solution for the conflict in the disputed areas (Gill, 2005:256).

The key trend in China’s regional diplomacy was its emphasis on economic and political influence while downgrading its military approach to the regional issues. In other words, through its economic and diplomatic approach, China increased its influence as a responsible power in regional security issues by using

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<sup>77</sup> Alternative to US-led alliance based security system in the region since the Cold War.

more than military means to realize that end. How about China's new neighbors in Central Asia?

### **5.5. China, Central Asia and the SCO**

For many, the geopolitical and strategic objectives behind Chinese interests in the promotion of a multilateral regional organization in the Central Asia following the mid-1990s were different from its multilateral approach to the Southeast Asia. Why?

During the Cold War era, the Chinese influence in Central Asia was shaped by its relations with the Soviet Union. Thus, China had limited power in the regional dynamics of Central Asia. However, a power vacuum emerged in the region after the collapse of the Soviet Union. The power vacuum created both challenges to and opportunities for China.

The biggest challenge China had to deal with in the region was the resolution of the border disputes between Russia and the ex-Soviet states of Central Asia. The initial motive behind the formation of the Shanghai Five<sup>78</sup> in 1995 was to resolve the border disputes amongst the regional states and to secure its borders, especially in the Northwest Frontier, against instabilities (Wang, 2008:116).

The Xingjian Uygur Autonomous Region<sup>79</sup> was one source of political concern within the Chinese leadership. Due to the official policies of Communist rule, the Han Chinese dominance in the region was enhanced. That caused growing tensions between the Muslims and the Chinese. The Chinese leadership interpreted the rise of the Islamist elements in the region as a sign of separatism and a threat to

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<sup>78</sup> The Shanghai Five consisted of the Russian Federation, the People's Republic of China and three states of the Central Asia: Kazakhstan, Kyrgyzstan, and Tajikistan. However, the Shanghai Five mechanism evolved to a regional multilateral platform by the initiative of the regional states (mainly China) and institutionalized as the Shanghai Cooperation Organization (SCO) in 2001.

<sup>79</sup> The population of the region is mainly Turkish and the religion is Islam. There are 13 ethnic groups, the main ethnic group being the Uigurs. With the official policy of the Communist rule, the population of the Han Chinese reached 40% of the population. Besides being a source of security problems to the central government in China, the region is also a major source of natural resources for China in terms of minerals<sup>79</sup> and petroleum resources found in the region (Pham, 2006:57).

its unity (Pham, 2006:55-56). China tried to create a platform with the Central Asian states in order to combat the threats to its territorial unity and stability on its borders. Thus, the creation of more peaceful and stable regional environment for Chinese territorial unity has been the one reason for the regional initiative.

The power vacuum also created opportunities for China to realize its needs for energy resources and to economically develop the western parts of China. Considering China's increasing dependence on natural resources due to its high rates of economic growth, Central Asia captured the attention of the Chinese leadership as an important source of resources needed for China's continued development. The access to the energy resources of Central Asia was another important dimension of the Chinese interest in the region following the mid-1990s. China mainly relied on Middle Eastern resources, and its demands for oil increased daily due to its booming economic performance. The energy resources (mainly oil and natural gas) in the region (and the Caspian Sea Basin) represented an alternative to diversify its sources of energy supply needed for its modernization objectives (Pham, 2006:57). Since the natural resources of the region had significant meaning for China in terms of its future economic development, China began to invest in the development of the energy sector in the region as mentioned before.

The economic development of the Central Asian states and the interior region of China was another point of contention through China's relations with the region based on regional economic collaboration. Chinese leadership believed that economic interaction between China and the Central Asian states based on trade and investment would foster the power of the governments of the regional states against "separatist Islamist groups" (Pham, 2006:58) and would reduce the gap between Western and Eastern China through enhancing socio-economic conditions in the interior regions of China. Thus, the promotion of economic links between the Central Asian states enhanced the economic development of Xingjian and maintained social stability in northwestern China (Wu-Chen, 2004:1061). Since Central Asian states needed to import consumer goods in return for the exports of natural resources, China began to invest in light industry in its northwest regions. Moreover, China gave large amount of loans to the regional states to provide resources to buy manufactured goods made in interior of China. In order to promote better business

conditions, China also contributed huge amounts of money to build railway links with China and the regional states (Pham, 2006:58).

Central Asia was also believed to be a platform through which China could increase its international influence considering the geo-strategic position of the region in the world, bridging China and Europe (Wu-Chen, 2004:1062). The region is a gateway to other part of the world – Russia, Europe, and the Middle East; access to this region would enhance China’s economic security (Ong, 2005:431). In this sense, the other concern of China in its participation of the regional initiative was to prevent the dominance of major outside forces in the region, especially the US.

In this context, the Chinese leadership chose the establishment of a multilateral regional platform (including Russia) under its leadership in order to “fill the geopolitical vacuum on the Eurasian continent” that emerged at the end of the Cold War (Wang, 2008:116) and to reshape the region in accordance with its needs and objectives. Multilateral diplomacy was the most effective way to realize the Chinese interests in the region and to increase its influence without alarming the Central Asian states as well as Russia (Wang, 2008:119). In addition, it was the most appropriate way to balance the US power in the world and to promote the multi-polarity.

While the Shanghai Five mechanism was initially established as a regional platform for the discussion of security issues (border disputes), its scope was expanded after 1997 to include activities on strengthening regional security and economic collaboration (Wu-Chen, 2004:1060). China played a leading role<sup>80</sup> in institutionalizing the Shanghai Five mechanism since it was perceived that the mechanism would become an important tool for enhancing the Chinese interests in the region and its political influence (Chung, 2006:10). In 2000, five nations reached a consensus on the establishment of a Shanghai Cooperation Organization (SCO) to “serve as a regional mechanism for the development of multilateral collaboration in various fields” and particularly, economic collaboration regarding the energy sector was emphasized (Wu-Chen, 2004:1064). In 2001, the Shanghai Five mechanism was transformed to the SCO by China’s active role in the formation of the multilateral organization.

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<sup>80</sup> Since the mid-1990s, either the prime minister or the president of China has visited the region once a year. The permanent secretariat building of the SCO was funded by China and was built in Beijing in 2003. China has largest number of staff within the SCO (Chung, 2005:10).

As part of Beijing's official Good Neighbor Policy, China is making active and skillful use of the SCO to accelerate regional integration and cooperation with neighboring states in Post-Communist Eurasia.....This increasing international engagement is the result of a foreign policy consensus among China's leaders and international affairs experts, achieved at the end of the 20<sup>th</sup> century, that for China to have a peaceful environment conducive to its domestic political stability and economic development, it needs to be more proactive in shaping its neighborhood (Chung, 2006:5).

In addition to being a tool for the promotion of economic and external security in China, the SCO was also used as a means to increase China's influence on the regional and global levels and to shape its external environment according to Ong (Ong, 2005:435). The Chinese approach to regional multilateralism in SCOs was based on the principles of the NSC that emphasize mutual benefit, mutual trust, equality, and coordination. The Chinese leadership formulated the NSC as the guiding principles of the SCO. Thus, the promotion of an alternative norm-based and a new kind of security order in the region was practiced by the Chinese leaders through the institutionalization of the SCO in Central Asia (Wang, 2008:116). As Wang emphasizes, "the practice of SCO is exactly the embodiment of NSC"(Wang, 2008:117).

The evolution of the two objectives of the Chinese new strategy of catching up; the socialist market economy and multi-polarity (based on the Chinese New Security Concept) created the dynamics of Rising China in the early 21<sup>st</sup> century. These included the maintenance of reform drive of the socialist market economy with the WTO accession, the re-emergence of China as the new engine of growth in regional and global economies, the maintenance of domestic stability, the promotion of China-centered multilateral platforms through the Chinese style of multilateralism in the Chinese neighborhoods, the increasing involvement of China into the Third World by the means of various tools of diplomacy, and the management of stable relations with major powers based on strategic partnerships. The dynamics of Rising China also made contributions to the regional and global order as well as China domestically. How and to what affect did the dynamics of the 1990s reshape China's new strategy of catching up towards the 21<sup>st</sup> century?

## CHAPTER 6

### PEACEFUL RISE: THE RETURN OF DRAGON?

The origins of the “China threat” debate go back to the beginning of the 1990s. The debate began with Chinese collapse concerns highlighted by the international community. International concerns originated from the ideological and political concerns that were raised after the collapse of the Soviet Union by the mainstream Western thinking. They mainly questioned the survival of the communist regime in China especially after the Tiananmen incident and the authoritarian nature of CCP leadership. Working against the China collapse debate, the communist regime successfully managed the crisis at home declaring that its methodology encompassed a socialist market economy. Deng’s tour in 1992, and the subsequent political and economic measures taken in order to rehabilitate the reform process since then, provided the leadership with legitimate power. However, the reform process at home in addition to China’s assertive foreign policies in the early 1990s caused the emergence of a new debate regarding the China threat.

Taking into account these international concerns and regarding them as an obstacle to China’s development, the Chinese leadership formulated its grand strategy in the mid-1990s. While the WTO membership was perceived as the objective of the leadership in order to realize socialist market economy and to solve the challenges of new reform at home, China also began to use a new diplomacy guided by the NSC.

At the start of the 21<sup>st</sup> century, concerns rose amongst the international arena about “Rising China” and its prospective impact on the world. While some weighted their arguments on the challenges this rise would bring on the world (the continuation of China threat theories), others focused on the opportunities of the rise. The debate was very much related to how one viewed the issue. So the point was to whom, how, and to what extent would China matter? In other words, how would the dynamics of a Rising China’s influence and, in turn, the re-shaping of the world economy and international system feed the China threat debate?

## **6.1. Rising China: To Whom, To What Extent, and How China Matters?**

Rising China began having a greater impact on the regional and global dynamics starting in the late 1990s. Strengthening regional and global impact of China and the reflections of that impact has begun to be an influential factor on the reshaping of the Chinese international behavior, its reform process and foreign policy strategy. However, the impact is altered by the issue concerned and through which approach one looks at the issue. In this vein, the following part deals with how; to whom, and to what extent China mattered economically, militarily, politically and strategically on global, regional and domestic level.

### **6.1.1. Global Impacts**

The growth rates in China during the period between 1990 and 2001 were approximately four times higher than the world average (Kim, 2003:43). China was the sixth largest trading country in the world economy with 510 billion dollars in trade in 2001 (Kim, 2003:44). As the world's new factory, China attracted huge FDI flows; after Deng's Southern Tour, China emerged as the second largest recipient of FDI with 52.7 billion dollars invested in 2002 (Kim, 2003: 45). It is reasonably argued that China became the engine of growth in world economy and production due to the increasing integration of China into world economy after its accession to the WTO.

As it became the production base of the world economy, China has been an important supplier of low-cost consumer goods to international markets. The economies of scale effect in China soured the international capital to the world production chain and relocated international resources. The flow of cheap Chinese products to the world led to the increase in living standards of the international community while combating the inflation on consumer goods (Ziliang and Yongnian, 2008:145). Moreover, its newly emerged middle class also attracted the international community as a potential dynamic market crucial for the growth of world economy due to the huge size of its population; this further fostered world investment in China.



However, the countries in the developing world that produced low-cost consumer products for international markets were challenged with Rising China due to the loss of their export markets and less competitiveness of their products with cheap Chinese products. There were also concerns amongst the developed world about the flow of low-cost consumer goods to their own domestic markets that would decrease the share of domestic producers in the national markets and cause an increase in unemployment. Some argued that these concerns of both developing and developed world on the Rising China tended to increase the protectionist measures within the world economy (Ziliang and Yongnian, 2008:135).

China had a huge trade surplus with the developed world due to the rise in the flow cheap Chinese exports to developed markets. Because of this surplus, the Chinese foreign exchange reserves accounted for \$259.43 billion in 2002, making China the second largest holder of foreign exchange reserves in the world (Kim, 2003:45). China's trade surplus with the US accounted for \$105 billion in 2002 (Hale and Hale, 2003:6). Huge foreign reserves gave China a voice in international financial affairs and also caused the emergence of international concerns. It is expressed that the possible Chinese withdrawal of its support for the dollar may lead to the huge rise in interest rates which, in turn, could cause the decline in consumption, sending the US economy downward (Hale and Hale, 2003:6-7). Thus, possible trade and financial frictions between China and its trade partners has had the potential for a confrontation between China, the US, and the EU.

In addition to the potential impacts of Rising China on world financial and trade structures, China's increasing demands for raw materials and natural resources has also influenced the international dynamics. The Chinese importing of raw materials including agricultural goods and minerals improved the income levels of the countries (mainly the Third World) who exported these products to China (Ziliang and Yongnian, 2008:138). China's new resource diplomacy in the Third World (remote oil producing countries in Africa) based on the means of using foreign aid and investment for infrastructure in return for the import of oil had a promising impact on these underdeveloped economies (Ziliang and Yongnian, 2008:140). However, China's growing demand for raw materials in addition to natural resources caused a rise in prices worldwide, which led to excess demand. Its renewed position as a net importer of oil after 1993 was also important taking into

account the pressure created by China on the oil supply market and oil prices (Takagi, 2006:29).

For many, China's accelerating appetite for natural resources and raw materials (mainly energy resources) through its increasing reliance on world energy resources began to enhance the competition of major powers for natural resources (Ziliang and Yongnian, 2008:145). The top energy consumers – the US, Japan, and the EU – began to take measures to secure and diversify its energy supplies like China. In this sense, the growing dominance and influence of China in the recourse-rich developing countries along with the pariah states captured considerable attention from the West. Furthermore, China's new resource diplomacy was based on its new emergence as a soft power; foreign aid was not attached to political conditions. The Chinese investment of infrastructure in these economies, the inflow of cheap Chinese products to these markets, and the right to access the Chinese growing market caused many concerns because China's developmental model became attractive to the authoritarian states of the Third World in lieu of the Western one that preached democracy and liberalization (Liang, 2007:126). As Breslin puts forward:

This new Chinese resource diplomacy, then provides an alternative economic partner with no political strings attached for marginalized states and those that reluctantly respond to US political initiative because of economic dependence, providing a new challenge to the hegemony's attempts to construct a global liberal order that serves the US national interests (Breslin, 2007:139).

Thus, some argue that China's advancing relations with the developing world were seen as an indirect challenge by China to the existing international order.

The main concern behind the Rising China threat is based on the realist assumption that the economic boom of China would result in the increase of military spending in China<sup>81</sup>. This thinking originated from the experiences of Hitler's Germany. They argue that the Chinese authoritarian regime would also use its military power to challenge the international system en route to becoming a world power. Since the Chinese leadership had taken few steps to establish transparency within the modernization of its military (including the publication of National

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<sup>81</sup> In 2002, the military spending accounted for 20 billion dollars (as either the third or seventh-largest military expenditure since the exact amount of expenditure was unknown.) China remained the "largest standing army" in the world (Kim, 2003:52).

Defense White Papers), there have been still fears of China's rising military capabilities financed by its huge economic growth (Takagi, 2006:28). These fears stemmed from China's neighbor states, mainly Japan. Therefore, taking into account China's rising economic and military power fueled geo-strategic and geo-economic factors causing the worldwide fear of Rising China.

### **6.1.2. Regional Impacts**

Two major powers; the US and Japan, have a central position in the regional economic and security framework. While the US was the traditional hegemony that shaped the regional economic and security system, the role of Japan was determined as cooperative that would be a stable, friendly, and economic power under the US security umbrella (DeCastro, 2006:97). However, the US hegemonic role in East Asia (especially in economic terms) was severely damaged due to its influence during the East Asian crisis and the reluctant involvement of the IMF to rescue these regional economies from the crisis. Japan was unable to respond to the crisis quickly due to its own economic decline in the 1990s. China, however, acted as a responsible regional power during the crisis. Moreover, Rising China promoted the economic dynamism in East Asia that was severely damaged in the Asian crisis of 1997. As Lijun argue, "China readily responded to ASEAN's acute need for political and economic backing and succeeded in quickly" (Lijun, 2008:272). The Japanese economy came out of its stagnation of the 1990s as a result of China's huge growth pattern as the destination of the Japanese investments and its significant export market (Takagi, 2006:28). Apart from economic dynamics, China's heavy involvement in regional multilateral arrangements enhanced its central position in the region; a shift in the power configuration in East Asia has been experienced in since the mid-1990s.

However, the Chinese initiatives to promote itself a responsible regional power have been interpreted by the international community as the Chinese motive to re-position itself as the new hegemony of its periphery due to the relative decline of US and Japanese influence in the region. In addition, the one important outcome of Rising China in the region was the rise of nationalism in Japan. The Japanese see the Rising China as a challenge to their central position in the regional economy. The

rise of nationalism in Japan (wounded nationalism<sup>82</sup>) increased the rivalry between Japan and China. As JoonAhn state, the best illustration of the rivalry is their competition of negotiating FTAs with regional states (JoonAhn, 2004:28). Moreover, Japan began to take a more active stance on security issues at the regional and global level. These included sending off defense forces abroad after 9/11 and amending the Japanese constitution to legitimize collective defense act amongst others (JoonAhn, 2004:27). These international concerns of Rising China in East Asia originated from the possible struggle of regional leadership between Japan and China and their prospective impacts on the world. The remaining distrust of China among the ASEAN countries due to its political system and rise in military power also contributed to these fears.

The increased Chinese involvement in Central Asia also caused the emergence of new comments about the nature of Rising China in the region. According to some authors, while China recognized the American presence in Southeast Asia as stabilizer against Japan and against concerns of the regional states, China was uneasy with the US presence in Central Asia after 9/11. Moreover, Chung argues that the Chinese were suspicious of the unchecked US power and believed that the “war on terrorism” was used for legitimizing the US influence in the region (Chung, 2004:997). During this time, the US established military bases in the Central Asian states in order to fight against Islam and the eastward expansion of NATO; because of this, some saw the Chinese attempts to institutionalize the Shanghai Five as the SCO as a motive to balance the growing US influence in the region (Chung, 2004:998). However, the international concerns arose from the possibility of an emergence of an anti-US bloc in Central Asia that included Russia, Iran, Afghanistan, and energy rich regional states and the prospective impact on the major powers for the competition of energy supplies and the power configuration of a Western-dominated international system.

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<sup>82</sup> JoonAhn defines wounded nationalism as; “ the nationalist sentiments that Japanese are expressing in order to regain a measure of their self-confidence that they lost in sustaining the economic miracle they had achieved after World War Two” (JoonAhn, 2004:26).

### **6.2.3. Domestic Impacts**

The efficiency-growth oriented reform policies of the Chinese leadership led to the rise of China as a new economic power and active player in the international system. Repositioning China as a power influencing the regional and global dynamics provided the authoritarian regime legitimacy at home. The Rising China discourse was also seen as an opportunity by the leadership and its political interests to combat challenges to the regime. The Chinese leadership used the Rising China discourse to raise nationalism in order to realize the objectives of economic growth, national reunification, domestic stability, and international prestige.

Rising China and its further integration into the world economy also enhanced the position and well being of the party business elite and the newly formed middle class. In particular, the local officials in the coastal regions of China attracted more FDI for their localities. However, there were many challenges inherited from the efficiency-oriented reform policies pursued due to the inequality between different social groups that grew while the gap between the interior and coastal regions widened. These problems, which surfaced for the first time before the Tiananmen incident, have continued to be the ones that pose increasing challenges to the regime and stability of the region since the mid-1990s.

In the early 21<sup>st</sup> century, China was still classified as a poor country by world standards, when considering per capita income levels (Kim, 2003:46). Income inequality among the rural and urban areas was a major problem that needs to be resolved. The WTO membership also became a factor that widened the gap as it opened domestic markets to the import of agricultural products that may have accelerated the decline in rural incomes (Hale and Hale, 2003:3). Moreover, corruption at mainly local-regional levels has caused a growth in income inequality along with the dissatisfaction amongst the people. The regional disparity between western and eastern parts of China was also seen as a challenge to reform and a potential factor for instability throughout the country, though the new creation of projects has been designed to promote the development in inner regions. By 2003, China was producing 57% and 26% of its GDP in the eastern and central regions respectively, while only producing 17% in the western parts of the country (Hale and Hale, 2003:3).

Unemployment in urban areas (more than 8%) and underemployment in rural areas (200 million workers) were the most important problems that China must face in the future (Hale and Hale, 2003:3). The uneasy reform process of SOEs by the mid-1990s has also brought about huge social problems to China since the leadership was unable to accommodate the “iron rice bowl” system<sup>83</sup> that was destroyed during the reform of the state sector and replaced with a renewed social system. Although the private sector began to provide social services such as health care and education, not all people have had access to these services, especially the ones living in rural and inner regions of China.

The friction between central and local governments due to the fragmented administrative structure of the party-state has also grown since the central government could not maintain full control over the local governments (Cheek, 2006:104) through the administrative reforms in 1998. While the central government wanted to regain power, the local elites have had no desire to give their “money-making power” back (Cheek, 2006:108).

Rising China has also faced the contradiction between sustainability and growth. China has experienced various environmental problems such as air and water pollution, desertification, floods, and the loss of fertile land due to its reform and economic rise as Cheek states. Based on World Bank reports, six of the ten most polluted cities in the world were in China in the 1990s (Cheek, 2006: 114). These domestic problems also have potential implications on Chinese international behavior if they result in social unrest.

The use of Rising China by the Chinese leadership since the 1990s as a propaganda tool to promote nationalism against the challenges to the regime also caused international fear; many argue that official nationalism led to the emergence of populist nationalism amongst the Chinese people that has a more assertive attitude towards international and regional issues. While the Chinese leadership has successfully managed to control the expansion of the extreme nationalist sentiments through the early 21<sup>st</sup> century, there is still fear that the populist nationalism in China may easily spiral out of control.

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<sup>83</sup> Iron Rice Bowl system is referring to “the system of guaranteed life-time employment in state enterprises”. The system also regulated the allocation of housing, the provision of basic goods and services such as health and education.

[http://news.bbc.co.uk/1/hi/english/static/special\\_report/1999/09/99/china\\_50/iron.htm](http://news.bbc.co.uk/1/hi/english/static/special_report/1999/09/99/china_50/iron.htm)

## 6.2. Why Peaceful Rise?

Considering the domestic and external challenges of Rising China to the world, the region and Chinese, why did China choose a “Peaceful Rise”?

In the period between 2002 and 2003, China experienced a leadership transition from the third generation of leaders to fourth generation ones. While Hu Jintao was elected as the President of China, Wen Jiabao was elected as the premier in 2003 at the 16<sup>th</sup> Party Congress (Liu, 2003:102). Zheng and Tok express that there was a correlation between the formation of the concept and the leadership transition in the Chinese leadership during this period. There was a political tradition that the Chinese leaders create new ideas/theories/principles to guide policies of their time. In this sense, as Mao, Deng, and Zemin did through constructing *The Theory of Three Worlds*; *Four Modernizations* and *Independent and Peace; socialist market economy and multi-polarity* respectively, the fourth generation also formulated *Peaceful Rise* as the guiding idea of its approach to the international system and China’s place within it (Zheng and Tok, 2008:180-181). Thus, Peaceful Rise became the rhetoric of the new strategy of Chinese leadership in the early 21<sup>st</sup> century. What was the new strategy? How did it conceptualize the position of China within the international system?

Until the early 21<sup>st</sup> century, China successfully managed its integration to the international system. Since China had been important in the chain of global production and international trade, the Chinese leadership was aware that the economic growth of China depended on external factors China’s further embracing globalization. Furthermore, the leadership also recognized that economic strength could be used as a means of enhancing China’s influence in the world order (Kim, 2003:53). So, embracing globalization has also been seen as an opportunity to become a great power in the world order (Deng and Moore, 2004:120). Since economic success and domestic stability depended on having benign external environment, China has promoted the peace at regional and global levels rather than being a revisionist power (Deng and Moore, 2004:120). However, the leadership also realized the potential negative impacts of economic vulnerabilities as a consequence of globalization. Concerns were raised regarding the possible impact of China’s opening up to the outside influence on China’s sovereignty. Through this, a

contradiction emerged: on one hand, China should open up its economy further to the outside and be more cooperative in order to be stronger in the international system; on the other hand, if it further embraced globalization in both economic and security terms, it would become more responsive to international influence and its sovereignty may diminishes (Xinbo, 2001:59).

In order to solve the dilemma, China has proposed its own principles of international relations favoring an external environment that was not in contradiction with Chinese interests based on the New Security Concept rather than accepted the existing style as granted (Kane, 2001:47-48). While China presented itself to the international community as a responsible player, its diplomacy was carefully designed according to these principles that included participation in specific multilateral platforms and forming strategic partnerships with great powers.

Considerations to the external challenges of the economic and security interests of China emerged in the early 21<sup>st</sup> century; the distinction made previously over economic globalization and multi-polarization blurred, and the two trends were seen as interconnected. As Deng and Moore emphasize:

The Chinese mainstream observers see globalization and multipolarization reinforcing each other to create common interests that can replace the China threat theory with the China opportunity theory. Such a world is most conducive to China's quest for economic prosperity and great-power status (Deng and Moore, 2004:127).

Thus, the Chinese national interests (both economic and security) urgently needed cooperation with other states, and the best way to achieve that was the promotion of a multi-polar management of the system. In addition, the Chinese leadership also promoted the multi-polarity in terms of regaining its status within great-power politics rather than directly challenging the US power. Considering both new economic and security challenges coming with globalization, the process of embracing globalization was pursued as a political one, and accordingly, the Chinese foreign policy strategy was altered to become more accommodative in order to sustain the stable and peaceful international environment needed for Chinese national interests during the 1990s.



In addition, the decline in ideological foundations of the communist regime due to the changes experienced in internal and external dynamics made nationalism and expression of Chinese exceptionalism an essential part of preservation of political security on the behalf of the CCP. Its definition of the international system of the post-Cold War era in the NSC and its definition of multi-polarity all signified its adherence to demonstrate a Chinese identity. The promotion of the distinctiveness of China or “Chinese exceptionalism” was seen as an essential component of its sovereignty and national strength; the distinct Chinese identity also promoted the regime legitimacy of the “socialism with Chinese characteristics”(Bhalla, 2005:217).

In the early 21<sup>st</sup> century, the Chinese leadership experienced a dilemma: the rising economic power gave the Chinese more confidence in dealing with the external forces. However, the sense of insecurity and powerlessness prevented them from becoming more assertive on world affairs (Wang, 2005:686). Nevertheless, China recognized that it still lacked the power to reach that outcome fully, especially when considering its limited influence beyond the region. Indeed, the Chinese response to world affairs was basically based on principles rather than actions (Xinbo, 2001:58-59). The rising power of China and nationalism demonstrated this contradiction in the sense that the desire to shape the international environment in the direction of its needs and interests rose among the leadership and the people. This passive attitude towards world affairs was highly criticized by the elites calling for a more active foreign policy towards regaining the power and prestige of “Greater China” in its periphery and globally as a great power (Wang, 2001:688).

Both the rise of China throughout the 1990s and the changes in the international system by the early 2000s led to a mentality shift among the Chinese leadership. How?

Since the early 21<sup>st</sup> century, the international environment began a shift as a result of 9/11. One US response to the terrorist attacks was to develop an international coalition against global terrorism. Under the US campaign to fight against terrorism, China initially supported US initiatives to combat terrorist activities. However, the Chinese concerns over the American expansionism under the name of this terrorist fight surfaced, especially after the American military operations in Afghanistan and subsequent decisions to expand the number of US military bases on Asia particularly in Pakistan and the Central Asian states along with the eastward

expansion of NATO. These concerns mainly highlighted the possible containment of China by the US considering that its presence would not be a temporary one (Godwin, 2004:88). The Chinese leadership was suspicious of US unilateral tendencies that posed a great challenge to international order in terms of their impact on the stability of the Middle East and Central Asia as well as on energy routes. Therefore, it became a great challenge to the Chinese desire for benign external environment it needed for economic growth and domestic stability and for the multi-polar world order. It was perceived that China urgently needed to shape its international environment against the unilateralist policies of the US worldwide to maintain its national interests that included its energy needs, securing its borders, and unity at home.

However, China found a more benign external environment following 9/11 that surfaced since discovering that the US needed the cooperation of China on its war against terrorism. Moreover, the US unilateral intervention of Iraq in 2003 demonstrated the decay of the legitimacy of US-induced uni-polar world order in the sense that major powers in the UN Security Council (such as France and Russia) did not approve the US intervention of Iraq. In order to maintain continuous economic prosperity, to sustain domestic stability at home, and to promote its international status and prestige, China needed to seize the opportunities of the period. Therefore, the Chinese leadership realized the opportunity to take a more active part in world affairs (Liu, 2003:107). In this context, the Chinese leadership accepted that rather than biding its time, “it was time for China to adopt a great power mentality, but without frightening anyone else” (Delage, 2008). As Medeiros and Fravel state, the “long-held victim mentality” was replaced by a “great-power mentality” amongst the Chinese leadership (Medeiros and Fravel, 2003:5) in the sense that China no longer viewed itself as a victim of the international order but as a strong and confident power (Bhattacharya, 2005:59).

The mentality shift was also reflected in the policy choice, as China’s Rise became the new national objective for the CCP. However, the Chinese leadership was also aware of the fact that China’s Rise was dependent on two interrelated conditions: economic growth and domestic stability. Domestic stability allowed the emergence of the conditions for economic growth; in turn, economic growth

provided stability at home through strengthening the legitimacy and ensuring the survival of the Chinese party-state.

The realization of both conditions was pursued in a peaceful way. So, while China's Rise was the new national objective of the Chinese leadership, the strategy was presented by the discourse of Peaceful Rise. This discourse was twofold: on one hand, the Peaceful Rise targeted domestic concerns. The Chinese leadership realized that the economic reform drive resulted in socio-economic changes in China that became challenges to the regime. Thus, China also needed a peaceful domestic transition. In this sense, the Chinese leadership formulated the concept, Peaceful Rise, to indicate to the people that China's rise depended on a peaceful economic and political transition. In other words, the leadership meant that if China collapsed due to the political instability or economic decay, then China's Rise would be nothing but a dream (Zheng and Tok, 2008:182). However, there was also the possibility that rising nationalist sentiments in the country would lead to a social unrest on the sensitive issues of Hong Kong and Taiwan that became a threat to the national unity, political stability, and economic performance of China. The peaceful rise was also used to combat the extremist nationalist fervor among the population.

On the other hand, the Peaceful Rise targeted external concerns. While the Chinese nationalist interests during this time required a stable and peaceful international environment, there was also the necessity of revamping the international environment for the Chinese priorities. For that reason, China wanted to enhance its international prestige as a responsible power. The reason for this enhancement was very much related to the regional and global concerns on the possible impact of China's rise in the regional and international system as mentioned in previously. Those concerns were seen as having the potential to damage the Chinese economic interests in the region as well as its political stability at home. Therefore, the peaceful rise was tailored to external audiences to counter the negative image of China and its rising.

Both internal and external challenges to Rising China were seen as a threat to the survival of the CCP since the CCP associated the political interests of survival and legitimacy with Rising China (Wang, 2005:677). In order to combat these challenges, Peaceful Rise was used as a means of showing both domestic and external audiences that while China fully embraced globalization and the

interdependent international system (not be a revisionist power), it would continue to develop its own socialism with Chinese characteristics independently and freely (positive nationalism) (Zheng and Tok, 2008:179). In this context, Peaceful Rise became the rhetoric for the new strategic “catch up” thought that would lead to China’s Rise by the early 21<sup>st</sup> century.

### **6.3. Discourse and Policy**

How has the fourth generation of Chinese leadership turned the discourse of Peaceful Rise of China into reality? What were the policy components in the new strategy of China’s Rise?

#### **6.3.1. Harmonious Society: New Authoritarian Populism?**

Towards the mid-21<sup>st</sup> century, some members of the Chinese political elite began to criticize the outcomes of reform policies that had been implemented that included the reform of SOEs and the decline of the social system for the accession of China to the WTO and began to judge the legitimacy of the communist rule. The debate amongst the Chinese political elite was the contradiction of efficiency and equality (Guo, 2006:25).

The efficiency-centered policies of the previous leaders caused unintended socio-economic outcomes and a high level of inequality amongst the people. These social outcomes were viewed as a challenge to the legitimacy of the communist rule since the Party lost its other source of utilitarian justification of being fair or equal to all (Guo, 2006:33). In this sense, as Guo asserts, a new consensus emerged within the Chinese leadership that the “reform has reached a critical point at which some breakthroughs and policy adjustments must be made” (Guo, 2006:37). Thus, the fourth generation leadership proposed its new development model for building a *harmonious society* based on continued economic growth as well as the even distribution of it (Guo, 2006:37). The new emphasis on socio-economic equality among the people was the result of the need of the CCP to regain the support of the people who became disadvantaged throughout the reform process. In this sense, there were three critical issues on the agenda of the new CCP leadership: a new course for

economic development, an amendment of the Party constitution and an adaptation of the theory of Three Representatives, and political reform and the rule of law in order to build a harmonious society in China.

The new agenda for development emphasizing economic modernization and sustainable development was formulated in the 16<sup>th</sup> National Congress (Liu, 2003:103). The new leadership focused on the sustainable development of the economic reform and considered the problems that emerged during the previous periods of huge but uneven economic growth in China. Because of this, the Chinese leadership proposed a solution to perfect the economic conditions of the disadvantaged groups of market reform and to change the unfair distribution of economic growth. The three main areas discussed were: the protection of disadvantages groups, the new rural construction movement, and the reform of income distribution (Guo, 2006:38).

The 16<sup>th</sup> National Congress was also significant regarding the amendments made in the constitution as the *Theory of Three Represents* was written under the rule of Jiang Zemin and adapted to the Party constitution (Liu, 2003:103). Three Representatives can be reinterpreted under the formation of a harmonious socialist society in the sense that the Chinese leadership has tried to accommodate the place of the people coming from the different social strata (Schubert, 2008:196). Therefore, the CCP managed the decay of its original justification of being for the people through extending the social basis of the party and demonstrating that the CCP has been a ruling party of the Chinese people rather than a revolutionary one (Guo, 2003:16; Schubert, 2008:194-5).

Working against the fragmented administrative structure of China that has enhanced the local-center contradictions and local-local rivalry, the CCP tried to get back its power and control over the localities through further institutionalization of the Chinese administrative system (Cheek, 2006:108). Moreover, the widespread corruption in the Chinese local and central administration respectively threatened the legitimacy of the Party. Therefore, the leadership conducted political reform under the principle of rule of law to lessen the abuse of power, to demolish the vested interests inherited within the Chinese political system, and to consolidate its position as the ruling party (Liu, 2003:103).

As Cheek expresses, the policy of harmonious society tried to reunite the diversity among China through shifting its attention from a growth-only oriented approach to equity-oriented ones (Cheek, 2006:108). Behind the new approach, there was the coalition of the two factions within the CCP political elite: the Shanghai faction (led by the Third generation of leadership and Jiang Zemin) and the Beijing Faction. The Shanghai faction supported the growth-oriented policies and reform for preserving the interests of the CCP elites who have gained from the market-oriented reform and the opening of China to outsiders. However, the Beijing faction was aware that the negative socio-economic outcomes of the reform drive might lead to social unrest in China and thus, challenge the CCP legitimacy. The factionalism in the CCP leadership has created a kind of check-and-balance system in the Chinese politics that could moderate the conflicting demands for equity and growth (Cheek, 2006:109-110).

For many, all these attempts indicated an authoritarian populism within the CCP leadership to consolidate its power and legitimacy. By emphasizing the “quality of government for the people”, as Guo states, the Party expressed its wish to strengthen and improve the capacity of the party’s governance instead of weakening it since the phrase indicated the “need for a government for the people instead of by the people”(Guo, 2006:38; Schubert; 2008:192).

The populist authoritarianism of the Chinese leadership also included nationalist rhetoric in order to attract the people. The nationalism of China Rising has been increasingly used by the leadership to hold the people together and lessen the challenges to the regime coming from the different segments of the society, and it has succeeded until now. As Cheek states, “it has something for everyone” (Cheek, 2006:108). Cheek adds that the new leadership won over hearts and minds of people through its new style and thought that combined social democracy and nationalism under an authoritarian rule (Cheek, 2006:114).

### **6.3.2. China Rising as a Soft Power?**

The fourth leadership has also pursued the economic development and political stability as basic motives behind the Chinese international behavior since the early 21<sup>st</sup> century through demonstrating its slogan of *wholeheartedly seeking development*

*and single-mindedly working on reconstruction* (Zhao, 2008). This new strategic thinking led China to use development and China's Rise as legitimate motivations behind its active foreign policy for the promotion of its interests worldwide. In this regard, the Peaceful Rise discourse shielded the demands of its rising as a world power considering the reshaping of the international economic system and supplying the raw materials needed for its development (Bhattacharya, 2005:63) without triggering international concerns and directly challenging the US. Within this context, in addition to the participation of regional economic and security issues (periphery diplomacy) and the development of its relations with the great powers (great power diplomacy), China became a visible power in Africa and Latin America in recent years. The basic guidelines of Chinese foreign policy were defined by the Chinese leadership as "big powers were the key, periphery countries were the priority, and developing countries were the foundation"(Zhao, 2008).

China continued to build up its network of strategic partnerships with various major and regional powers in order to manage its US relations while promoting the existence of a multi-polar world (Zhao, 2008). The fourth leadership also continued the good neighbor diplomacy. The Chinese central position in the regional economy and the relative decline of the influence and attention of the US in the region due to the Iraq war gave China space to increase its economic interactions with regional states, allowing it to reposition itself as the main regional power with a positive image. In this regard, the leadership has used various means of diplomacy: arrangements of leadership meetings or political and economic forums, establishment of new regional multilateral platforms, and agreements with regional states (Zhao, 2008). To demonstrate this, China's leaders designed the Boao Forum for Asia (BFA) in 2001 and have continuously participated in the East Asian Summit since 2005. China's leadership has also been active in the formation of the East Asian Community (EAC) which proposes a trade bloc to include the countries from East and South Asia only (Pak, 2007:57).

Amongst them, resource diplomacy within the Third World was critical. Due to the start of the Iraq War in 2003, the Chinese leadership has begun to increase its influence in Africa and also in Latin America through active diplomacy towards the energy-rich countries in both regions. The strategic relationship between China and Africa has been further developed under the Forum of China-Africa Cooperation

(FOCAC) founded in 2000. China has provided social aid packages, helped the reconstruction of agriculture and infrastructure, and created economic agreements with various African countries such as Sudan, Algeria, Libya, Nigeria, Angola and some Sub-Saharan states. Additionally, the Chinese authorities issued China's African Policy Paper in 2006.

China has also turned to Latin America and has become an important strategic partner of many regional states (Zhao, 2008). In 2004, President Hu Jintao signed a commitment to flow \$100 billion of direct investment to resource-rich Latin American countries such as Bolivia, Cuba, Venezuela, and Ecuador (Liang, 2007:139). Furthermore, the strategic economic cooperation of China with the region has further developed with the signing of the Free Trade Agreement with Chile and the Strategic Economic Cooperation Agreement with Brazil in 2005 (Horta, 2007). Among the Latin American countries, Venezuela has the most favored status for China. Apart from the natural resources, the opposition of the Venezuelan ruling party to the US global leadership has been one of the reasons for Chinese-Venezuelan rapprochement. China and Venezuela partnered an energy cooperation platform, and the amount of trade between parties reached \$4.34 million in 2006 (People's Daily, 2007).

China's Third World Diplomacy began to take more attention of international, especially the Western community, daily due to the growing popularity of China around the world. Two basic concerns have surfaced from this. One emphasized that the Chinese soft power targeted states that had negative feelings towards the West/the US and argued the soft power projected by Chinese leadership to these states as an alternative to Western model and its "superiority".

The other was that China's Third World policy was based on the utilitarian interests of China in that China was in need of natural resources and raw materials abundant in these countries (mainly Africa) in order to sustain its Rise. However, as Meidan states, these new-mercantilist interests of China have been criticized by the international community, and they have been blamed as being a "free-rider" in the international system. In other words, while China has become a responsible stakeholder in the international system, it was perceived that China has not contributed to the community's well being (Meidan, 2006:76). As Zhao expresses more clearly, "China's rise has brought with it the expectation of responsible



behavior on a broad range of international issues, including on controversial issues involving third- world countries with which it has dealings”(Zhao, 2008).

As a response to international concerns, China began to involve global issues. In this regard, a meeting on building the dialogue for the peaceful resolution of nuclear programs in North Korea and the Korean Peninsula was made in 2003 under the leadership of China (Liu, 2003:108). Additionally, China has played an active role in the Six-Party Talks<sup>84</sup> on the Korean Peninsula. Furthermore, China also voted to impose and tighten sanctions on Iran in the UN Security Council. Against the Darfur Civil War, China supported the deployment of an UN-African Union force in 2007 (Zhao, 2008). Moreover, in a Euro-Asia trip, Hu attended an informal meeting of G8 countries to promote a North-South dialogue. It was the first time Chinese leaders participated in such an international platform with G7 countries’ leaders (Liu, 2003:111).

While China’s post-Cold War domestic and foreign pattern proved its status of an emerging power in the international system against the China collapse debate, the leadership redefined the position that China will be placed in the 21<sup>st</sup> century against Rising China concerns. Therefore, in line with this paradigm shift, Peaceful Rise also refers to a foreign policy approach aimed at shaping the external environment conducive to the CCP’s political interests, economic prosperity, international influence, and political preservation while also using its own doctrine in order to prevent international concerns coming from Rising China that may negatively influence its basic domestic and external concerns.

In this sense, the Chinese leadership realized the usefulness of being a soft power in the international system in order to reshape its external environment and to pursue its catching up drive without taking the attention off the international community to Rising China. Indeed, the soft power of China that was built through the Chinese diplomacy based on the NSC and the Chinese way of development expressed the Chinese exceptionalism to satisfy the nationalist demands in the mainland for the greater China. Therefore, the new leadership began to use this soft power in its foreign relations as China “tries to rediscover and redefine its power and to identify means to enhance its attractiveness and influence” as Yongjin assert

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<sup>84</sup> Six-Part Talks was designed as a series of meetings with participating countries (Russia, China, North Korea, South Korea, the US, Japan) due to the withdrawal of the North Korea from the Nuclear Non-Proliferation Treaty in 2003.

(Yongjin, 2008:154). The growing economy and huge domestic market, the attractiveness of China's developmental model, its own style of diplomacy based on multilateralism, the NSC, and the image of responsible international power have become the new sources of the Chinese soft power.

Through the means of new resources (Chinese investment, foreign aid, technical support, access to the Chinese market) and the model of development, China proposed the opportunity of development to the Third World. Indeed, some African leaders who were uneasy with the developmental models imposed on them by the World Bank have accepted the Chinese style of development as a role model (Liang, 2007:141). Through the discourse of Peaceful Rise, China has enhanced its soft power and has responded to international criticisms of its free-rider status in the international system; however, it understands the resources needed for its rise. The slogan for the 2008 Beijing Olympics Game also demonstrated Chinese concerns of being accepted as a responsible big power at global level; "One World, One Dream" – whose rules will lead the world is open to question.

## CHAPTER 7

### CONCLUSION

Until the second half of the 19th century, China had a central position within a regional order known as the Sino-centric tributary system. However, the China-centered system was not part of both the international system and world economy. The tradition of Sino-centrism was a reflection of the reality of the Chinese thinking that China was at the top of the international system, its neighbors were peripheries of China placed in the middle, and the West, or barbarians, were at the bottom. However, the Opium War altered all these dynamics while leading to the collapse of the Sino-centric tributary system. China, for the first time in history, was faced with the reality of world order and realized how backwards it was compared to the core states of the international order. The collapse of China's perception of the China-centered world order and the signing of the Unequal Treaties after Western invasions became known as the "century of humiliation". Only after the provision of national unification with the Communist Victory, "*catching up with core/West*" became the ultimate national objective for China.

While the ultimate objective has remained the same, the strategy of *catching up* has altered to keep pace with the impact of both domestic and external conditions within the international order. This study assumes that the Chinese party-state has a central place on the management of the Chinese history-long objective of catching up. The state has been an active agent and ultimate decision-maker in the formation of the Chinese development strategy and extended foreign policy. However, the state is not a monolithic entity (though it is an authoritarian one) and includes different interests and power groups within its structure. Moreover, the differences have increased especially after the reform decision, and the decision-making process has become more complicated and vulnerable to the interaction of many dynamics both internally and externally. In other words, while the Chinese party-state has been the ultimate power promoting and managing *catching up*, the strategy, decided by the Chinese state, has been continuously influenced and reshaped by both domestic and external dynamics (not all under the control of the state).

While Soviet-style socialism and its extended lean to a one-sided foreign policy were pursued until the 1950s, the changing dynamics of the mid-1950s reshaped the catching up strategy of the 1960s. In this context, the strategy of self-reliance and extended foreign policy of non-alignment was created. This was a new phase in the Chinese perception of the international system since China recognized the unified world system but chose to remain outside the system for a long time. At the end of 1970s, the Chinese leadership declared their new strategy of catching up based on the re-integration of China into the world order under *the Four Modernizations* and its diplomacy of *Independence and Peace*.

The reform decision of 1978 indicated continuity of China's long history of catching up but also demonstrated a change from the Maoist period. As a late-comer, China began to reintegrate into the world economy with the decision that altered all the dynamics of Chinese domestic and foreign policy-making since 1980s. The legacies of the Maoist period and vested interests inherited in pre-reform China led to the formation of a gradual, incremental approach different from the shock therapy approaches of the ex-Soviet states. With a modernization program in place domestically, Chinese foreign policy was also reviewed and pursued on an independent foreign policy approach from the influence of both superpowers throughout the 1980s. However, the strategy of reform and opening created its own dynamics inside China, challenging reform; this was ultimately reflected in the Tiananmen Uprising of 1989. Meanwhile, the reform of the Soviet Union also impacted on the domestic dynamics.

Tiananmen and the collapse of the Soviet Union not only changed the dynamics inside and outside China but also the perception of Chinese leadership on China and its place within the international system. After the Tiananmen Uprising, the conservatives of the Chinese political elite raised their voices and criticisms against reform. In addition to the rise of conservatism at home, China also isolated itself from the international system due to the sanctions imposed by the Western states on China for declaring their objection to the communist regime and its authoritarian repression of the masses. Furthermore, the international community began to raise their concern of the possibility of the collapse of China like the Soviet Union. Thus, regime insecurity became the main concern amongst the Chinese leadership.

A mentality shift emerged amongst the Chinese reformist leadership in the early 1990s. The leadership realized that legitimizing the current regime in China required consideration of both domestic challenges for reform and more importantly, external constraints (the international system and US hegemony) that became threats to the political stability and regime preservation at home. The initial responses of the Chinese leadership to the challenges were the rehabilitation of reform and the augmentation of national power. However, responses to these initiatives were fear amongst the international community, and the China threat discourse emerged due to the regional and international concern of China's successful performance throughout the period of collapse of communism worldwide. These concerns mainly originated from the mainstream concerns of legitimization by the current *liberal* international system based on US superiority and criticisms of the Chinese regime.

Taking into account the possibility of the emergence of a united front against China and of the external constraints on its economic development and political stability, the Chinese leadership formulated its new strategy of catching up as it considered the new realities of the international system (this shift in the mid-1990s is sometimes called the "grand strategy"). In this context, the promotion of the reform drive as the new socialist market economy and the promotion of multi-polarity under the formulation of the New Security Concept were the two extensions of its new strategy aimed at sustaining China's economic growth and repositioning China as an active player in shaping the new international system.

While the Chinese leadership declared their determination for reform by creating the socialist market economy, the inhered contradiction within the Chinese administrative system (the factionalism among the Chinese political elite, the tensions between bureaucracy and the CCP, the tensions within the bureaucracy, and local-central tensions), the structural changes in regional and global economy throughout the 1990s (especially with the Asian economic crisis of 1997) and the political requirements of the regime made WTO membership urgent for the leadership to realize as reform objective. Thus, WTO membership was not only an attempt to join the global free trade club, but a significant component of the Chinese reform process. Meanwhile the WTO accession process also led to the emergence of new social dynamics within China, whether promoted by the Chinese Party-State as the means for the legitimization of China's transformation from a revolutionary to a

authoritarian rule or not. The promotion and legitimization of new Middle Class and the re-birth of the official Nationalism alternative to socialist ideology were witnessed since the mid 1990s.

The foreign policy extension of the new catching up strategy was shaped in accordance with the requirements of domestic conditions and the realities of the new international system. The New Security Concept of the mid-1990s highlighted major changes in the new Chinese thinking and put forth new principles in Chinese foreign policy such as common security, cooperative security, comprehensive security, and economic security. The essence of the concept was the promotion of multi-polarity in the new international system. In this regard, the Chinese active diplomacy throughout the 1990s used two means for the realization of the Chinese priorities outside: re-positioning of China as one pole (Great-Power Diplomacy, Third World policy) and embracing multilateralism (Good Neighbor Diplomacy). The NSC represented an alternative to the Cold War thought and rejected the full acceptance of the system as granted. Thus, China developed its own way of diplomacy and its own multilateral approach to the requirements of Chinese national interests.

The successful reform drive with the WTO accession, the re-emergence of a central position in the regional production-trade system as the new engine of growth (due to the shifts in regional economy by the Asian Crisis of 1997), the maintenance of domestic stability (by means of official nationalism), the promotion of China-centered multilateral platforms in the Chinese neighborhood, the increasing involvement of China in the Third World, and the ability to manage stable relations with major powers all had significance in international dynamics. The international concerns of Rising China and its prospective impact on the world order was a sign of China's impact in the world order.

By the early 21<sup>st</sup> century, the Rising China discourse began to be used by the international community. Rising China was the origin of the China threat debate dating back to the early 1990s mainstream thinking. However, there are also those who saw Rising China as an opportunity. The difference lies in the varying impacts of Rising China on existing structural and relational power relations within the international system. In this sense, the answers of to whom, to what affect, and how China matters is necessary. Indeed, Rising China used by the Chinese leadership is also seen as an opportunity by the leadership and its political interests for the

promotion of economic growth, the maintenance of political stability, and the legitimization of communist rule within the transformation of society against the challenges to the regime survival. These include the rising gap between regions, inequality among the people, and official corruption amongst others. Thus, the discourse became the propaganda tool of the Chinese leadership to reunite the people along a shared national objective, Rising China.

However, by the mid 21<sup>st</sup> century, a new concept appeared on the scene, the Peaceful Rise (though its name changed into the more modest Peaceful Development, scholars and Chinese officials prefer using Peaceful Rise). The concept indicated a mentality shift among the Chinese leadership in that rising China now had the power to shape the international system. This new thinking was also the outcome of the changes within the power configuration of the international order after 9/11 (the decay of the US soft power as a global hegemony and the diffusion of powers in international system). Thus, China replaced its victim-mentality with a great-power mentality, and China's Rise as a great power became the new objective of Chinese leaders.

But Chinese leaders have also been aware of the fact that China's Rise depends on two interrelated conditions: economic growth and domestic stability. On one hand, China needs peaceful economic and political transition at home. To this point, the new Chinese leadership formed the policy of a harmonious society aimed at readjusting the unintended outcomes of previous reform policies and sustaining the legitimacy of the communist rule peacefully. On the other hand, China needed a peaceful and benign external environment for China's Rise. Thus, China increasingly built up its image as a responsible power through increasingly involving global issues and using its soft power in the re-shaping of the international order in relation to its interests as seen from its new diplomacy towards the Third World.

Turning to the questions of the thesis: how can one define Peaceful Rise; in theory, what does the Peaceful Rise mean; in rhetoric, for whom the Peaceful Rise was designed for; and in policy, how the Peaceful Rise was implemented?

China's Rise has become the new strategy of the Chinese history-long catching up objective towards the 21<sup>st</sup> century. The ultimate aim of catching up has not been to change per se; rather, the strategy has been re-formulated due to the outcomes and dynamics of previous reform policies and external conditions. Nevertheless, the new

strategy has been under the influence of both external and domestic constraints and dynamics more than previous ones as a consequence of China's two decade-long re-integrations into the outside world. This caused the creation of the Peaceful Rise concept as the discourse of the new policy to both domestic and external audiences. Building up a *Harmonious Society* and being a *Soft Power* in international order were designed as the policy components of the new strategy.

As previous leaders constructed their strategy of catching up by theories or discourses such as the Theory of Three World and the Four Modernizations, the new leadership also used the discourse of the *Peaceful Rise* as a means to legitimize its new strategy and policy components. However, this was different from previous ones in that China now perceived itself as powerful and strong enough to be a great power. Therefore, *China's Rise as a great power will be a Peaceful one* is the message of the Chinese leadership to both domestic and external audiences.

The Peaceful Rise of China was influenced by both internal and external dynamics. Indeed, the new catching up strategy of the Chinese would be re-shaped under the effects of their reflections in the international system and on China's place within the system during the process. There are three global trends<sup>85</sup> that could be perceived as the basic determinants of the process: emerging of a multi-polar global order, removing of wealth from West to East, and regaining the state's role in an economy – all main trends where China has been a contributor.

*Emerging of a multi-polar global order:* The Chinese objective of multi-polar international system is not a long distance away. Apart from China's performance, the world system is also working hard to prepare such an outcome. There are three developments that might be seen as signs of the decay of a US-led uni-polar world order and the emergence of a global multi-polar system. One is the global economic crisis that originated from the US mortgage crisis and caused the questioning of the US-led neo-liberal economic system. Another is the US failure in its "War on Terrorism" in Afghanistan and Iraq respectively that also led to the decline of US hegemonic power in the international system. The final development is the growing economic and geopolitical clout of BRIC (Brazil- Russia- India-China) powers that indicates the disbursement of powers in the international system. The recent

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<sup>85</sup> The topics of the global trends are inspired from the *NIC Report of Global Trends 2023: A Transformed World* however; explanations the trends are the comments of the author.



development of the Russian invasion of Georgia in September 2008 declared the start of a multi-polar international system by some scholars.

*Removing of wealth from West to East:* The economic performances of Eastern countries, particularly India, China and energy-rich countries especially Russia and Iran, signal the transfer of wealth from West to East. The transfer of wealth brings out the redistribution of political power to the Eastern countries at both regional and global levels. The future of the economic integration of the European Union that has been challenged with the global financial crisis recently also increases the prospective decline of the political influence of the EU on global issues and the subsequent rise of new global Eastern powers.

*Regaining state's role in economy:* The role of the state on the economy began to be questioned by the international community due to the global financial crisis. In this regard, state capitalism as the Russian and Chinese development model (China's is the variation of state capitalism and may be called as party-state capitalism) may become more attractive due to their triggering economic performances and the failure of the neo-liberal economic system in the world economy with the global financial crisis.

As seen from the global trends, the international system has experienced a transition period by the end of the 2000s, and China has emerged as one of the crucial players shaping the new system and has been given more latitude to rewrite new rules for the game with other players. While actors and changing dynamics in the international system (such as global warming and proliferation) and the world economy (the aging population and the recession of developed economies) would be influential on the process and affect the perception of the Chinese leadership, basic motives behind the Chinese prospective path remain that guarantee its Peaceful Rise: preservation of its "socialist" political system, promotion of Chinese exceptionalism, adherence to being a soft power through various Chinese means of diplomacy, realization of political stability at home, and most importantly, preservation of its ability to turn the challenges into opportunity in both internal and global realms.

Whether emerging as the next super-power or not, China has become one of the major actors determining the dynamics of the world economy and the international system. Therefore, the Peaceful Rise indicates the return of the dragon

to the international scene after almost six centuries of struggling to catch up; China and its projects are now on a sustainable rise.

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