

The role of China as a world power: What does China want?

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China wants to regain her rightful position in the world and to receive due respect from other countries. Moreover, China is striving to become a moderately well-off society where material benefits are more equally distributed. One condition for reaching these two goals is continued economic growth. Another condition is that the Communist Party of China retains its monopoly on power.

For today's Chinese leaders, stability outweighs everything else. China's philosophy of foreign policy has consisted of keeping a low profile, not assuming international leadership, not challenging the USA, making good use of her time, and concealing her skills and her growing strength. As part of her economic strategy China opened up to cooperation with other countries both through trade and through allowing investment by foreign companies in the Middle Kingdom. Thus, in general, China emerged as a status quo power, a country that was pleased with the established world order and that used it to the full for her own benefit.

However, has China become more arrogant after the international financial crisis that started in the USA in September 2008? The Chinese model, based on a strong central government and state ownership in large enterprises, proved

superior to the American model in handling the crisis. Increased self-confidence may make it tempting to show more muscle.

In his State of the Union Address to the American Congress in January 1998, a self-confident and energetic President Bill Clinton declared: "The state of the Union is strong". When the Soviet Union fell apart in 1991, the Cold War had been won. It was widely believed that, as time went by, many new countries would choose the model of the Western world, based on market economy principles and a liberal democracy. Professor Francis Fukuyama made this point in his book entitled *The End of History* published in the mid-1990s.

"The course of this nation does not depend on decisions taken by others," declared President George W. Bush in 2002. This is not the case anymore—if it ever was. China is emerging as the major potential challenger to the USA. What does China want? This has become an urgent and significant question, although, in fact, somewhat meaningless. Countries have no will of their own: their leaders have. What do today's leaders in China want? And what will be the agenda of future Chinese leaders?

Stability

In 2005 the Chinese Prime Minister Wen Jiabao said: "We have to work fifty years to reach the level of a moderately developed country" (Lampton 2008, p. 220). "A moderately developed country"? Has China not already reached that stage? China seems to be all over the place, with her PCs and mobile phones, with her money and investments and, little by little, with her culture. In the same way as the Goethe-Institut of Germany and the Alliance Française of France, Confucius Institutes have been set up in a growing number of countries, with the purpose of providing knowledge about China abroad and making the Middle Kingdom more popular.

"The People's Republic of China," says Professor David M. Lampton of Johns Hopkins School of Advanced International Studies, "is most accurately understood as a developing country. While it possesses large pools of excellence, it has far larger oceans of domestic poverty and weakness that will preoccupy its leaders for a considerable period." (Lampton 2008, p. 254).

The development of a moderately prosperous society is not a new goal for China. It was at the top of the agenda when Deng Xiaoping assumed his role as China's leader in 1978. Deng, who had been placed on the sidelines several

times during Mao's rule but who always came back, had rare leadership abilities. He redefined the goal for China: from class struggle to economic growth. This growth would take place by integrating China into the global economy. "Reform and open up" was his slogan. It still applies. But who would do the job of reforming the economy and opening it up to the outside world? A technocratic elite had to be educated and trained and appropriate institutions developed. In addition, people had to be motivated.

Not only did Deng know where he was headed; he also had ideas as to how to get there. His approach was pragmatic, and characterised by trial and error. Also, Deng realised the importance of creating few losers. For that reason he did not reduce the state-owned enterprises or the planned economy. Instead, Deng built up a new economy alongside the old one. In this new economy, which began with the establishment of four SEZs (Special Economic Zones), there was room for foreign capital and private ownership. Supply and demand determined the price of almost everything, including labour. The combination of modern, foreign technology, low wages, minimal taxes, and modest public charges was very successful.

The success of the SEZs was followed up in 1984 by granting enterprises in fourteen cities along the coast, among them Shanghai, more independence and greater opportunities for doing business with enterprises in other countries. Deng often referred to an old saying from Sichuan, his own province: "It does not matter whether the cat is black or white as long as it catches mice". In other words, the result is what matters. Deng realised that as the market economy took hold, some people would get rich while others remained poor. Thus, increased inequality was foreseen from the very beginning.

A pragmatic approach characterised by trial and error implied that ideological barriers had to be broken down. "Seeking truth from facts," said Deng. Pure theory, with endless discussions about the right doctrine, as was the habit of Mao, would never make China a powerful and strong country.

The first major breakthrough in the Chinese economy took place in the countryside. In a small village in the poor Anhui Province a few farmers decided to divide the agricultural land between them instead of cultivating it jointly. Each farmer became his own master. Thus, the incentives were put in place. The result was solid growth in production. The cat was catching mice. This totally unlawful experiment in Anhui was a success. After some hesitation, Deng concurred. In a matter of a few years the whole agricultural sector in China was transformed into the 'household responsibility system'. China gained food self-sufficiency. Labourers working the land could move to the cities to work in the manufacturing and service sectors.

As the privatised part of the economy continued to grow briskly, the state-run part became less important. China was growing out of the plan.

Stability, however, was of paramount importance. Without internal stability, foreigners, the Chinese leaders feared, would tear China to pieces or come to dominate it. Chinese history contained many examples of this. An old Chinese saying goes "Nei luan, wai huan", which, freely translated, means: "When there is turmoil within, the barbarians from without inflict disasters." (Lampton 2008, p. 208). An alternative translation goes like this: "If you can rule your own country, who dares to insult you?" (Lampton 2008, p. 208).

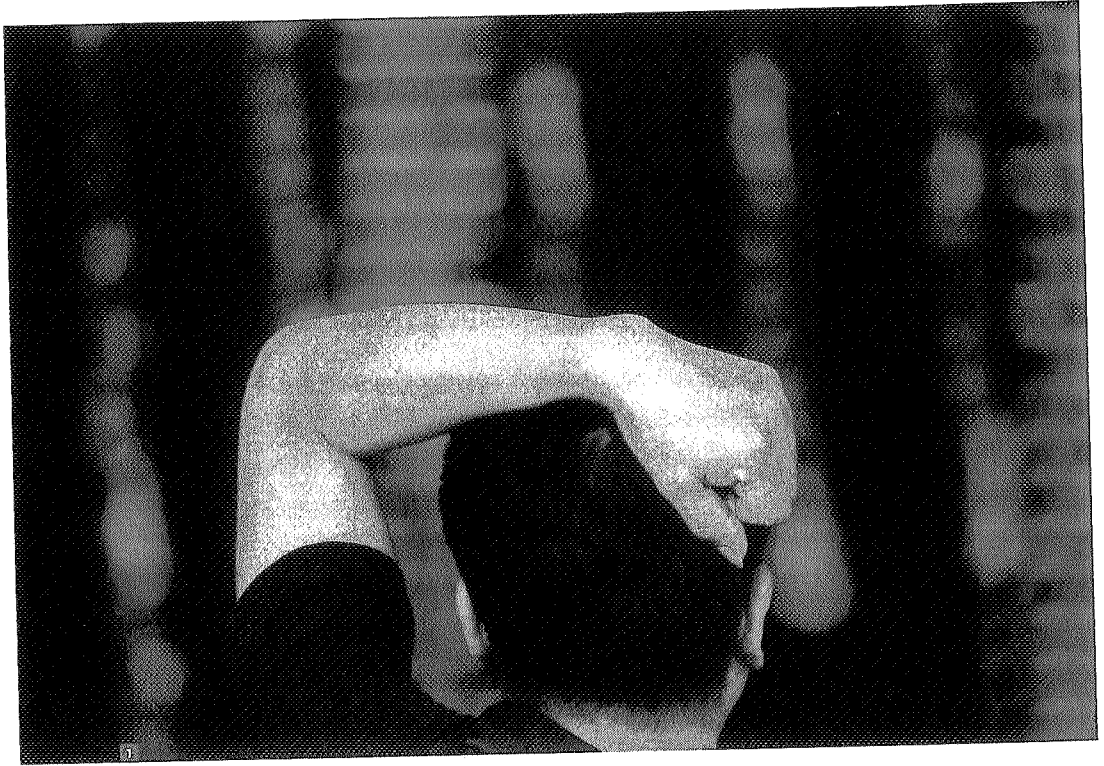
In the spring of 1989 China experienced a situation of domestic unrest in which the authorities were in danger of losing control. Student demonstrations calling for greater democracy started in Beijing and quickly spread to other major cities. Ordinary workers, who were more concerned with widespread corruption and increasing economic inequality, joined forces with the students. On top of this there was growing inflation as the purchasing power of money declined quite rapidly.

At the peak of this period of unrest, about one million people participated in demonstrations on Tiananmen Square. Deng and his closest advisors believed that the danger of civil war or a return to some form of anarchistic situation reminiscent of the Cultural Revolution could not be ruled out. Could Deng take this risk? No. He refused to compromise and ordered tanks to roll into Tiananmen Square, where some students had been on hunger strike for three weeks, and cruelly and brutally suppressed a growing revolt. Deng was subsequently strongly condemned for this, more so in the West than in China.

A third-class garment-making department

The functioning of the Chinese economy in the period following the ten years of the Cultural Revolution (1966–1976) is difficult to understand, even for Chinese who lived through it.

In his book *Breaking Through: The Birth of China's Opening-Up Policy* (2009, pp. 19–21), former Deputy Prime Minister Li Lanqing describes the problems he experienced when he wanted to have a new short-sleeved shirt made in the spring of 1978. After having bought the material, found a tailor—which took its time—and being measured, Li, who at the time worked in a car factory, asked when the finished shirt could be picked up. "In November," the tailor answered. "But that is much too late. It is now, for the summer, I need a short-sleeved shirt and not



in six months," Li replied. "Why don't you hire more people if you are so busy?" he asked. "Hire more people?" the tailor retorted, "Who do you think you are? The head of the labour power office?" At that time Chinese enterprises were not allowed to hire people without a licence from the authorities. What potential for economic growth and prosperity did that provide?

Li did not give up. In Wangfujing, the busiest shopping street in Beijing, he found a shop with a somewhat peculiar name: Third-Class Garment-Making Department. "What does that mean?" Li wondered. "The name reflects the very poor skills of those who work here," the shop assistant answered, adding that the shop never paid compensation to dissatisfied customers. Nevertheless, Li took the chance. He had his measurements taken and handed over the material.

When he returned at the agreed time to pick up the shirt, it was not finished. A new date was agreed on, but the shirt was not ready then, either. Finally, on the third attempt, it was done. He tried it on. The garment appeared more like a formless kimono than a well-fitting shirt. The seams were not straight and the stitching was poorly done. "I can't wear anything like this," he complained, "It is downright ugly." But the people behind the counter were not put out by this. "We informed you when you ordered the shirt that the workers are not particularly skilled, a fact that is also reflected in the name: Third-Class Garment-Making Department. You were further informed that any compensation is out of the question." Li realised he did not have a case. Without a word, disappointed and resentful, the future Deputy Prime Minister of the Middle Kingdom tucked the shirt under his arm and left.

"Now, thirty years later, it seems quite impossible to understand this story," writes Li, "but it is quite true and quite representative for the conditions at that time."

What wisdom did Li derive from this? Incentives and sanctions must be put in place to teach people good habits and make them do a good job. More room for Adam Smith's free market solution and less room for Karl Marx's planned economy.

Peace with other countries

After Deng took over, China's foreign policy was radically changed. The propaganda in Africa about the boon of communism came to an end, as did the arms shipments to rebel movements in other countries. Every effort had to be made to bring the Middle Kingdom back on a sound economic footing. An important

condition for this was peace with other countries, first of all with the USA, but also with China's Asian neighbours.

China borders fourteen countries. A few military operations took place during Deng's period of power, against Vietnam, India and the Soviet Union, but they were all limited in time and space (Scobell 2003). More important were all the border disputes that were resolved peacefully. Defence budgets were dramatically reduced. However, after the unrest in Tiananmen Square in the spring of 1989, Deng thought the time was ripe to upgrade the importance of the armed forces. Appropriations were increased, and gradually the armed forces were themselves allowed to conduct various forms of business activities in order to generate further funding. In 1998 Jiang Zemin, who took over as China's 'paramount leader' in the early 1990s, decided that these activities should come to an end. That was a brave decision. The generals had become accustomed to expensive habits. The business activities of the armed forces did not, however, disappear completely.

In 1979, eight years after China had replaced Taiwan in the UN, diplomatic relations were established between the USA and China and, at the invitation of President Jimmy Carter, Deng visited the USA. For reasons not easily understandable, China has always—at least until recently—had a special place with the Americans. Towards the end of the Second World War, President Roosevelt insisted that China must have a seat in the Security Council that was then in the making.

China's leaders have always regarded good relations with the USA as an indispensable condition for catching up with the rest of the world economically. In exchange for the willingness of the USA to admit China into the international economic system, including opening up its own large domestic market to Chinese goods and services, China has avoided criticising America as far as possible. Also, China has been sensitive to America's wishes and preferences. With thousands of Chinese students graduating from top American universities—many of whom return to the Middle Kingdom—China's business leaders can recruit engineers, managers and other experts with reasonable knowledge and understanding of the USA. Such insight and knowledge in the opposite direction is less widespread.

In her relations with the USA, China chose a very different path from that taken by the Soviet Union. Whilst the Russians focused on building up a military force that could match that of the Americans—and preferably outdo it—China, as mentioned above, reduced its military forces during the first years of Deng's regime. As a share of GDP, China's defence expenditure fell from an annual average of more than 6 per cent in the period from 1950 to 1980 to less than 2 per cent per year from

1980 to 2000 (Jacques 2009, p. 348). Whereas the Soviet Union tried to the best of her ability to develop trade with countries with planned economies, China chose to participate in the market-based global economy with the USA at its helm.

In foreign policy China's philosophy has been to keep a low profile, calmly observe, not assume international leadership, not challenge the USA, make good use of her time, and conceal her skills and growing strength. When China in her economic strategy opened up for closer cooperation with other countries, through trade as well as by allowing foreign direct investments, the Middle Kingdom emerged as a status quo power; a country reasonably content with the established world order. Rather than challenging that order, China wants to fully utilise it to its own benefit. To do so China needs peaceful relations with USA as well as with bordering countries.

The expression 'peaceful rise' was introduced in 2003 and was intended to convey this approach and strategy. China is not planning to be a hegemonic power that imposes her own will on others. The days of exporting the communist system and ideas are long gone.

In recent years China has become heavily involved in multilateral cooperation in her own region. The Shanghai Cooperation Organization (SCO), in which Russia and four other former Soviet republics also participate, aims to become a central security policy forum. The purpose is to combat terrorism and to work out a common approach on how to handle the involvement of the USA in Asia. In the economic field the central body is ASEAN Plus Three, a cooperation between the ten member countries of ASEAN (Association of Southeast Asian Nations) and China, Japan and South Korea.

China's relationship with Japan is sensitive. China lost the first Sino-Japanese war in 1894–1895. Furthermore, China was wronged by abuses Japan inflicted on the Chinese people in the second Sino-Japanese war (1937–1945), as the Second World War is termed by the Chinese. For these abuses China has never received a sufficient apology. For its part, Japan believes it has apologised sufficiently. In addition, it thinks that a certain gratitude for the financial assistance it has given China since the early 1950s would be appropriate.

China's economic growth and increasing political strength are probably perceived as more threatening by Japan than by any other country. According to some observers, Japan was not prepared for this and barely believes what is happening (Jacques 2009, p. 308). Others emphasize that the Japanese are pragmatic; they see new business opportunities for Japanese firms in a growing Chinese market.

Legitimacy

If the emperor does not deliver, he may be deprived of his mandate to rule. History has many examples of emperors who have lost their legitimacy—their right to rule.

The Qing dynasty that had its origin in Manchuria was established in 1644. About one hundred and fifty years later, King George III of England sent a delegation of 700 people to China with the purpose of developing trade relations. The head of the delegation, Lord George Macartney, was met with kindness. However, China's interest in trading with England was completely non-existent. The Middle Kingdom was self-sufficient. The emperor sent a letter to the king saying: "We never valued ingenious articles, nor do we have the slightest need of your country's manufactures." The British could not believe what they read. The British Empire was approaching its peak as a great power. Who did this emperor think he was?

Nevertheless, trade between the two countries was initiated on a small scale. The British were mainly only able to offer opium from India in return for Chinese goods. In 1829 China banned the import of opium. Ten years later, the first Opium War started. China suffered a scathing defeat and had to concede Hong Kong to the British, pay war indemnity and open up five ports for trade. This was the start of what was later called "a hundred years of humiliation". Not until Mao declared the establishment of the People's Republic of China in Tiananmen Square in 1949 did this period of humiliation come to an end.

Deng exercised his leadership in the Chinese tradition. The leaders of the country—be they the emperors Mao or Deng or, these days, the Party—must provide guidance to their subjects. The leader himself is a model, like a father, and teaches his subjects good habits. It is not necessary to elect the leader, for he is not accountable to his subjects, but must instead adhere to general principles and values.

For the leaders of modern-day China, an intimate relationship exists between legitimacy and economic growth. Since improvement in material welfare is an important concern to most Chinese, economic growth, preferably benefitting everyone, confers legitimacy on the Communist Party and its leadership.

About half of China's population lives in the countryside, many of them in rather dire conditions. Over the last couple of decades the difference in living standards between the cities and the countryside has increased sharply. Through television and the internet, the poor are becoming increasingly aware of these widening differences. Today's leaders have made strong efforts and attached a substantial amount of prestige to reducing differences in living conditions, or



at least preventing them from becoming even wider. Farmers with food on their table and clothes on their back are less likely to rebel than farmers who are hungry and cold. If, in addition to that, their children have good educational opportunities, the elderly have an acceptable pension scheme, and most people have access to reasonable health services, this will contribute to the legitimacy of the regime. In China's efforts to develop a "harmonious society" there is a strong focus on education, pensions and health. In these three areas, however, it still has a long way to go.

The demand for democracy in China is not overwhelming (Isachsen 2008). The situation is rather that people in the Western world, with their values and experiences, believe that China ought to arrive at some form of democratic system of government. For those who believe that democracies do not usually wage war on one another, a clearly more democratic China would benefit existing democracies.

The fact that only members of the Party (5 per cent of the population) have a say in the political governance of China is less problematic in a country that has no experience in democracy. Every year 20 million Chinese apply for membership of the Party, but only 2 million are admitted—those who are assumed to be the best. China today is a meritocracy where the best have a lot of influence. In this respect the system is reminiscent of the dynasties of the past, where the emperor's bureaucracy was very powerful. The bureaucrats, or mandarins, were subjected to demanding admission tests that were open to everyone. Those who passed the tests went on to run the country, i.e. became decision-makers on behalf of the emperor.

If the current system of governance in China, where one party has all the power, can emerge in the tradition of the golden days of the Chinese empire, this will strengthen the legitimacy of the regime.

Independent decision-making

One hundred years of humiliation dealt a blow to China's self-esteem. However, crushed it was not. The Chinese are proud of their history and their culture. Deep down they know that they are the very best. Having to endure one hundred years of humiliation was difficult, but the Chinese philosophy of taking the long view made it no more than a footnote in Chinese history. The classic quote in this connection is that of Prime Minister Zhou Enlai, who in response to a question by US Secretary of State Henry Kissinger in 1972 about the effects of the French Revolution, replied: "It is too early to say."

In 1421 the emperor dispatched a fleet to discover and investigate the rest of the world, and to convey knowledge about the Middle Kingdom to the barbarians. Some of the ships were up to three times bigger than those used by Lord Nelson in the Battle of Trafalgar in 1806. After completion of seven such expeditions, however, the emperor decided to burn the ships and move his people inland, away from the coastal areas, ban the teaching of Chinese to strangers and discourage the Chinese themselves from learning foreign languages. This was the beginning of a period of decline for China that culminated in the outbreak of the first Opium War in 1839.

After defeat by the British and a humiliating peace in 1842, China was opened up, though not of her own free will. In 1979, after Deng had consolidated his position as China's strong man, China opened up to the rest of the world; this time of her own free will.

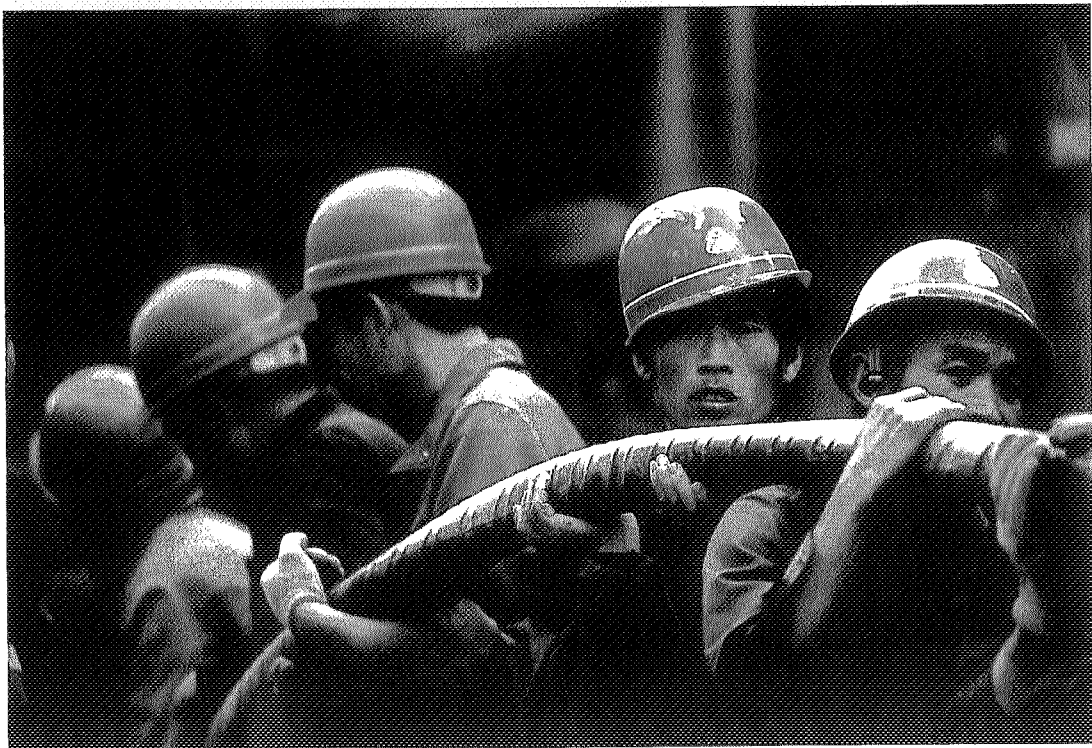
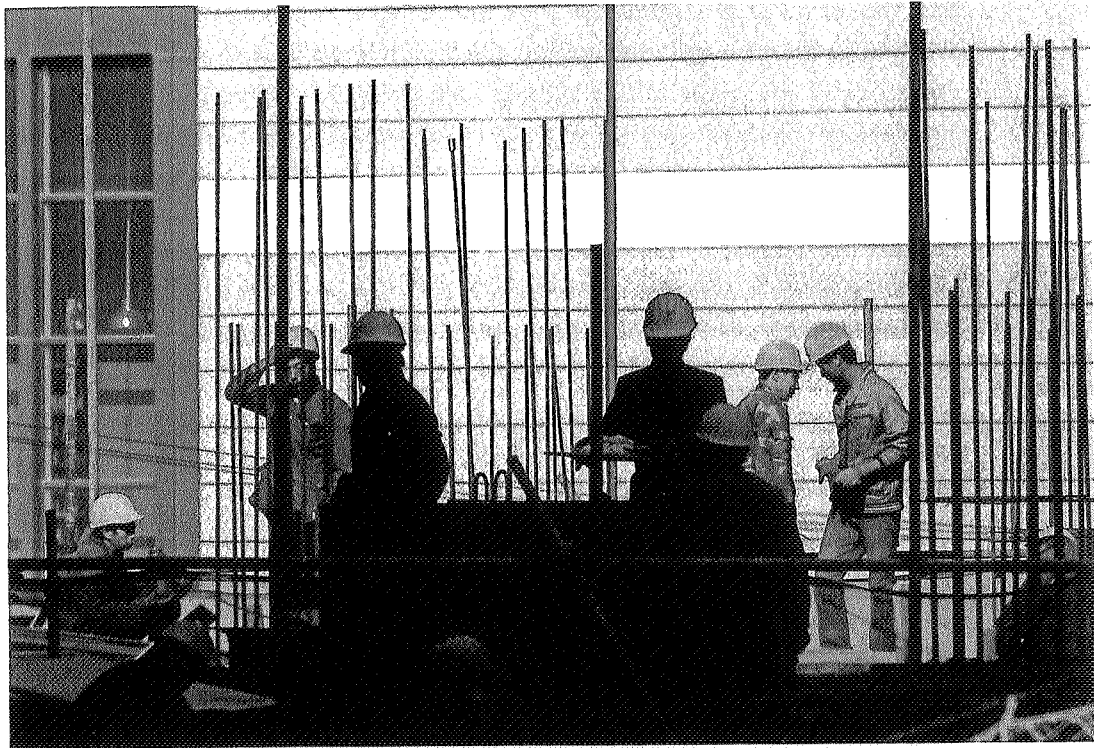
Unlike the emperor whom George Macartney had met, Deng realised that China needed Britain's and other countries' "manufactures", not to mention their capital, technology and markets. The Chinese culture, however, would be preserved; learning from the West was to be limited to practical things.

In the same way as China chose a different model for its external relations than did the Soviet Union, the Chinese also chose a different model for its domestic development. If the Party is to keep its power monopoly, it must maintain its popularity. Knowledge about what the people are interested in and what sentiments prevail is essential for the ruling elite.

A number of experiments in 'participating democracy' have been carried out in China. In May 2009 I visited Changsha, the capital of the Hunan Province. In this city of six million inhabitants, the mayor told me that in connection with the building of a vegetable market some time ago, fifty citizens had been selected with whom alternative solutions had been discussed and whose opinions had been heard before a final decision was made. The people themselves participate in decision-making processes.

The collapse of the Soviet Union in 1991 was an eye-opener for China. This made the Communist Party start reflecting on China's situation. Even if communism as an economic system has lost its attraction, it is important for the Party to be seen to have moral authority, to outline the path ahead and to serve as a model. The Party has been quite successful in this, far more so than what we in the West give it credit for.

Prime Minister Wen Jiabao, who is often called "Grandfather" in China, and the somewhat more reserved General Secretary Hu Jintao showed consideration for the people and won their respect when they put everything else aside to



visit the areas hit by earthquakes and comfort those who had lost everything, to listen to them, and to give them hope and promises of money. Corruption is endemic in China. It can lead to schools being built too cheaply, i.e. far below standard, and the money instead pocketed by corrupt party bosses and businessmen. When earthquakes hit, corruption of this nature may come at the cost of the lives of many schoolchildren. For the leaders in Beijing to keep their distance from corrupt leaders at provincial level and further down, serious shake-ups are called for after such events.

A sure way to undermine the legitimacy of any regime is to allow its leaders to stay in power for too long. Deng introduced an age limit of 70 years for China's leaders, as well as a rule that limited the term for top-level positions to two terms lasting five years each. Thus, in 2002, Jiang Zemin handed over power to Hu Jintao. This peaceful transfer of power must be considered a watershed for a one-party state. During the seventy-four years the Soviet Union existed, power was passed on either by coups or on the death of the top leader in office.

In the autumn of 2012 Hu Jintao will hand over the job as General Secretary of the Party to Xi Jinping. Will that be a peaceful transition? And what will China want when the will of Xi Jinping starts to apply to a larger degree?

China's power

Professor Joseph Nye at Harvard University defines power as "the ability to achieve one's purposes or goals" (Nye 1990, p. 177).

Chinese leaders are preoccupied with regaining China's status as a powerful and respected nation. They do not appreciate being restricted or dictated to by anyone else. This powerful nation expects to participate in setting the international agenda rather than being told what that agenda will be.

What means do they have at their disposal to succeed in this? Professor David Lampton lists three: coercive power (primarily military), economic power and ideational power.

Military power

Defence expenditure in China has increased sharply over the past few years. Nevertheless, China's military power is limited to land-based military strength. In the air and at sea China is no match for the USA.

China does not fear a military invasion. The country is too big and the army too strong to make that a viable option for an adversary. Besides, a potential invasion led by the USA might result in a loss of American lives which American society is not prepared to accept.

China is able to defend her own territory well. However, she does not have what it takes to wage war far away. China's capability to project power outside her own and neighbouring territories is quite limited.

In 1996 China flexed her military muscles vis-à-vis Taiwan. Bill Clinton responded by sending two aircraft carriers to the area, and the mainland Chinese calmed down. This inferiority at sea is something China is attempting to remedy through an ambitious programme for developing her navy. Included in the programme are also a couple of aircraft carriers, which have a dual purpose. From a purely military point of view, the carriers would enable China to exert military power further away from her own coastline, but there is also a clear element of prestige involved. When countries like India and Thailand have aircraft carriers, an emerging and powerful nation like China should also include this in her armed forces.

In January 2007 China surprised the world by destroying one of her own satellites in space. The Americans had not expected that China's technology in this area was so sophisticated. If the Chinese are able to destroy one of their own satellites, they are also able to destroy those belonging to other countries. If this were to happen, the USA would lose access to information provided by the satellites that is vital for military operations.

An important element in China's military strategy is to develop programmes and weapons that would not necessarily match those of the USA but that would make a potential military confrontation more costly and difficult for the Americans. This category also includes a missile system that can neutralise aircraft carriers far out at sea.

Another important element in the Chinese military strategy is to possess enough nuclear weapons to deter the USA or others from using such arms against China. In order to reassure neighbouring countries, China has said that she will never be the first to use nuclear arms and that she will never use—or threaten to use—nuclear arms against countries that do not possess such weapons themselves.

As China gradually becomes militarily stronger, her possibilities to limit other countries' opportunities for action increase. But this is a delicate balance. A China that is too strong from a military point of view will create uneasiness among her neighbours. Closer cooperation between these countries to obstruct

any military action by China is likely to follow. The USA is a key factor in this equation. Most of China's neighbouring countries are grateful for America's strong military presence in Southeast Asia: who else would be able to deter an increasingly strong China?

Events in the South China Sea and the East China Sea in the autumn of 2010 illustrate this problem. On several occasions China has been rather brusque regarding the right of ownership to a few controversial groups of islands: the Senkaku Islands to the east, where Japan is the contender, and the Spratly Islands to the south, which are also claimed by Vietnam and the Philippines. Why such Chinese aggressiveness now?

Has China become more arrogant after the international financial crisis that started in the USA in September 2008? This crisis revealed serious weaknesses in the American economy. The Chinese model, based on strong control by the central authorities and state ownership of large enterprises, including banks, turned out to be superior to the American model in dealing with the crisis. Increased self-confidence makes it tempting to show more muscle.

Or is it possible that the aggressiveness on the part of the Chinese is related to the change in leadership in China in 2012–2013? To reach the top echelon of power—becoming member of the nine-man-strong Standing Committee of the Politburo—you have to demonstrate your strength. Are those who have their eye on important political positions ingratiating themselves with the military forces by giving the generals more opportunities for action than what is usual?

A third theory is that patriotic academics and people in the media are encouraging national sentiments that place increasingly greater pressure on Chinese politicians.

No matter which theory best describes the reality, the consequences for the position of the USA in the area are the same: other countries want the Americans to stay. As the Prime Minister of Singapore, Lee Hsien Loong said: "America plays a role in Asia that China cannot replace, maintaining peace in the region" (Page, Barta & Solomon 2010, p. 9).

Economic strength

In 1950 China represented a modest 4.5 per cent of the world's gross domestic product. In 2007 this share had risen to 15.8 per cent (Lampton 2008, p. 78). With about 20 per cent of the world's population, the average standard of living in China is lower than the global average. On the other hand, in perhaps only



twelve to fifteen years China will overtake the USA and have the largest economy in the world.

The economic growth in China is due in no small degree to Chinese living abroad, of which there are approximately 40 million. Spearheaded by Chinese living in Hong Kong and Taiwan, they represent two thirds of the direct foreign investments in China. But Chinese living in other parts of the world have also contributed to and been pleased about the growth of and progress in the Middle Kingdom. This is very different from Russians living abroad, who generally keep their money to themselves, as investing in the mother country is regarded as too risky.

Economic growth provides an opportunity to influence the conduct of others, i.e. to reach one's own goals. Thus, economic growth is a force in itself.

The Chinese are interested in preventing other countries from doing things they do not like. In 1992 China refused French enterprises the opportunity to submit bids for the building of a new underground system in Guangzhou. This must be seen in connection with the decision by Paris to sell Mirage fighters to Taiwan. The French were not long in changing their policy in this area: in future no more fighters would be sold to Taiwan (Lampton 2008, p. 67).

Many large Chinese companies are listed on stock exchanges at home and/or abroad, although the dominant owner is the state. Political instructions to state-owned enterprises are not uncommon in China. Other countries, thus, are likely to ask whether they are dealing with a company or a country.

If China as a nation has strategic interests in the acquisition by a state-owned Chinese oil company of an oilfield abroad, companies from other countries that do not have any national, strategic interest when submitting bids are likely to lose the competition. This is unreasonable and will create political friction.

In the beginning China borrowed money from other countries. As early as 1979 a five-year loan arrangement was established with Japan where the land of the rising sun made a total of one and a half billion dollars available to the Middle Kingdom. The term of the loans was 30 years and the interest three per cent. Prime Minister Zhou Enlai on this occasion expressed a wish that "The Chinese and Japanese peoples should remain friends generation after generation." (Lanqing 2009, p. 325).

Times are changing. Rather than borrowing money from abroad, China is now providing loans for other countries. Since the early 2000s China has posted large surpluses on her current account. By definition, these surpluses end up as investments in other countries in the form of financial investments such as increased foreign exchange reserves in the central bank, purchases of shares in

foreign companies through CIC (China Investment Corporation), or through China making direct investments in other countries by buying existing companies abroad or establishing new ones itself.

Until recently, financial investments have dominated. However, the last couple of years have seen a significant growth in China's outgoing direct investment. In 2010 Volvo, the Swedish carmaker that had previously been acquired by Ford, was sold to Geely, a Chinese company (Geely means 'lucky') for USD 1.8 billion. In this way the Chinese carmaker has acquired a strong and reputable brand and access to advanced technology as well as a foothold in the Western car market.

China now has sufficient currency reserves. Future trade surpluses will increasingly be allocated to direct investments abroad. In Africa China now provides loans and real investments in excess of those offered by the World Bank. Not only do the Chinese come up with the money, they also provide the workers and the projects. Systematic development of mines, oilfields and other industries, with China as a central player, is taking place in Africa.

The Chinese are also asserting themselves in other parts of the world. Recently China passed the USA to become Brazil's most important trading partner. China has also committed large sums of money to develop oilfields and mines, among other things, in Brazil.

China's strategy of keeping a low profile internationally may be difficult to maintain as state-owned Chinese enterprises acquire enterprises, mines and oilfields in other countries at an increasing pace. The latest type of involvement abroad consists of long-term leases for cultivating land in other countries, such as the Philippines. The Chinese want greater security for supplies of agricultural products.

Soon, an enterprise close to where you live will be Chinese.

Ideational power

The concept of ideational power is close to what Joseph Nye calls 'soft power' (Nye 2004). In both cases it is a matter of making others do what one wants them to do without the use of hard power. Ideational power has a stronger emphasis on culture and innovation, on leadership and intellectual resources. A country strong on ideational power stands for values and practices that other countries want to emulate.

Increasingly, and on many levels, China is emerging as a model for other countries. A will to improve one's own economic conditions by saving a solid part of one's income and a strong work ethic are qualities to which other countries aspire.



Norms that focus on disciplined behaviour and respect for elderly people sound good, but there is a downside here. Chinese children are taught obedience before creativity. The ability and willingness to question established truths is not a predominant characteristic of the Chinese. This hampers originality and innovation later in life.

Innovations—the Chinese way—usually mean minor changes to existing products and production processes rather than research-based technological breakthroughs. A good example is Alibaba.com. When US-based eBay started electronic commerce in China, they applied the business model that had been developed in the USA. It was not suitable in China. This made Alibaba.com choose a simpler solution: there is no point in using a Boeing 747 if the airport is a schoolyard, as the CEO of Alibaba.com, Jack Ma, argued (Lampton 2008, p. 131).

The Chinese model of a one-party state and state capitalism is regarded with great interest by other countries, particularly in Asia and Africa.

Catch-22

The expression 'catch-22' is taken from a book of the same name. American pilots, stationed in Italy during the Second World War, who in this fictitious story wanted to take on dangerous assignments, were considered unfit to do them, and pilots who were considered fit, did not want to do them.

USA is likewise faced with a dilemma vis-à-vis China that offers no ready solution. By securing peace in the region and by opening up for China's entry into the global economy, particularly by allowing her to become a member of the World Trade Organization (WTO) in 2001, America has contributed to economic growth in the Middle Kingdom, a growth that may make China so powerful that she someday may want to challenge the strong position of the USA in Southeast Asia.

If, however, the USA should try to inhibit economic growth in China, for example by exerting pressure on the Chinese to have the yuan appreciated and thus reduce competitiveness, or by putting up barriers to trade and transfer of technology, this could create unrest in China. Poor economic progress may put the legitimacy of the Party and the leadership to the test. In such a situation Chinese leaders might choose a more aggressive course of action towards the USA as well as neighbouring countries based on the observation that external enemies create domestic unanimity. The rest of the world is not interested in a form of Chinese nationalism that leads to outwards aggressiveness.

It is hardly likely that the USA will try to dampen economic growth in China.

A slowdown, however, of economic progress in China for domestic reasons is not impossible. The enormous pollution that the Chinese have inflicted upon themselves over the last three decades may require a change of policy in a more environmentally friendly and less growth-oriented direction. The effect may be similar. Slower economic growth leads to reduced legitimacy. And the Party may be tempted to pursue a foreign policy more daring and more nationalistic.

What China wants

Having surveyed briefly China's history, with an emphasis on her economic and political development, let us now look ahead. What does China want?

China's leaders want two things. Firstly, they want to regain their rightful position in the world, receiving due respect from other countries. Secondly, they want China to become a reasonably prosperous country with a fairer distribution of wealth than at present. These two goals are closely related. Continued economic growth is a condition for realising them, under the additional condition that the Party maintains its monopoly on power.

For China it is not a matter of gaining but of regaining her rightful position in the international community. A hundred years of humiliation is over. The process of regaining a place in the sun is well underway, with the respect from other countries that comes with it, a respect that can be regarded as confirmation of the pride the Chinese in fact already have.

On many occasions Wen Jiabao has clearly stated that China is not aiming at becoming a hegemonic power, a country bullying other countries and forcing them to adopt her solutions.

At a seminar in Oslo in June 2010 Fu Ying, the Chinese Deputy Prime Minister, claimed that Deng Xiaoping had once said: "If China should become a hegemonic power, the whole world would stand up against her". Her business was to make China appear to be harmless. And this charming, well-spoken woman did this very convincingly, and in excellent English. But how far can we trust her?

Samuel Huntington (1997, p. 229), in his book *The Clash of Civilizations*, expresses the exact opposite opinion: "China's history, culture, traditions, size, economic dynamism, and self-image all impel it to assume a hegemonic position in East Asia". Who are we to believe?

At every possible opportunity, the Chinese emphasize the principle of national sovereignty. Professor Zhang Tuosheng at the Centre for Foreign Policy Studies in Beijing expressed it as follows: "At the core [...] of peaceful co-existence lies



mutual respect for sovereignty and territorial integrity and non-interference in internal affairs." (Tuosheng 2010, p. 31). This idea of sovereignty reflects China's need to create a certain distance to the USA so that the focus of the Americans on human rights, freedom of the press and democracy will not legitimately form a basis for actions against China.

China respects the sovereignty of other countries, particularly when it is in her own interest. China's investments and aid to countries like Zimbabwe and Sudan illustrate this point. The Middle Kingdom clearly benefits from the access to oil and other commodities that good relations with African countries of dubious reputation give. Similarly, China has pursued a softer line towards Myanmar than have other countries. The self-interest of the Chinese, which is both of an economic and strategic nature—Myanmar affords China easier access to the Indian Ocean—is behind it.

If the Chinese slogan 'peaceful rise' is to be believed, China's military capacity must be checked. If not, the neighbouring countries will start fearing an increasingly powerful Middle Kingdom. And incidentally, are there any examples of a great power that has entered the global arena in a peaceful manner? No, say many leading Chinese intellectuals.

Professor Yan Xueton at Tsinghua University, who is an authority in the group called neoconservatives (or neocommunists) in China, is clear on this point: "Peaceful Rise is wrong, because it gives Taiwan a message that they can declare independence and we will not attack them" (Leonard 2008, p. 90).

Reflecting on China's more aggressive behaviour in her nearby maritime areas, Professor Carlyle Thayer in Canberra adds: "You've been telling us about your peaceful rise for years, but it does not look peaceful to us. This is not what we want." (Page, Barta & Solomon 2010, p. 9).

Zheng Bijian, head of the think tank China Reform Forum, had completed a large project with many doctoral dissertations before he introduced the expression 'peaceful rise' in 2003. Forty emerging nations were studied, and the conclusion was clear: countries that chose aggression and expansion, as Germany did twice in the last century, eventually ended up as losers.

Zheng belongs to the group of intellectuals in China labelled liberal internationalists. As opposed to Yan, they maintain that China has no need to form alliances such as NATO to counterbalance the West. China should rid herself of her complex as a "victim" and instead play a more active role internationally. This attitude agrees well with what Wen Jiabao said in the Great Hall of the People in January 2005: "We should seek harmony without becoming the same" (Lampton 2008, p. 252).

From China's point of view the goal of regaining her rightful position in the world implies that the problems of Tibet and Taiwan be solved. A discussion of whether these two areas belong to China is flatly refused, not only by Chinese leaders. In a conversation I had in China in 2008 with two Chinese engineers, I touched on this question. Both became very angry when I suggested that China might actually be big enough. Was it worthwhile to exert all this pressure to keep Tibet and Taiwan? This anger illustrated what many other people have said. Today's Chinese leaders can hardly budge on the issue of Tibet and Taiwan; they both belong to China. Leaders who show any weakness on this issue will undermine their own position and the Party's position in society. Nationalism as a unifying banner is more important than communism.

The other central goal which all leaders in China since Deng have stated very clearly, and to which we referred above, is that China in the course of a few decades is set to become a moderately well-off society. Reaching this second goal will make it easier to reach the first one. A China characterised by economic progress and growth will find it easier to be met with respect than a country experiencing economic stagnation.

Developments in the wake of the international financial crisis have given the Chinese new self-confidence. In the USA economic growth remains modest, four years after the crisis started. The Americans are struggling with large deficits in their public finances and an unemployment rate of 8 per cent (August 2012). In China, projects for building new infrastructure were moved forward and financed by huge loans from large state-owned banks. The increase in unemployment was eased and the economic growth maintained. Many migrant workers who nevertheless lost their jobs in export-oriented industries left the cities and returned to the countryside.

What might curb the economic growth in China in the years to come? The negative consequences of the one-child policy on economic growth are now about to surface in Chinese society. The number of young people aged between fifteen and twenty-four will soon start to go down, which means that the number of individuals in the age group that is most mobile and most eager to learn is decreasing. The consequence of that is a less dynamic economy. On the other hand, the reduced supply of a young and mobile workforce will force wages up. In view of the fact that the share of GDP accruing to labour has been declining for many years, the time is ripe for more substantial wage increases.

Since wages are largely spent on private consumption, increased wages will lead to faster growth in domestic consumption in China. When private consumption goes up, there will be less focus on growth in exports and direct investments.



China will get old before she becomes rich. In the course of the next thirty years the number of Chinese aged above sixty-five will almost treble. The state has to care for a growing number of elderly, particularly in the cities, where the number of lonely and poor elderly people is likely to explode. The Chinese state must also expect increased costs for health care and education. This is part of the programme for the development of a harmonious society where human beings are put first.

The quality of education will be particularly important if China is to succeed in maintaining sound economic growth. Her ambitions are clear: China has decided on a strong upgrading of one hundred universities, thirty-six of which are designated to become world-class institutions within a given timeframe.

China has also defined ambitious objectives for climate policy. Intensive efforts are currently being made to develop "green technology". When the Chinese feel that they have taken the lead in this field, they will probably be far more willing to enter into binding cooperation internationally, with a view to making money on the sale of self-developed technology to others.

Efforts for a cleaner environment in general will be costly for the state. No other country in the world has as many cities with polluted air nor as many polluted rivers.

Public revenues must grow. Here China has a good starting point. The public debt is low and the public budgets are more or less in balance. Moreover, the tax burden is relatively moderate.

Economic growth will lead to a more pluralistic society. A one-party state is not conducive to pluralism. Will the leaders of the Chinese Communist Party eventually see it this way, too? And if so, is it possible that they will seriously start the process of introducing a democracy with Chinese characteristics?