

## China: Economic Power, Political Enigma

**K**hao San Road, the Mecca for budget travelers in Bangkok, is one of Asia's finest bazaars of cheap goods. Thai massages, marijuana, and fake journalist accreditation badges that put my ID to shame are among the many items for sale at rock-bottom prices. Compact discs are a particularly excellent value. Last month, I bought five pirated CDs for \$4. All were new albums. All offered high-quality sound. All were made in China.

Pirated CDs are but one example of the dilemma facing China—and every other nation affected by the mainland's actions. After entering the World Trade Organization (WTO) in January, China is striving to banish its image as an economic loose cannon full of intellectual property pirates, dogmatic officials, and murky business rules. Beijing wants to be regarded as a normal trading nation. For the first time in decades, China has also begun to assume a leading role in international affairs and is trying to change its image as a diplomatic enigma—sometimes bullying, sometimes strangely silent, and rarely helpful. Beijing would like to be seen as joining the fight against terror and helping to preserve international stability.

A close reading of recent events, however, suggests that the People's Republic is not quite ready for prime time. China is becoming a more responsible international actor only in some areas. On the economic front, China is proving a relatively proactive, reformist, and stable trading nation. In political and diplomatic matters, however, the evidence is less clear; in some ways, Beijing's foreign policy is becoming more unilateralist and more dangerous. Only when Washington comes to terms with this massive bifurcation between economic and diplomatic behavior can it effectively manage both aspects of the relationship with China, helping Beijing consolidate its role as

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an engine of growth while preempting the most disastrous effects of China's penchant for diplomatic misadventures.

## **An Economic Player but Not a Gorilla**

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During the past year, as the U.S. economic boom came unhinged, a raft of stories about China's economy have appeared in the U.S. press. These articles often emphasize China's enormous trade surplus with the United States, discuss the large-scale migration of Taiwan's industry to Shanghai (a development that some fear may force Taiwan to reintegrate with the mainland), and paint scenarios of China's cheap, and sometimes forced, labor prompting global price deflation. Some of these articles are reminiscent of the atmosphere of the late 1980s, when Japan seemed poised to dominate the U.S. economy, a development that triggered laughable, anti-Japan books such as *Rising Sun* and even prompted some Americans to consider Pat Buchanan's rabid xenophobia seriously.

The alarmists need to recalibrate their sights, however, because China's growth is not the major concern. The belief that China's astounding development—averaging 10 percent annually for the past two decades—will decimate Asia ignores both standard macroeconomics and the situation on the ground. Clearly, some Asians are worried. New Delhi is so concerned about Chinese competition that it has forbidden Infosys Technologies, a leading Indian software company, from training Chinese engineers. Nonetheless, despite massive foreign investment into China, the mainland actually imported more from Southeast Asia last year than it exported to the region. Many leading businesspeople are not overly concerned about Chinese goods prompting international price deflation.<sup>1</sup> Moreover, because China's services industry is so backward, foreign companies should be able to dominate this lucrative market on the mainland. More than 35 million ethnic Chinese live in Southeast Asia, so Asia's services industry is well positioned to grab market share. Indeed, Thailand's tourism industry already is drawing millions of Chinese travelers, who are flocking to Bangkok's fleshpot red-light areas. U.S. services companies also could reap huge rewards. AOL Time Warner has signed a deal to provide cable television on the mainland, and Universal Studios last winter announced it may confer on China the ultimate symbol of globalization: a theme park.

In fact, the U.S. media, and some Asian leaders, have not given Beijing enough credit for keeping Asian economies healthy. In recent years, China's stable monetary policy has helped prevent regional downturns from becoming far worse. Even as several Asian states plunged into recession in 2001, pushing the value of their currencies down and making their exports more

competitive, China did not devalue its currency, which is pegged to the dollar. Beijing's refusal to devalue has helped prevent a replay of the late-1990s financial crisis, which was triggered by a round of Asian currency depreciations. China also has provided low-interest loans and grants to some of its poorest neighbors, including Laos and Cambodia, a country whose prime minister, Hun Sen, once detested Beijing for supporting the murderous Khmer Rouge.

Moreover, though China's development will deprive its neighbors of some investment, Beijing appears willing to share the spoils of growth. China today absorbs more than 70 percent of all direct investment into Asia, yet Beijing's mandarins have pushed hard for a China–Southeast Asia free-trade zone. In addition, Beijing has signed agreements regarding commercial navigation on the Mekong River and proposed building a highway between Bangkok and Kunming, a city in southwest China.

**China is striving to banish its image as an economic loose cannon.**

### **The Soft Underbelly of China's Economy**

Most importantly, Beijing's leadership has committed itself to eliminating the inefficiencies that plague China's economy and to abiding by international trading rules—reforms that will boost trade flows and help restore global economic health. China's economy doubtless remains backwards, at least by the standards of the industrialized world. Banks still favor enterprises with close party connections. Piracy remains a huge problem: walking the streets of Shanghai last winter, I was offered knockoffs of the new Harry Potter movie. Chinese firms still engage in massive off-the-books transactions. In January, Wang Xuebing, former head of the Bank of China, was placed under house arrest for financial irregularities during his tenure at the bank. Additionally, Beijing's still-draconian restrictions on the Internet and on print media will retard the development of a truly adventurous Chinese high-technology industry capable of discovering groundbreaking technologies that would benefit the world.

Yet, the upper echelon of the Chinese government is not backing down, even though economic liberalization could unleash a time bomb of unemployed laborers, potentially costing President Jiang Zemin, probable successor Hu Jintao, and their cohorts their jobs—or their heads. On joining the WTO, Beijing pledged to slash subsidies for state enterprises, reduce tariffs, and ultimately allow wholly owned foreign ventures to operate unimpeded

in China. Indeed, the government has made *qing li men hu*, “getting our [economic] house in order,” its mantra and has spent so much time hyping WTO accession that decidedly unsexy books on trade rules have become hot sellers at Beijing bookstores. The government is downsizing the firms it owns and today employs less than 20 percent of China’s population. Top bankers who pilfer from the till are prosecuted (and, unfortunately, sometimes executed); fifteen years ago, Wang never would have faced censure.

**Many have not given Beijing enough credit for keeping Asia’s economies healthy.**

The Chinese police slowly are cracking down on piracy, greatly pleasing U.S. corporations. “Three years ago, there were so many stalls selling pirated software outside our office, even government officials would stop ... and buy from them,” Ma Ping, a leading Internet entrepreneur in Shanghai, said. “Today, the stalls are gone.”

China is enacting these reforms despite the existence of 160 million rural Chinese who are already unemployed, the likelihood of these reforms putting millions more rural laborers out of work, a rapid rise in China of labor-related protests, and a history of Chinese governments being overthrown by such angry peasants. “These farmers don’t know what the WTO is yet, but they will—soon,” a Chinese acquaintance said as we wandered through farms in southwestern China’s Yunnan province. According to Ellen Frost, a fellow at the Institute for International Economics, “The Chinese government has undertaken a heroic effort to adapt to globalization by wrenching China’s distorted economy into greater conformity with a market-oriented, rules-based world order.”<sup>2</sup> Homi Kharas, World Bank chief economist for East Asia, has argued, “Other countries in the region would do well to examine what China is doing.”<sup>3</sup>

Some scholars contend that Beijing has acted relatively responsibly on the economic front to curry favor with its neighbors and to advance certain national ambitions. Although this criticism is true, it could easily apply to France, Japan, the United States, or most other nations as well. Does Paris not protect its film industry from competition in order to fulfill its national ambitions to remain a global cultural force? Does Washington not sell arms to a variety of countries, hoping to support U.S. defense manufacturers and to boost ties with these nations? Certainly, a large and dynamic economy can exert a gravitational pull on its smaller neighbors.<sup>4</sup> Thus, the United States must be wary of Beijing utilizing its trade and aid ties with Southeast Asia to dominate the region. Several of these countries, however—Thailand and Singapore come to mind—are dependent on exports to the United

States, and many nations in Southeast Asia fear Beijing more than they fear Washington, putting them on guard against any sort of regional threat.

## The Diplomatic Façade

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In short, China's economic reforms benefit both narrow Chinese interests and the global economy as a whole, as would be expected of most nations. Unfortunately, even in the wake of September 11, the same cannot be said for Chinese diplomacy. Beijing continues to ignore the global implications of its actions while aggressively pursuing its own course.

On the surface, China has appeared to stand behind the United States and its allies on terrorism and security issues. Jiang has said several times that he supports the war on terrorism. Reflecting on Jiang's public stance, the *People's Daily*, mouthpiece of the Communist Party, last fall announced, "The [September 11] attack has fully proved that China is a friend of the United States."<sup>5</sup> Since the attacks, Beijing and Washington have shared intelligence on Islamic terrorist groups, and Presidents George W. Bush and Jiang have created a new bilateral mechanism to allow them to speak directly with each other during emergencies. At the summit in Shanghai last October, Bush thanked Jiang for standing "side by side" with the United States. Meanwhile, U.S. officials hope China can help Washington handle crises in Pakistan, a longtime ally of Beijing—crises that could include Pakistan's nuclear arsenal falling into the wrong hands.

Nonetheless, Beijing's contributions to the war on terror and to international stability are facile and have been overly praised. Despite Jiang's words, China lobbied United Nations (UN) Security Council members to forestall U.S. action against terror. On September 18, Jiang told British prime minister Tony Blair that UN approval and "irrefutable evidence" were needed for China to back armed retaliation in Afghanistan.<sup>6</sup> Separately, Beijing continues to refuse to restrain its navy from making provocative incursions into regional waters, most notably the areas near the Spratly Islands and the Sea of Japan. Beijing also disregards regional security fora, even stating in its own Defense White Papers that regional security fora should focus only on a few, relatively unimportant subjects. Meanwhile, China is actively constructing new missile bases near the Taiwan Strait and continues to sell strategic missile technology to Pakistan, in violation of agreements Beijing made with Washington.

Some Chinese officials have not only proven unhelpful but have even exalted in the U.S. pain. Party-controlled media companies have produced popular videos glorifying the terrorist attacks. In one video, as the camera focuses on the rubble of the World Trade Center, a commentator says,

“Blood debts have been repaid in blood. ... This is the America the whole world has wanted to see.”<sup>7</sup>

Beijing also is using the war on terrorism as justification to escalate its battle against the Uighurs, a Muslim minority group in the western province of Xinjiang—a move that, in the long run, may heighten tensions in Central Asia. Attempting to exploit global abhorrence of the terrorist attacks, Beijing has vociferously alleged that some Uighurs have links to Al Qaeda, a contention that few independent Xinjiang experts support. Although Xinjiang has experienced scattered bombings, very few Uighurs have promoted violence against China. Yet, Beijing has developed a political reeducation campaign since September for more than 8,000 imams in Xinjiang while detaining more than 3,000 Uighurs and sentencing Xinjiang “splittists” to death.

## **A New Nationalism**

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The popularity of videos glorifying the World Trade Center bombing, as well as the anti-Uighur crackdown, which enjoys support among Han Chinese, testifies to a development within Chinese society that many policymakers would rather ignore: as China opens and grows, it is experiencing a period of heightened nationalism. Although continued economic integration with the world and greater political freedom within China will help temper this nationalism eventually, for now Chinese nationalism is a fact that Washington must address. Renewed U.S. alliances with neighboring Asian countries, a series of unfortunate Sino-U.S. incidents including the bombing of the Chinese embassy in Belgrade, the decline of communism as a unifying identity, and the nationalist curricula taught in many schools have all combined to make many young Chinese more nationalistic.

Though Jiang’s limited antiterror cooperation may be insignificant, many Chinese—especially students and young professionals, the same groups who damaged the U.S. embassy in Beijing after the bombing in Belgrade—believe that their president has been too conciliatory toward the United States. Studying the Chinese media after September 11, virtually every commentator mentioned that the war in Afghanistan was as much a U.S. power grab in Central Asia as a battle against nihilistic terror. Consequently, the popularity of anti-U.S. videos and the lead role that Chinese students at universities in Xinjiang often take in criticizing and even assaulting their Uighur peers is hardly surprising. A unilateralist foreign policy that challenges U.S. “hegemonism” wherever possible, abrogates international norms of freedoms for religious and ethnic minorities, and includes mouthing platitudes to U.S. officials while subtly forestalling antiterror cooperation suits this ascendant nationalism.

The coexistence of this rising nationalism and its attendant policy misadventures with “wrenching” economic opening is not unfathomable. Today, global prestige is often attained through economic power rather than military might. Beijing realizes that China can only take its place as an economic leader by playing by international trading rules—rules that, given the development of the WTO, are better defined than any diplomatic norms and that force rising powers to conform to a trading system that benefits many nations. The past 20 years have branded this lesson on Beijing’s mandarins. The heir to Jiang’s throne, Hu, although he has welcomed Western economics experts to the party’s premier training school, is unlikely to forget the lesson either. Indeed, Beijing’s leaders have seen the rewards that Chinese society has reaped from economic reform and integration with the global trading system, as well as the negative impact whenever foreigners pull capital out of certain sectors of the economy. Economic growth through global integration and nationalism can go hand in hand.

**Beijing’s contributions to the war on terror are facile and have been overpraised.**

### **Before the Window Closes**

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During the course of the next decade, the U.S. response to the divide between China’s economic and political behavior will define its bilateral relationship. To handle this situation effectively, Washington must first understand this divide. Before September 11, the Bush administration had adopted a confrontational position toward China; since the terrorist attacks, the administration has reverted to the toadyish, Clintonesque strategy of ignoring China’s flaws and atrocities, even though many of the groups impacted by Beijing’s policy mistakes—the Uighurs, Taiwan, the Falun Gong—are sympathetic to the United States. The U.S. president has said that human rights in China remain a key issue for the United States, but during his Shanghai visit, Bush largely refrained from criticizing China’s human rights record, even though most U.S. presidents have mentioned human rights during trips to the Middle Kingdom. Jiang and Bush barely discussed Taiwan or Xinjiang.

Perhaps this lack of a balanced China policy is not surprising. During the Cold War, the period when most Bush administration officials cut their teeth policywise, the United States traded with military allies and conducted little substantial commerce with enemies or highly unstable nations. Policymakers viewed each nation as either a friend and trading partner or an

enemy and commercial outcast. The current situation, however, of a nation pursuing economic integration globally while not substantially improving its diplomatic behavior more resembles the international system before World War II. After all, as several scholars have noted, Germany and Britain had extremely close trade links in the decades preceding the First World War.<sup>8</sup>

Once Washington truly understands the disconnect between Beijing's economic and political behavior, the United States can develop a nuanced

**Economic growth through global integration and nationalism can go hand-in-hand.**

China policy that simultaneously recognizes China as a major power, helps Beijing consolidate its economic reforms, and convinces China of the benefits of subscribing to certain foreign policy strictures. On the economic side, China, though not on autopilot, is moving in the right direction. U.S. support for further economic liberalization can be restricted—for now—to tinkering: fostering exchanges of legal scholars to help Beijing establish the rule of law, assisting with the

regulation of the Shanghai and Shenzhen stock markets, helping China minimize the impact of WTO accession on its rural population, and other relatively small steps.

At the same time, the United States should push Beijing to understand that it can only develop diplomatic might to match its burgeoning economic strength if it subscribes to foreign policy norms—norms that are in China's strategic interests. For example, the United States should persuade China that proliferation of sensitive nuclear, chemical, and missile technology is the kind of unseemly behavior that will prevent Beijing from attaining the global stature it desires. Similarly, the United States should pressure Beijing to continue professionalizing its military and police, so that Chinese troops can partake in international peacekeeping operations. Chinese police partake in joint training exercises at the International Law Enforcement Academy in Bangkok. China has offered troops to the multinational peacekeeping operation in East Timor, and Beijing reportedly will allow the Federal Bureau of Investigation to set up an office in the Chinese capital. Participating in these operations can reduce tensions within Asia and minimize the People's Liberation Army's (PLA) suspicion of foreign forces, as well as Asian nations' suspicions of China. (For example, the Japanese military's effective but low-key contribution to peacekeeping in Cambodia helped other Asian nations reduce their fears of Japan.) The United States also should boost military-to-military exchanges with the PLA and encourage not only Chinese civilians but also military officers to study in the United States.



Pushing Beijing to subscribe to policy norms does not mean abrogating the U.S. position of strength in the Pacific or withholding censure if China ignores diplomatic protocols. Conducting military exchanges with the PLA does not preclude acting swiftly if China threatens the Taiwan Strait. Convincing Beijing not to sell weapons of mass destruction should not prevent Washington from curbing exports of dual-use technology if Beijing continues to do business with Pyongyang or Baghdad. Working with China to improve the rule of law does not imply ignoring human rights abuses or refraining from encouraging Beijing to develop more inclusive solutions to issues of Internet access and an independent civil society.

China is becoming a global power and is already one of the key U.S. trading partners, but it is hardly an ally. Not yet. If Washington fails to use its economic ties to push Beijing's geopolitical behavior away from the pale, the Middle Kingdom may never become a friend. The United States has only a limited window of time during which China will be highly dependent on U.S. investment and technology, before the People's Republic becomes so economically powerful that it will be more difficult to sway.<sup>9</sup> China does not yet have a concrete vision of its international role, and Washington can shape that role—now. Let us not let that window close.

## Notes

1. See Salomon Smith Barney, *Asian Economics Weekly*, November 2001 (China's WTO entry and its impact on Asia).
2. Ellen Frost, "China, the WTO, and Globalization: What Happens Next?" *China Online*, July 19, 2001, [http://www.chinaonline.com/commentary\\_analysis/wtocom/NewsArchive/cs-protected/2001/July/c01071860.asp](http://www.chinaonline.com/commentary_analysis/wtocom/NewsArchive/cs-protected/2001/July/c01071860.asp) (accessed August 2, 2001).
3. Homi Kharas, "East Asia Must Seize the Moment," *Bangkok Post*, November 14, 2001.
4. Ross Munro and Richard Bernstein, *The Coming Conflict with China* (New York: Knopf, 1997).
5. Henry Chu, "China's New Role as U.S. Ally Greeted with Relief and Dismay," *Los Angeles Times*, September 28, 2001, sec. A, p. 6.
6. Dana Dillon, "Preparing for the APEC Summit," <http://www.heritage.org/library/backgrounder/bg1487.html> (accessed November 2, 2001).
7. Damien McElroy, "Beijing Produces Videos Glorifying Terrorist Attacks on 'Arrogant' U.S.," *Sunday Telegraph* (London), November 4, 2001, p. 32.
8. See Aaron Friedberg, "The Struggle for Mastery in Asia," *Commentary*, November 1, 2000, pp. 17–27. Responses to Friedberg's article can be found in "Facing China," *Commentary*, February 1, 2001, pp. 16–25.
9. Friedberg, "The Struggle for Mastery in Asia."

