CHINA’S EMERGING GRAND STRATEGY

Primacy of Economic Power

For the past twenty five years, Chinese elites have embraced market-based economic reforms as the latest instrument in their centuries-old quest for “wealth and power.” China aimed to achieve membership in the ranks of great powers through economic growth. Chinese leaders regard economic development and weight in the world economy as principal components of what they refer to as “comprehensive national strength” (zonghe guoli)—the key factor that will enable the People’s Republic of China (PRC) to preserve and improve its international position. China’s foreign policy has been decisively subordinated to the tasks of domestic modernization; the goal of exporting worldwide revolution was supplanted by a focus on “peace and development.” Early in the post-1978 reform period, a new analysis of the international situation concluded that war was no longer inevitable, allowing for subsequent substantial reductions in military spending. To create a stable international environment for economic development, Chinese leaders completed the process of normalizing relations with the United States and significantly improved their relations with the Soviet Union and Japan.

Two and a half decades of economic reforms and the “opening up” policy have dramatically improved China’s economic fortunes and led to its unprecedented integration in the world economy. The growth rate of the GDP throughout the reform era has been extraordinary. China achieved an all-time global record in doubling per capita output in 1977-1987. The GDP growth rate in the period of 1990 to 2002 was nearly four times the world average. In 2002, the country’s GDP surpassed 10 trillion yuan ($1.2 trillion) making it (in dollar terms) the sixth largest in the world and in terms of
purchasing power parity, it is second only to the United States with an 11.8% share of the world’s GDP. Recently the Chinese leadership set the goal of turning China into a “first world country” within the next two decades. Chinese foreign trade exploded from the U.S. $20 billion in late 1970s to $510 billion in 2001. Since its opening to foreign economic contacts, the country’s share of world trade has quadrupled, and China entered the new century as the world’s sixth largest trading state. Trade as a percentage of the GDP more than doubled every decade from 12.9 percent in 1980 to 44 percent in 2001. In addition, throughout much of the reform period China accounted for roughly 40 percent of the total Foreign Direct Investment (FDI) flow to developing countries, leading cumulative total of $348 billion by 2000.

China’s economic success story is particularly striking compared with Russia’s lackluster performance. While in the beginning of the 1990s, Russia’s GDP was more than twice that of China, at the end of the decade it was a third smaller. Throughout its transition to markets, China did better than countries of comparably low income, while Russia, by and large, did worse than countries of comparable income.

**Confronting the Challenges of the Post-Cold War International System**

Despite the visible economic success achieved by the early 1990s, the end of global bipolarity presented several serious challenges to China’s international position and to its strategy of international “social mobility” based on rapid economic growth. First, the collapse of the Soviet Union led to the obsolescence of the Washington-Beijing—Moscow strategic triangle—the basis for Beijing’s claim to strategic importance in international affairs and the foundation for China’s “special relationship” with the United States. Second, the disappearance of the Soviet threat made possible the emergence of a
number of issues that threatened Beijing’s international legitimacy, such as criticism of the authoritarian Chinese political system and the government’s human rights record—issues that previously were subordinated to the goal of containing the Soviets. The onset of U.S. dominance happened to coincide with an acute domestic crisis culminating in bloody suppression by the government, ensuing harsh criticism of China, and even (albeit rather short-lived) ostracism by major Western countries. The era of seeing the PRC as qualitatively different from other communist regimes (the “so-called Communist country,” to use President Reagan’s memorable 1984 formula) was over. Third, while the Chinese global strategic presence was visibly reduced, the collapse of the Soviet Union immediately made China a preponderant power in the East Asian region, giving rise to fears among its neighbors of the emerging arrogant Chinese power. Finally, and perhaps most troubling for Chinese leaders, Taiwan’s rapid democratization since the end of the 1980s made Taiwanese nationalism an important factor in domestic politics and jeopardized prospects for unification with the mainland.

The process of adapting to a new international situation got off to a rocky start. Believing that the hierarchy of power was mutable, China began to compete directly with the United States for influence in the Asia-Pacific region. Emboldened by its having survived the collapse of world socialism and by the new upsurge of the domestic economy (since 1992/1993), Jiang Zemin and his followers rather awkwardly attempted to modify Deng Xiaoping’s cautious approach by translating China’s economic strength into increased international assertiveness and regional political and military clout—a strategy of social competition. This, however, immediately led to a backlash against the perceived “Chinese threat” to the Asia-Pacific region’s peace and stability. Chinese
military posturing in the South China Sea in 1995 designed to re-enforce China’s claim on the Spratly Islands produced collective resistance by ASEAN states to Chinese sovereignty claims. China’s attempt to increase tensions in the Taiwan Strait in 1995-1996 to curb Lee Deng-hui’s pro-independence policies led to the dispatch of two U.S. aircraft carrier groups to the Taiwan Strait, a dramatic increase in anti-China rhetoric in the U.S. Congress, and ultimately to an upgrading of the U.S.-Japan security relationship, including potential collaboration on a Theater Missile Defense system covering the East China Sea (and possibly Taiwan).

**Searching for a New International Image**

The fundamental problem, reflected in the mid-1990s fiascos of Chinese foreign policy, was that China had entered the post-Cold War era as a one-dimensional power. While excelling on the economic dimension of “soft” attractive power, Beijing scored quite low on other dimensions such as political or ideological strength. Attaining true great power status, and even simply preserving the benign external environment crucial for domestic economic development, required concerted efforts to recast China’s political role on the international scene and improve the country’s international influence and prestige. Confronted with the logic of the security dilemma, aggravated by its attempts at international competition, beginning in mid-1996, Chinese leaders saw a way out of their predicament in a new approach to international affairs aimed at establishing a reputation for the PRC as a responsible, cautious, self-restrained, and cooperative player. Instead of trying to compete directly with the United States, China would use a strategy of achieving recognition in a new domain—as a constructive member of the international community and economic role model in the new era of globalization and free trade.
Jiang formulated the major task of the Chinese diplomacy as “enhancing trust, reducing trouble, developing cooperation and refraining from confrontation.” To reduce the probability that an anti-China coalition might emerge and to advance China’s long-standing goal of a multipolar global order, in 1996 Beijing embarked on what Jiang called a “Great Power strategy” (daguo zhanlue) aimed at fostering “strategic partnerships” with other major powers—including Russia, the United States, and the European Union—while avoiding firm alignment with any particular state or group of states. It also began to participate actively in multilateral forums designed to solve regional and global problems. For example, on the Spratly Islands China agreed to consider a multilateral framework for future sovereignty discussions, to participate in the joint exploration of the area’s mineral resources, and to cooperate in drafting a code of conduct in the South China Sea. In April 1996, China became a co-founder of the Shanghai Co-operation Organization, a multilateral forum designed to build trust and confidence in the Asia-Pacific Region. Since 1996 China has touted its “new security concept” that calls for basing international security on multilateral dialogue and on international powers’ commitment to renounce the use military threats and coercion. In August 1996, China abandoned its previous opposition to any restraints on nonnuclear powers and signed the Nuclear Nonproliferation Treaty (NPT) and the Comprehensive Testban Treaty (CTBT); in spring 1998, it joined other major powers in criticizing both India and Pakistan for conducting nuclear weapons tests (despite China’s past role as the key supplier of Pakistani nuclear technology).
Embracing Globalization

The Chinese leadership’s efforts to recast China’s international role were evident in Beijing’s behavior during the Asian financial crisis of 1997-1998, which placed China in its most pivotal international role since the 1970s. Throughout the crisis Beijing—protected from the worst shocks of the regional financial turmoil by its nonconvertible currency, massive foreign currency reserves, and favorable external debt ratio—tried to bolster its image as a reliable and stable world economic power. Beijing’s contributions of $1 billion to the International Monetary Fund’s (IMF) bailout of Thailand’s economy in addition to another $3 billion to assist Indonesia and South Korea were unprecedented in Chinese foreign policy. Throughout the crisis, Beijing repeatedly contrasted its responsible behavior with Japan’s failure to preside over regional crisis management by making tough economic decisions. Beijing also expressed pride that it had not devalued its currency, in contrast to what Chinese authorities labeled Taiwan’s “predatory” devaluation. The Chinese strategy for gaining prestige was successful; China was praised for being a responsible regional “citizen,” an upholder of world economic stability at a crucial moment.

In addition to providing China with a spectacular opportunity to project a “kinder and gentler” image, the East Asian economic crisis played an even more significant role by prompting the Chinese leadership to consider the consequences of globalization for China’s future. The immediate shocking lesson of the crisis was that globalization, openness and economic interdependence delivered not only benefits (as was the Chinese experience throughout most of the reform era) but also significant perils to national economies and politics. Chinese leaders reached an important conclusion: in order to
avoid undergoing a similar predicament in the future, China had to open even more decisively to global capital, information, and technology flows while simultaneously boldly reconfiguring its domestic and foreign policies to maximize the benefits from new transnational sources of wealth, power and status. The CCP General Secretary Jiang Zemin’s political report to the 15th CCP Party Congress in September 1997—two months after the crisis started—and subsequent speeches repeatedly stressed that to improve its global economic position, meet the challenge of globalization, and achieve the “advanced worlds standard” China had no choice but to open up its economy to international competition and participate proactively in global life, even if this resulted in higher levels of interdependence.

In the aftermath of the crisis, previously ad hoc elements of China’s emerging understanding of its regional and global role started to congeal into a more coherent pattern. In addition to being a responsible and cooperative regional power, Beijing increasingly viewed itself and acted as the leading proponent of Western economic norms (global free trade, open capital flows and economic transparency) in the Asia-Pacific region and a champion of regional economic integration. China has also been more willing to abide by conditionality imposed by economic multilateral institutions.

In 1998-2001, China dramatically accelerated its efforts to join the World Trade Organization (WTO) although admission was subject to increasingly stringent standards after 1995. While 1994-1997 saw an escalation of disputes over the terms of Chinese accession, by the spring of 1998 Chinese leaders revised their traditional position that China as a developing country should be offered a generous timetable to comply with WTO rules. In October 2001, the State Council abolished 221 laws and regulations that
ran counter to the WTO norms; and in December 2001, China formally entered the organization.

The PRC leadership also attempted to become the pace setters in free trade and economic integration in Asia by pushing for an agreement with the Association of South East Asian Nations (ASEAN) to create a free trade area by 2010. As China acquired a voice in the WTO it surprised some observers by decisively siding with the leading promoters of trade liberalization (such as the U.S. and Europe) rather than attempting to champion the rights of developing countries—a major shift in its identity.

From New International Image to New Strategy?

Will the new international image projected by the Chinese leadership since the late 1990s evolve into a durable foundation for China’s international identity? Despite a series of serious crises in Sino-American relations in 1999-2001 and heated debate in Chinese policy-making circles over the costs of a non-confrontational foreign policy (particularly toward the United States), the main contours of China’s strategy of reassurance, restraint, omni-directional attempts at partnerships with great powers and its aspirations to become a leader in the process of regional globalization seem likely to endure into the new century. The statements of the leaders of the current “fourth” generation of Chinese leaders presided over by General Secretary Hi Jintao repeatedly portray China as a responsible member of international community and a force for world stability and peace.

Despite China’s continuous discourse on multipolarity as the desired goal for the structure of the international system, China shows few signs of balancing against the United States presence in the Asian-Pacific region by creating anti-American alliances or
by trying to split the U.S.-Japan-South Korea security partnership. Rather, China’s military modernization program and political steps are directed toward one paramount goal: prevention of Taiwanese independence and constraining the United States (and potentially, Japan’s) capabilities to defend Taiwan against Chinese military pressure.

It is also well known that Beijing’s capacity to project military force abroad clearly lags behind its economic achievements. Despite Western concerns over visible increases in the PLA budget throughout the 1990s and the acceleration of the Chinese military modernization, Chinese army’s capabilities are quite limited. Most experts acknowledge that China is at least two decades behind the United States in military technology and capability. Moreover, as one recent assessment emphasized, in the event the United States “continues to dedicate significant resources to improving its military forces, as expected, the balance between the United States and China, both globally and in Asia, is likely to remain decisively in America's favor beyond the next twenty years.”

With an important exception of Taiwan, Chinese behavior not only does not necessarily contradict the US interests on most other major issues, it may be crucial factor in serving these interests, as China’s recent participation in finding a solution to the North Korean nuclear crisis vividly demonstrates. Moreover, notwithstanding periodic outbursts of hostile rhetoric on both sides of the Taiwan strait and the rise of Taiwanese nationalism, economic linkages between Taiwan and mainland are becoming more and more important, a process that has gradually led to Beijing’s “softer” stance on Taiwan (reflected for example in the increased flexibility on the meaning of “one China” formula) due to the Chinese leaders’ confidence that time and the logic of globalization are on their side.