From Engagement to Contention: China in the Global Political Economy

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Abstract

China's re-engagement with the global political economy and its unprecedented ascendance as a major economic powerhouse since the mid-1990s has shaken the global community and triggered a radical re-evaluation concerning China's importance for the future of the world economy and global governance. There has emerged a large amount of optimistic literature portraying China as the principal engine of growth in the world economy in the wake of the global economic crisis, along with parallel and more pessimistic literature on the Chinese administration's supposed sinister geo-strategic "intensions" based on its anti-Western inclinations. This study argues that both these strands of writing in economics, development studies, political science and international relations literatures need to be treated with great caution as they tend to exaggerate the positive and negative aspects of China's system-transforming capacity. Although China has become a crucial actor in the areas of global trade, finance and production, its current growth capacity is based on deep interdependence with Western interests and multinational corporations. Also, widespread fears of China as a potential source of challenge against global governance structures are premature as China is dealing with deep-stated internal problems, such as rapid urbanization, socio-economic dislocation, income disparities, environmental degradation, etc., which at least in the medium term will impose system-conforming behavior on international platforms.

Key Words

China, global political economy, intensions debate, economic crisis.

Introduction

Historically speaking, China has been a crucial actor in international politics since at least the 1950s. It has been a nuclear power since the 1960s, a permanent member of the United Nations Security Council since 1971, and it was a crucial actor in the midst of sophisticated Cold War politics. However, it was China's profound re-engagement with the global political economy and its unprecedented ascendance to a major economic powerhouse since the mid-1990s that has became the major reason why the global community has been shaken into

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re-evaluating China's importance for the future of the international system. The feeling of widespread shock and anxiety due to the rise of China in the Western world was not surprising given the fact that it was not so long ago that China was all but irrelevant to the functioning of the global networks of trade, finance and production. In an era when it has become increasingly difficult to find toys, clothing and electronic equipment that do not bear the "made in China" stamp, it seems even more astonishing to note that this giant is a relative newcomer to the intensely competitive global political economy.

Although China has become a crucial actor in the areas of global trade, finance and production, its current growth capacity is based on deep interdependence with Western interests and multinational corporations.

In terms of economics, there has emerged a relatively strong school of thought which argues that China has become the main engine of growth in the world economy, or that it is an emerging economic superpower that threatens to reconfigure the global system around its national interests. The *prima facie* supporting evidence from recent trends in the global economy appears to be compelling. The Chinese economy has become the second largest national economy in the world with a GDP over US $11 trillion according to purchasing power parity (PPP), and it is predicted to overtake the US in 2050. China has also overtaken the US as the single largest recipient of non-stock shares and foreign direct investment (FDI), and has massive foreign currency reserves in US dollars, thereby financing American budgets and trade deficits.[1] Therefore, not surprisingly, this emerging economic superpower is widely perceived to constitute the major prospective challenge to the existing global economic order in general, and to the American economic interests in particular. In this context, it is interesting to note the debates on the evolution of the global governance system from the official G-20 platform into a *de facto* G-2 regime based on bilateral competition and compromises between the American and Chinese administrations.[2]

China occupies an unique position among the rather large group of developing countries for at least four reasons, which include: (a) its large volume of exports and trade surplus (the latter at around 10% of its GDP), and its massive official reserves at over US $2.5 trillion, largely invested in US Treasury bonds; (b) its growing trade, as well as investment links, with developed

East Asia; (c) its massive import capacity, especially of intermediate goods from neighboring countries in Asia; and (d) its success in achieving reasonable stability in the financial sector since the beginning of structural reforms in 1979 and also during the global financial crisis after 2008. The recent signs of potential instability were countered by the intense efforts of Chinese monetary authorities in having relatively free capital flows while maintaining national autonomy in monetary policy and exchange rates-defying the notion of the "impossible trilemma" in the literature.[3] Under these conditions, the ever-closer integration of China with the world economy has raised concerns from different quarters which relate both to the possible effects of the global downturn on China, and the second-round effects of a downturn in China on the rest of world.

Against this background, the main thrust of the argument raised in this study concerns the idea that China's unprecedented rise from the margins of the global political economy to a position of an economic powerhouse should still be conceptualized as a "work in progress" and is surrounded by numerous domestic and international challenges. This argument is formulated by underlining the relatively strong and problematic aspects of the structural reform process that has been underway in China for over four decades. Meanwhile, this study stresses the vital importance of the international trade-FDI nexus in triggering sustainable economic growth in the Chinese development model and the drawbacks that this model has created due to the reduction in global demand in the wake of the global crisis. Furthermore, this article emphasizes that grave regional disparities in terms of income distribution, overall living standards and socio-economic development are aggravated by selective inflows of FDI into certain regions and specified free trade zones. Finally, the strategic initiatives of the Chinese administration to transform the country from a low-cost manufacturing and export-oriented production base into a crucial national market in itself by following demand management strategies will be highlighted.

> The more hyperbolic contributions to the literature have recycled Cold War-type "zero-sum" realist constructions of China as an existential threat for the Western world.

The main conclusions of the study suggest that China has employed one of the most successful crisis-exit strategies in the world by launching a massive

program of public investments into infrastructure and social support projects to boost domestic demand and maintain the economic growth momentum despite the debilitating impact of the global economic crisis. This approach, in turn, will be contrasted with the rather orthodox crisis response strategies of the majority of Western governments that have preferred to transfer massive amounts, in the shape of rescue packages, to the private banking and financial sectors in order to save the future of their shaky financial institutions. The study will conclude by exploring the potential success of the paradigm shift in China towards domestic market and service orientation in the context of a competitive knowledge economy.

Unveiling the Debate over Intensions: China in the Global System

Academic interest in China reached its zenith in the last decade and there emerged voluminous scholarly literature in political science, international relations, development economics and related disciplines exploring various aspects of the "Chinese model".[4] Much of the stated interest has been sparked by China's unprecedented ascendance in the global political and economic system, triggering debate over its respective significance in terms of the main dynamics of global security,[5] international trade,[6] global finance,[7] international development,[8] systems of production,[9] the global environment,[10] models of development,[11] and whether China has indeed emerged or re-emerged as a major global player.[12]

However, despite the massive size and scope of the ever-expanding literature on China's ascendance, carefully camouflaged ideological dispositions prevalent in many analyses have created bizarre discussions about claims and counterclaims on China's real "intentions" in international politics. The more hyperbolic contributions to the literature have recycled Cold War-type "zero-sum" realist constructions of China as an existential threat for the Western world. Kaplan's rather antagonistic account *How We Would Fight China*[13] and the parallel analysis by Mearsheimer, *China's Unpeaceful Rise*,[14] are illustrative of the more negative end of the intellectual spectrum as are the works of Mandelbaum,[15] Gertz,[16] and Bernstein and Munro.[17] On the other hand, more balanced analyses have sought to alleviate concerns about the suspicious intensions of China and place the recent attitude of the Chinese administration squarely within existing international norms, rules and modes of behavior. To illustrate, one could

cite Suzuki's examination of China's "charm offensive" in foreign policy platforms;[18] Kennedy's elaborate critique on the notion of Beijing consensus;[19] Lo's account of China's Westphalian international politics;[20] and Zhang's exploration of China's entry into international society.[21] Moreover, the works of Li and Zhu, and Kotz on China's sophisticated development problematic;[22] Piovani and Li's analysis of the challenge of rising socio-economic inequality;[23] Breslin's examination of China's global role and the question of soft power;[24] and Bremmer's discussion of the threat posed by China's military to the United States[25] could be accepted as representative examples of this genre.

Interestingly enough, among the numerous contributions to the bourgeoning literature on China, there are relatively few studies that do not focus, or choose to speculate on, China's "intentions" underpinning its global strategy. In the same vein, multi-faceted analyses that do not explicitly focus on the "intentions debate" are frequently forced to take a position on the issue as either an entry or an exit point under the influence of the dominant intellectual atmosphere. Furthermore, commentators frequently roll out uncritical commonsense ideas concerning the sinister intentions of China in various contexts. To illustrate, while commenting on developments in global security after September 11, Mishra noted that "Rising faster than any country since the industrial revolution, China has unexpectedly emerged on the world stage; its *intentions* still largely unknown, its distance from Western-style democracy and capitalism still considerable".[26]

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Similar tensions are manifest in the literature focusing on the relations of China with the World Trade Organization (WTO). As in the more general literature, worries and suspicions about the potential capacity of China to harm the Western world have predominated in the writings on the issue. In those limited instances when they did not come to the fore, these themes have provided an analytical frame within which the overall debate unfolds. To illustrate the predominant character of this genre, Narlikar's *New Powers: How to Become One and How to Manage Them*[27] constitutes a good example with its explicit focus on the intentions debate. Following the same mentality, Liang's assessment of China's

role in the international political economy could be considered a half-way house, seeking to address short-term concerns of the perception that China is a system-challenging power while leaving the intentions debate wide open in the longer term.[28] Finally, Lim and Wang set out specifically to challenge recent assertions that "China has broken cover" and become more assertive in the Doha Round of WTO negotiations.[29] In the following parts of the study, we aim to transcend the reductionist and ideologically motivated boundaries of the intensions debate by looking at the real substance of the ongoing transformation in the Chinese political economy. To this end, we will examine crucial milestones over the course of key socio-economic reforms since the 1980s; financial integration with the world economy; crisis-exit performance of Chinese policy makers after 2008; and the real opportunities and challenges facing China in its efforts to become a globally competitive knowledge economy.

Socio-Economic Reform Dynamics: Accounting for the Winners and the Losers

Although China gradually emerged from the isolation and economic autarky of the Maoist period after the assumption of power by the modernist leader Deng Xiaoping in 1978, it was not until 1993 that it became a really important entity in terms of global trade and FDI flows. In this context, a milestone that happened in October 1992 concerned a key declaration by the General Secretariat of the Chinese Communist Party (CCP) concerning the transition to a "socialist market economy", which triggered a massive increase in FDI inflows. In retrospect, China's move toward a relatively open, market-driven economy is usually accepted to have begun in the early 1980s and proceeded through three distinct phases.

> The new urban industrialization strategy was based on the creation of a consumer society around metropolitan centers through massive infrastructure and urbanization investments.

Initially, the process involved a large-scale industrial expansion driven by the production of mass-consumer products for the domestic market facilitated by a balanced pattern of growth that encouraged rising demand.[30] The origins of this broad-based growth were laid in the gradual releasing of controls by the Communist Party over private activity in rural areas, creating a burgeoning entrepreneurial non-farm sector that

paved the ground for fast-rising incomes for some of the poorest social sectors of the population. This was accompanied by strategic state policies to raise agricultural prices for the purpose of improving rural wealth levels, though these appear to have been of lesser importance. Whatever the combination of causes, the undeniable result was double digit annual growth in net real income for wide sections of the rural population from 1979 to 1984. As a result of this positive growth momentum, poverty was reduced on a massive scale; income disparities, regional and socio-economic inequalities were decreased (at least initially); and rising levels of domestic demand facilitated the attainment of rapid industrialization and associated improvements in total factor productivity.[31]

Growing inequalities, particularly between rural and urban areas, have meant that an increasing amount of China's newly created wealth is concentrated among the relatively rich segments of society.

Following the positive trends in the mid-1980s China entered a second phase of reform in the wake of the 1989 Tiananmen Square demonstrations. Following the start of popular unrest in the wake of the Tiananmen Square incidents, many of the earlier rural reforms were reversed and the Chinese party-state clamped down on the bourgeoning private sector to preserve public order. Although this was partly reversed following Deng Xiaping's "Southern Tour" in 1992, the main attention of public policy and economic reforms was permanently diverted from rural to urban areas. The new urban industrialization strategy was based on the creation of a consumer society around metropolitan centers through massive infrastructure and urbanization investments, and the strategy was financed by levying heavy taxes on the rural sector.[32] Consequently, economic growth remained high over the course of the 1990s, but the growth was increasingly driven by the expansion in the urban areas and rising urban wages coupled with high rates of capital investment.[33] The cumulative outcome of this strategic shift was that China gradually moved away from its market-driven, small-scale and social welfare-improving rural growth strategy of the 1980s toward a more Western-style consumption-based market society which exacerbated regional and class-based inequalities in income distribution and social standards. Therefore it is warranted to argue that "whereas Chinese

capitalism in the 1980s followed a rags-to-riches pattern of capital accumulation, the capitalism of the 1990s let to sharp income inequalities, a reduction of social opportunities available to the rural population, slower income growth and an investment-heavy growth pattern".[34]

The third phase of China's economic reform process dates from its accession into the World Trade Organization (WTO) in 2001. This phase has been characterized by export and investment-led growth, with household consumption as a percentage of GDP falling sharply, savings and investment rates increasing and rapidly growing socio-economic inequalities. The substantial decline in household consumption has made China's economic growth highly dependent on exports to Western markets, thereby creating an unsustainable interdependence and imbalance which has in effect placed long-term growth in jeopardy. In the literature two principal reasons have been generally identified for the low rates of domestic consumption in China (which are roughly around half the levels in the USA) and associated high savings rates.[35] First, Chinese workers are facing an ever-increasing burden of privatization in social services, such as in healthcare, education and housing, as state provision has steadily declined and this has increased the need to save for future social costs. Second, growing inequalities, particularly between rural and urban areas, have meant that an increasing amount of China's newly created wealth is concentrated among the relatively rich segments of society, who conventionally tend to have higher savings rates.[36] At this juncture, it needs to be emphasized that during the making of this consumer society, the socio-economic dynamics in Chinese society have gone through a tremendous process of deterioration with sharply increasing income disparities. To illustrate, China's Gini coefficient has increased at a staggering rate over the last 30 years, from a relatively egalitarian 0.2 to a highly unequal 0.5- a rate of change that is unprecedented anywhere else in world history.[37] So much so that while trying to establish its international competitiveness, China has surpassed the level of socio-economic inequality in Latin America, which had been traditionally perceived as the leader in global inequality.[38]

Unlike other developing countries in East Asia, China has not traditionally attracted huge amounts of "hot money" and almost all of the FDI stock has been focused in productive sectors.

Furthermore, it is worth reflecting briefly on the state of labor in China following the long years of fundamental economic reform. While the first phase of reforms witnessed overall welfare levels rising for all, this momentum was not carried forward when the rural reform process was halted in the second phase in the 1990s. Consequently, China has faced serious social problems including the rise of illiteracy especially in rural areas as the overall illiterate population increased from 85 million to 114 million between 2000 and 2005.[39] Moreover, job creation has slowed significantly in the domestic economy and employment opportunities have increasingly favored the better-educated and younger segments of society (i.e. those groups who are better positioned to take advantage of China's integration with the global economy). The new employment conditions have been disadvantageous for those social groups in marginal rural areas, the elderly and the less-skilled.[40] In the meantime, growth in personal income levels has moved from exceeding overall GDP growth to lagging behind significantly.

As a general comment about the Chinese growth experience, promoting export industries over the course of economic liberalization has proved to be a highly successful way of generating sustainable economic growth as long as demand in global markets was at satisfactory levels. Rural reform, in turn, has released excess workers from the countryside and directed them toward employment first in small-scale town and village enterprises and then in and around rapidly developing metropolitan centers such as Shanghai and Beijing. In the meantime, a dualistic international trade regime was carefully created on the strategic coexistence of a relatively liberalized export-promotion system with a strictly protectionist import regime. To this end, export-oriented entrepreneurs and inflows of FDI, especially aimed at Greenfield investments, were proactively supported in order to rapidly increase the domestic production capacity for export markets while domestic producers were tightly protected from foreign competition through high tariffs and quotas, the lack of currency convertibility, state-set exchange rates and limited external access to financial markets. In the meantime, the relatively closed nature of the Chinese financial system ensured that throughout the rapid growth era, the Chinese economy was not greatly affected by the contagions of global financial crises, particularly the financial and macroeconomic crisis that hit other East Asian economies in 1997.[41]

One of the most striking features of China's integration into the global

political economy concerned the exceptionally positive role played by FDI flows in the expansion of domestic productive capacity. Unlike other developing countries in East Asia, China has not traditionally attracted huge amounts of "hot money" and almost all of the FDI stock has been focused in productive sectors. FDI inflows, in turn, took two major forms: market-accessing investments, and investments for export-oriented production. Historically, the latter has dominated the FDI inflows into China due to comparatively cheap labor costs, controlled exchange rates and massive infrastructure investments realized by central and local administrations. In retrospect, the critical FDI-export nexus and the strategic management of the FDI regime has been the engine of the rapid growth episode in China by making annual average growth rates around 8% possible; by increasing the GDP per capita in regions focusing on export-oriented production; by positively impacting on balance of payments and foreign currency reserves; by creating new jobs, upgrading skills, and raising total factor productivity; and by increasing technology transfers and encouraging the modernization of enterprises.

Banks in China have continued to remain the main conduits of financial intermediation within the country, handling around 80% or more of the financial flows until recently.

However, even the Chinese authorities accept that a critical caveat is associated with the current FDI regime, namely the uneven spatial distribution of foreign investments, which is also the case in many late developing countries. For China, the geographical centralization of FDI decisions means that around 90% of total FDI inflows have been directed into just eight coastal provinces and cities which enjoy legal privileges and infrastructural advantages. These include Guangdong, Shanghai, Jiangsu, Fujian, Shandong, Tianjin and Liaoning. Not surprisingly, the uneven spatial distribution of investment and growth in line with the preferences of foreign investors has triggered a rapid increase in socio-economic and regional disparities in the Chinese society. Although the Chinese administration has recently tasked itself with balancing growth and income distribution among regions by promoting the development of western China and the old industrial heartlands known as the "rust belt", investment decisions of international corporate interests still exert a significant impact upon the future direction of

Chinese political economy and domestic socio-economic balances in the age of increased international integration.

Financial Integration with the World Economy

The extent to which an individual country relies on the rest of the world economy also depends on the extent of the deregulation of its financial sector, which affects the magnitude as well as the composition of capital flows in and out of the country. It can be observed from previous experiences of liberalization that deregulated finance encourages capital flows of a short-term nature; this can impact the functioning of the country's stock market, the level of official reserves and even the exchange rate. These developments were also visible in China following the critical decision in 2005 that led to the partial deregulation of the financial sector. In retrospect, China's entry into global financial markets seems to have gone through two distinct phases.

The *first phase* corresponds to the period between 1978 and 2005 when China maintained relatively strict controls over the financial sector. While some concessions concerning the regulation of the capital account were made during the negotiations leading to China's membership accession to the WTO in 2003, the government introduced regulative controls to avoid the danger of capital flight, following a strategy of "easy in and difficult out", especially for short-term and international capital flows. The negative consequences of the 1997 Asian financial crisis in the East Asian political economy provided a strong justification for the maintenance of a cautious attitude towards speculative attacks that might stem from the Western world to destabilize China's growth momentum. The *second* phase in financial liberalization started after 2005, and signaled considerable relaxation of earlier controls and regulation over inflows of overseas finance and over the exchange rate of the RMB (the Yuan), which was until then kept under a fixed dollar peg. FDI as well as portfolio capital inflows have increased since then at a pace that had continued until the onset of the global economic crisis in the fall of 2008. The exchange rate of the RMB also has gone upward through various adjustments, recording a 20% appreciation in the period between 2005 and 2008.

The second-generation of FDI inflows from the EU, Japan, and the USA since the mid-2000s have been predominantly directed to niche areas within the home market.

China, in the earlier years of its financial opening (until about 2005), provided a unique national example in which the liberalization of the financial sector proceeded under close state monitoring, a situation which has been described as "guided finance".[42] Banks in China have continued to remain the main conduits of financial intermediation within the country, handling around 80% or more of the financial flows until recently. Among these, four major state-controlled banks control more than 70% of the total deposits and advances in the banking industry. Thus the securities sector in China has remained at a nascent stage and Chinese banks have not been permitted to invest in securities; and despite having access to the market for securities, state-owned economic enterprises (SEEs) have relied on banks for raising investment finance rather than the stock market.

Therefore, economic growth in China has not been the typical export-led development compact as had happened in some other countries in East Asia. On the contrary, it was triggered by a process of state-led industrialization, as was the case in Japan and more recently in South Korea, along with a gradual opening up of large domestic as well as external markets. Moreover, state-led industrialization in China has not remained confined to a narrowly defined export enclave; instead the country's vast territory and swarming population has provided a base for domestically driven economic expansion. As pointed out in recent studies, much of the domestic economic activities are increasingly generated by domestic demand.[43] The second-generation of FDI inflows from the EU, Japan, and the USA since the mid-2000s have been predominantly directed to niche areas within the home market, unlike the first-generation flows that catered directly for export markets.[44]

Despite the increase in the Gini coefficient and socio-economic inequality, the massive reduction of acute poverty in China has accounted for most of the overall reduction in global poverty.

In the same vein, the Chinese administration has been using an expansionary fiscal policy in the aftermath of the global crisis to be able to tackle the impact of the shrinking export demand in global markets. In that respect, the ambitious drive on the part of Chinese authorities to boost real demand in the countryside and revamp the domestic market has showed a neo-Keynesian promise much different than the standard financial rescue packages adopted by the majority of industrialized

Western nations. As part of its crisis-exit strategy, China announced a massive package of new fiscal expenditure in 2009 that amounted to four trillion RMB (US $586 billion), which represented about 16% of national economic output and was roughly equal to the whole central and local government spending in 2006.[45] Strategic steps such as these were aimed at bolstering domestic demand and helping alleviate impacts of the global recession by creating new forms of spending on housing, infrastructure, agriculture, healthcare and social welfare, along with tax deductions for capital spending by private companies.

A related factor that needs to be taken into consideration concerns the fact that China's trade integration has been more intense with Asian countries rather than advanced Western countries in the later periods of the liberalization process. Even Hong Kong, which used to be treated as a transit corridor for China's trade with industrialized countries, has diminished in importance in recent years. Given the pattern of growing instability in the advanced economies, this may work out as a favorable factor for China in terms of withstanding the potential hazards of a sudden collapse of export markets in the advanced economies. However, as far as international capital flows are considered, the prevailing patterns are extremely different. Following the decision on financial liberalization in 2005 Chinese financial markets have been increasingly integrated with the financial markets of advanced economies through long-term FDI and short-term portfolio capital flows.

Qualifying China's Rise: Real and Potential Challenges

It is not difficult to see why China is often posited as an example of successful economic reform and a coming "superpower", at the very least in terms of its economic potential and perhaps by the political and geostrategic definition of the term. Metropolitan centers such as Beijing or Shanghai have changed beyond recognition in an amazingly short period of time, and their populations have increasingly adopted modern urban lifestyles that reflect conventional middle-class tendencies in the advanced industrial countries. Even Chinese cities in the interior parts of the country, including the former "rust belt", have witnessed clear signs of rapid economic growth and substantial wealth increase which have been far beyond cosmetic changes. The lives of millions of China's urban dwellers have dramatically changed in two decades and large chunks of the population in the countryside have achieved better living conditions. In fact, despite the increase in

the Gini coefficient and socio-economic inequality, the massive reduction of acute poverty in China has accounted for most of the overall reduction in global poverty. As a consequence of structural reforms aimed at the popular dissemination of an entrepreneurial culture and market mentality, Chinese citizens also enjoy wider freedoms, especially in the socio-economic field, compared to the situation in the past, although the country still receives harsh criticism from the Western world due to breaches of fundamental human rights and freedoms.

There is no doubt whatsoever that China's engagement with the global political economic system has been portrayed as a bright success and that China has become a massively significant element in intensely interdependent global trade, finance and production networks. The particular ways in which parts of the Chinese economy have been inserted into the global economy have already resulted in a reconstruction of the East Asian regional political economy. The new patterns of integration have also had an impact on the developmental trajectories of late developing states across the world and altered conventional production processes by fragmenting production phases and removing jobs from the advanced economies. However, one needs to be careful not to assume that economic growth equates to wider socio-economic development. Although China has been going through a rapid structural transformation, there are a myriad of caveats that qualify the ongoing transformation. Despite having nearly double digit growth for two decades, China still remains below many developing countries in terms of social welfare, including Kazakhstan, Namibia, Tonga, Iran, Equatorial Guinea, Thailand and Costa Rica. It is instructive that despite the great successes of China's reform experience and the fact that it is often favorably compared to the Russian path of transformation, per capita income in Russia is still around 50% higher than in China whichever calculation is used (not least because of the extremely low base level that China started from).

Elite-level policy choices will shape the pattern of China's global integration within a context that is predominantly defined by external forces.

While being transformed from state-dominated socialism toward a more market-led and competitive framework, the Chinese economy was orientated to an over-reliance on export markets and this triggered an increase in inequalities

between the urban and rural populations as well as between the coastal and inner areas. Profound economic reform has entailed a new industrial revolution, but the transition from conventional socialism to "market socialism" also involved a simultaneous process of de-industrialization. Although economic reform and rapid growth have been important components of continued political legitimacy for the regime, they have also resulted in profound class reformulations and social dislocations. In this context, the imperative to join the WTO was in part generated by the need to stabilize market access, particularly through achieving permanent "normalized" trade relations with the US, as well as securing further foreign market openings for Chinese exports. However, over the course of the accession process to the WTO and China's first decade as a WTO member, the country's developmental priorities changed drastically, necessitating a revised development strategy. The principal concerns of public policy in recent years has shifted to tackling socio-economic inequalities and labor market inflexibilities as well as shifting towards a growth model based more on domestic consumption and less on export markets. Yet the manner of China's accession to the WTO has further embedded it into a global economy through a form of macroeconomic governance that was designed to pursue a development trajectory in line with the country's earlier prerogatives rather than its needs in later phases.

The pattern of China's engagement with the global economy undoubtedly occurs within a hegemonic system of global rules dominated by the "Washington Consensus" on free trade and unfettered capital markets. Despite the "post-Washington" principles, such as stronger public regulation and supervision to avoid financial crises which gained ground after the global economic crisis, the neoliberal integration paradigm still looks prevalent on a global scale. Therefore, economic globalization with a neoliberal tone still structures national-level debates between those leaders in China who see liberalization as key to China's rapid development and those who resist the "embeddedness" of international guidelines from the Western capitals. This dispute underlines the fact that elite-level policy choices will shape the pattern of China's global integration within a context that is predominantly defined by external forces. While the global and regional economies may delimit much about China's mode of integration, certain economic forms are transmitted into the country through localized relationships-what could be called an "outside-

in, bottom-up" approach- where multinational corporations or overseas Chinese network capital determine how China's economy is integrated into the global economy.

Official international trade figures from the WTO (Table 1 and Table 2) clearly demonstrate the deep extent and scope of China's trade-based integration with global networks. Over the course of recent decades, China has been transformed into a global shop floor and crucial actor in trade flows as it realizes more than 10% of all global exports and more than 90% of its exports are in the manufacturing sectors. As the largest single exporter in the world, China's manufactures have chiefly been aimed at advanced markets including the European, American and key Asian markets such as Japan and South Korea. At the same time, China is the second largest importer in the world as it requires massive imports for intermediary goods and components needed in the manufacturing industry. Again, the EU, Japan, Korea and the US are the main import partners of China in that respect. These figures demonstrate the importance of the massive Chinese manufacturing and export-based trade capacity in the strength of the world economy around the so-called "triad" regions, namely the US, the EU and the developed Asia-Pacific. These also imply that a radical slowdown in the Chinese economy might have profound repercussions for most of the world economy through production, trade and finance links.

Table 1: China's share of world exports (percentage)[46]

(As of September 2012)

Share of world total exports	10.40
Breakdown in the economy's total exports	
By main commodity group (ITS)	
Agricultural products	3.4
Fuels and mining products	3.1
Manufacturing	93.3
By main destination	
1. European Union (27)	18.8
2. United States	17.1
3. Hong Kong, China	14.1
4. Japan	7.8
5. Republic of Korea	4.4

Table 2: China's share of world imports (percentage)[47]

(As of September 2012)

Share of world total imports	9.46
Breakdown in the economy's total imports	
By main commodity group (ITS)	
Agricultural products	8.3
Fuels and mining products	29.6
Manufacturing	59.2
By main destination	
1. European Union (27)	12.1
2. Japan	11.2
3. Republic of Korea	9.3
4. Taipei, Chinese (Taiwan)	7.2
5. United States	7.1

From another vantage point, it has been argued in the political science literature that as its ascendance might be challenged by the US's hegemony in the international system, China could select "hard balancing" through rapid military development and building strong ties with other major powers in an anti-US coalition as a means to promote its national interest. However, at least initially, international economic and normative structures have greatly constrained China's strategic options and forced it to select "soft balancing" by seeking informal, rather than formal, alliances and adopting a less aggressive international posture. In retrospect, employing a hard-balancing strategy could have negatively affected trade relations with the United States and hampered China's priority on economic development because major industrial powers would certainly eschew economic links with a belligerent China. On top of these structural constraints, China's political leaders seemed to have internalized the global norms of the market economy as an indispensable element of their public strategy in the new era. They even seemed to perceive the "international division of labor", the epitome of a truly capitalist global economic order, as a legitimate categorization in which China's position needs to be improved. These values have given China strong normative incentives to accommodate the US and the given global distribution of political power.

Especially in the aftermath of the global crisis, it has become clear that China is no longer viewed just as a source of disruption in the world system, but as an indispensable partner in hauling the world economy out of trouble.

Based on this normative understanding, fledgling Chinese conglomerates, such as Chery in automotives, Lenovo in electronics and the Haier Group in white goods, have made strenuous efforts in the realm of the real (industrial) economy to enter into the league of top international companies in their respective sectors so that China's relative position in the global pecking order could be improved. As a result, China has become one of the most important sources of outward investment in the world on both the state and corporate levels. Yet still, the trajectory of economic growth and wider development prospects remain highly dependent on China's interactions with external actors, particularly the representatives of global corporate capital who control billions of dollars and employment opportunities in their investments. Furthermore, both the American and the Japanese companies are believed to be more intensely engaged with the Chinese economy than the official bilateral trade and investment figures suggest through their links in Hong Kong, which has created an extra source of politico-economic sensitivity.

China's Global Role in the Aftermath of the Economic Crisis

As the global financial crisis in 2008 metamorphosed into a genuinely global macroeconomic crisis and recession, international perceptions of China began to change rapidly. For years, foreign critics have accused China of engaging in unfair trade practices, stealing jobs, running up excessive current account surpluses and manipulating its exchange rate. It is still premature to assume that such complaints have gone away completely. However, especially in the aftermath of the global crisis, it has become clear that China is no longer viewed just as a source of disruption in the world system, but as an indispensable partner- just conceivably a leader- in hauling the world economy out of trouble. Especially since 2009 China has been promoted from the margins of the G-8 and G-20 summits right to the centre stage, with the country's leaders occupying a place of honor in accordance with China's increasing national economic importance and its

status as *primus inter pares* among other nations represented at the table.

Overly optimistic expectations from China in the Western world for the revitalization of the world economy are understandable, and China has an obvious stake in global prosperity. It is also relatively well placed to weather the global storm: its banking system has escaped the direct impact of the financial crisis, its public debt is modest and its fiscal position is strong. However, widespread expectations that China would ride to the rescue of the global economy as the engine of growth in the world economy have been misplaced, to say the least. Domestic pressures and priorities, such as policies on poverty alleviation and decreasing income disparities, are driving the Chinese administration to act in ways that create renewed tensions with trade partners, and particularly with the Western world. Notwithstanding its size and strong economic growth record, China cannot realistically act as a global economic locomotive, even if the leadership had such intensions. The advocates of China's growth-generating role for the world economy should be reminded that the powerful rebound by the Chinese economy in the post-crisis era has mostly helped developing-country producers and neighbors such Japan and South Korea, whose growth depends heavily on exports from China.[48]

In terms of global governance, China's traditional tendency since joining the WTO has been based on intense bilateral diplomacy to manage trade relations and promote liberalization. Its long-standing policy (attributed to the Confucian legacy by some observers) in multilateral organizations has been to keep its head down and raise its voice only when the most vital and sensitive national interests are seen to be at stake. That's why for most of the time, and concerning most of the policy issues in multilateral platforms, the Chinese leadership has been quite content to leave it to other actors to do the running. To reiterate, some observers of China argue that this preference for a pragmatic and low-profile approach has extremely deep historical and cultural roots in the country. China's Supreme Leader Deng Xiaoping also urged his compatriots in the 1980s to "observe developments soberly, maintain their position, meet challenges calmly, hide their capacities, bide time, remain free

China's traditional tendency since joining the WTO has been based on intense bilateral diplomacy to manage trade relations and promote liberalization.

of ambitions and never claim leadership on a regional or global basis." In the light of this rich historical tradition, it is quite understandable that China has responded to the outbreak of the global economic crisis by adopting a studiously detached and non-committal posture.

Economic growth in China will remain heavily unbalanced in terms of the dependence on exports as the engine of growth as well as for the socio-economic distribution of wealth among different regions and social sectors.

Chinese leaders have repeatedly argued that the Western world created a sophisticated financial mess through intricate financial engineering methods and they should take due responsibility for thoroughly cleaning it up. The main contribution China could make, they insist, is just to keep its own economy stable and growing on a sustained basis, as it did after Asia's financial meltdown in 1997, while quietly supporting multilateral efforts aimed at international cooperation initiated by other actors. However, the recent escalation of the crisis, especially in the euro area, seems to have made it harder for China to continue taking a backseat role in global financial and economic governance, while it is also using the crisis as a new opportunity to make its strong and critical views about the current global economic dynamics heard. As China's economic and financial importance in the international system continues to expand, so inexorably will its interaction with the rest of the world. The impact will be felt as much inside China as outside it, as the leadership is increasingly obliged to cope with the intrusion of external factors that impinge directly upon domestic concerns. If global stability- a condition so highly prized by the "Middle Kingdom"- is to be maintained, deeper engagement between Beijing and the global power centers will be not merely desirable but unavoidable in the near future.

Conclusion: The Future Prospects for the Chinese Model

At least in the medium term economic growth in China will remain heavily unbalanced in terms of the dependence on exports as the engine of growth as well as for the socio-economic distribution of wealth among different regions and social sectors. Developing the domestic economy as a market for itself and basing economic growth on domestic demand might decrease the degree of dependency

on external factors over time. In an environment where global demand has shrunk considerably since 2008 due to the impact of the global economic crisis, the Chinese administration has admirably sought neo-Keynesian policies to expand the domestic market and increase the purchasing power of the Chinese middle class. This approach is likely to continue in the near future to maintain the momentum of economic growth and decrease regional income disparities.

Another key challenge for the Chinese political economy is to move up the production-ladder from labor-intensive to capital-and knowledge-intensive production sectors. China started its journey towards global integration by becoming the "world's outsourcer of first resort" and located itself in the global division of labor as the main production site for low-tech, low value-added industries due to its unparalleled cost advantages. This strategy was reminiscent of other East Asian late industrializers who started from low value-added production and moved gradually into higher value-added realms of the production process. Now the main challenge for Chinese policy makers is to promote endogenous Chinese brands on a global scale so that the bulk of the value-added from the production process could be kept home. A related challenge is to modernize the national production structure through technology transfers, mergers and acquisitions so that the country's competitiveness and its position in the global pecking order could be improved.

As part of the policy recommendations towards this end, it could be proposed that China should avoid repeating some of the mistakes committed in the past by fundamentally re-engineering its overall development model. This will mean switching the emphasis away from physical investment, particularly in the construction and manufacturing sectors, as the main driver of its economic growth and relying more on the growth-generating energies of domestic consumption and the service industries. That seems to be the policy direction in which China's leadership has expressed a strong intension to follow. However changing the broad contours of the development strategy will be a formidable task that requires political firmness and determination in view of the required changes of priority in socio-economic policies. The new "Chinese Model" should involve, among other things, reducing precautionary household savings by creating a properly funded social security, pension and healthcare systems and by improving national education system.

This prospective model should also involve modernizing China's backward financial system and capital markets to enable them to intermediate the country's vast savings more efficiently and stimulate the expansion of service markets by loosening the grip of the state industries that dominate them. The stated structural reforms obviously require a massive and systematic transformation. Among these, building an effective social security infrastructure will take at least a couple of years, or even decades, and will involve recruiting and training legions of qualified managers and professionals. Achieving genuine competition in the services markets and undertaking the financial reform on the needed scale will require both a willingness to take on politically influential producer interests and the development of effective statutory regulations.

To reiterate a critical point made throughout the study, China's emergence as a major international economic player clearly has had a massive impact on the balance of power in the global political economy. Yet, one needs to carefully clarify the difference between importance and power of an agency in the wider system. Sustained economic growth over the last few decades has generated massive tax resources that have so far been used to finance grandiose public investment projects, increased military and space spending and the buying up of US Treasury bonds, all of which has enabled China a degree of power in the international system. Furthermore, the increasing purchasing power of the massive Chinese population, the expansion of the Chinese middle class with their new consumption habits, and the decline of consumer demand in the advanced economies, especially in Europe, due to the global economic crisis have transformed the Chinese market into one of the most promising domestic markets in the world. However, one qualification needs to be stated, namely that the Chinese market still does not enjoy the kind of "infrastructural power", that the US and EU markets have, to determine the major consumption patterns and set the dominant trends in the world economy. Therefore, analyses indicating the rise of China as a major player in the global political economy should take these qualifications into account and be conducted within realistic and sensible boundaries.

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