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## **Expectations and Adaptation: China's Foreign Policies in a Changing Global Environment**

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### **Abstract**

The financial and economic crisis of 2008 has highlighted the changing landscape of international relations and the enormous pressure on the People's Republic of China to redefine its international position. Based on two case studies, China's Africa policy and its response to the global financial and economic crisis, we argue that China's foreign policies are currently characterized by an adaptation of its historical role conception as a "leading developing country" to that of a "responsible caretaker" in international, especially economic affairs. In its own perceptions – developed in constant exchange with external perceptions of China – as well as in its actions, the PRC finds itself drawn faster and further into a complex web of global governance than anticipated by its policy elites. Acknowledging the benefits of a stronger involvement, the PRC steps up its engagement with regional, multilateral and global orders and is actively pursuing their recalibration. Contradictions within the Chinese leadership, conflicting themes in public discourse and incoherent actions highlight the difficulties even for a technocratic one-party elite with a limited – albeit real and important – need to assure domestic support and legitimacy to define the global role of an "emerging great power".

**Keywords:** *China, foreign policy, China and Africa, China and G20, Global Financial Crisis*

**JEL classification:** *F51, F55, F59, G01*

### **1. Introduction<sup>1</sup>**

The financial and economic crisis that erupted in the United States in 2008 has highlighted the changing landscape of international relations. The People's Republic of China (PRC) found itself under enormous pressure to redefine its role in and contribution to global problem-solving. Earlier discussions on

whether to contain or to engage the emerging superpower in the west (Mills, 1996; Shambaugh, 1996) gave way to analyses of how China's rise would determine the future international political system. More than three decades after the PRC embarked on its policies of economic growth, social change and the effective modernization of its one-party state, China has moved to the centre stage of the new global order (Breslin, 2007; Helleiner and Pagliari, 2010).

On a superficial glance, these changes in external role expectations regarding the Chinese leadership resembles the realization of their long cherished ambition to lead erstwhile leading global civilization back to its former glory. However, on closer inspection, China's leaders find the new situation rather difficult to deal with: the increased international prestige serves the Communist Party's leadership credentials at home, yet it challenges the officially restrictive interpretation of national sovereignty. Domestic and foreign expectations hardly ever match. In this paper, we argue that these divergent role expectations increase the complexity of policy-making in Beijing at a time when the Chinese leadership and society still predominantly views itself as a developing country.

On the international stage, the sometimes open, sometimes implicit negation of democratic norms and practices by the Chinese leadership reinforces views that a "Beijing Consensus" (Ramo, 2004) is undermining the current political, economic, social and cultural norms, values and institutions that support the US-led international economic, political and security order. The combination of "might, money, and minds" (Lampton, 2008) causes anxiety mixed with open hostility about the impact of China's (re-)emergence on the existing global political economy (US Congress, 2008). Based on an analysis predominantly within the framework of a neo-realist, balance of power oriented thinking, many observers in the United States and Europe tend to perceive China's rise as a challenge to an existing world order (Friedberg, 2005; Mitchell, 2009). Research by China-watchers provides a different perspective: a Communist party battling the effects of its reform policies, a party-state ripe with internal groups and factions in need of ongoing crisis-management and negotiations, muddling through on the basis of learning and adaptation.

The motivation behind actions of states is usually derived from interests and preferences or from external constraints. Following earlier works on the strategic-relational model in international relations (Brighi, 2007: 104-110), this paper argues that China's foreign policies are currently characterized by an adaptation of its historical role conception as a "leading developing country" to that of a "responsible caretaker" in international, especially economic affairs as a result of domestic policies as well as a changing global environment. In its own perceptions – developed in constant exchange with external perceptions of China – as well as in its actions, the PRC finds itself drawn faster and further into a complex web of global governance than

anticipated by its policy elites. Acknowledging the benefits of a stronger involvement, the PRC steps up its engagement with regional, multilateral and global orders and is actively pursuing their recalibration. Contradictions within the Chinese leadership, conflicting themes in public discourse and incoherent actions highlight the difficulties even for a technocratic one-party elite with a limited – albeit real and important – need to assure domestic support and legitimacy to define the global role of an “emerging great power” (for an earlier version of this argument see Gottwald and Duggan, 2011).

Our line of argument is based on two case studies: China's Africa policy and its response to the global financial and economic crisis. In its Africa policy, the Chinese leadership had to broker ceasefires more than consensus among battling ministerial and super-ministerial bureaucracies at home while meeting increasing external pressure to change its formally non-interventionist no-conditions-attached approach in the face of US and European criticism. A change in its self-definition regarding its role in Africa as well as its cooperation with other powers can be identified. Preserving its clear priority for securing access to resources and building up influence, the Chinese leadership has gradually turned to implement less confrontational, more pro-activist policies.

In the global efforts to handle the financial and economic crisis, China had to give up its traditional role as a bystander to global cooperation. Rising domestic expectations regarding China's new international significance particularly among the politically important young online generation, the Chinese leadership has to strike a balance between increased integration into global governance and preservation of its room for manoeuvre. After some considerations, China seemed to take a pro-active approach in 2009 before a stalemate at the G20 summits in Toronto and Seoul deflated high-flying expectations. China's increased profile and growing influence in global economic governance is only gradually translating into a new order. The jury is still out whether or not China's engagement will actually reinforce US- and EU-based notions of global governance or turn out to be one more cornerstone in establishing a new model for political and economic governance. The strong support shown for the G20 might result more from the non-binding unanimous decision-making in this club-style organization than from a new found acceptance of multilateral institution-building for global governance (Johnston, 2008).

## **2. China's Rise as a Challenge to Political and Academic Analyses**

When the CCP introduced reforms in the late 1970s, it began to infuse elements of a market economy into a socialist state by means of Leninist innovation (Heilmann, 2008). Its phenomenal economic development created

an urgent demand for energy (EIA, 2006) and raw materials. The export-based growth model required access to foreign markets. The transformation of its centrally planned economy into a Socialist Market Economy resulted in a loss of control over various aspects of Chinese society (see Yeoh, 2010). Economic success and nationalism became the cornerstones of the CCP legitimacy which created strong societal expectations as to China's rank and status in world politics. This transformation of societal expectations, however, intertwined the Party's identity with China's overall national identity, and economic success. Socialism was thus redefined as good policies to raise the living standards of the people and to facilitate China's return to international "great power" status.

This required a revision of China's foreign policy guidelines. Zheng Bijian (2005) proposed to emphasize "China's Peaceful Rise" (Glaser and Menderos, 2007; Deng and Wang, 2005; Chan, 2005). This was subsequently changed to "China's Peaceful Development" (Luo, 2006) to avoid the supposedly aggressive connotations of the term "rise". "Peaceful development" complements the new interest in Chinese "soft power" addressing global unease with China's growing influence. Both concepts share the premise that good relations with China's neighbours will enhance rather than diminish the comprehensive national power of the PRC (Zheng, 2005). Both concepts resonate well with the long-standing tradition of imperial status-quo policies and the "five principles" (Wen, 2004) of "mutual respect for sovereignty and territorial integrity, mutual non-aggression, non-interference in each others' internal affairs, equality and mutual benefit, and peaceful coexistence" (Liu, 2003).

All the official emphases on the peaceful nature of China's new significance, however, are overshadowed by sensitive issues such as Sino-Taiwanese (Chen, 2005; Henderson, 2006) or Sino-Japanese relations (Johnston, 2006). The cross-cutting role expectations of the resulting rise in nationalism (Hughes, 2006) are a constant threat to gains from China's constantly growing participation in the East Asia's regional economy (Liao, 2006). The CCP needs economic growth which requires stable relations with important economic partners, turning China into a "fragile superpower" (Shirk, 2007).

The complexity of the internal and external dynamics of China's emergence is reflected in the diversity of theoretical approaches dealing with it. The majority of analyses recount the aims and calculations of *China* as a state or *Beijing* as a government, thus continuing the tradition of the rational actor model of analysis (Legro, 2008). It dovetails nicely with earlier historical approaches interpreting the PRC as an imperial reincarnation (Fairbanks, 1968; Osterhammel, 1989; Gelber, 2007). Stressing continuity, the "Middle Kingdom" resided on top of a hierarchical world and was the centre

of tributary regional relations, claiming the status of the most civilized and greatest power. After the intermezzo of quasi-colonial exploitation between 1860 and 1949, its re-emergence constitutes a return to its traditional, one might argue “normal” position. Accordingly, China limits interactions with the rest of the world and defines terms and conditions. While the policies of opening-up and reform hardly fit into this perspective (Yuan, 2008), they still highlight the relevance of Chinese traditional values and norms in foreign policies. The leadership of the PRC often refers to history when explaining current policies (State Council, 2005). Chinese foreign policies thus become the blend of imperial history and orthodox Marxist-Leninist ideology (Liao, 1986) defined by (the) top Chinese leader(s) (Ming, 2007). In both the historical and the communist view, the key factor for China’s foreign behavior is China itself. International forces come second.

The contemporary debate is dominated by (neo-)realist interpretations of China negotiating an anarchic international environment (Callahan, 2005; Goldstein, 2001; Wacker, 2006). Like all rising powers before, the PRC confronts the existing structure of international politics as part of its quest for survival (Morgenthau, 1985; Waltz, 1979). Most foreign and domestic media take a similar approach (Castle, 2008; Rozhnov, 2010). The neo-realist approach downplays the significance of domestic policies and expectations, a view taken by a growing number of China-watchers. Reaping massive benefits from the increased integration into the global economy (Gu, Humphrey and Meissner, 2008) the PRC participates in global governance and multilateralism to maintain that status quo (Chung, 2008; Contessi, 2009; Economy, 2005; Hughes, 2005; Johnston, 2003). All of these perspectives on China’s rise have a common feature: they treat China as a unitary actor, either influenced by its own tradition and communist ideology or by some rational calculation as if China were a single individual and able to assess its environment, make decisions, and react accordingly. As a result, a strategy based on China’s best interests is executed as foreign policies within a stable pre-set international environment.

Contrary to the predominant neo-realist view, most domestic experts and students of policy-making in the PRC consider social and political stability as a prerequisite for further economic development the number one priority for the Chinese leadership. Thus, all Chinese foreign policy is addressing domestic expectations first.<sup>2</sup> But domestic policies exhibit a growing number of conflicting interests within and around the CCP (Dreyer, 2010; Saich, 2005; Yang, 2005), thus questioning the concept of the PRC as a single unitary actor. Within the Chinese leadership and in the increasingly complex and pluralistic society, groups pursue particular interests, define specific preferences and create different power bases. Group interests in the field of foreign affairs can differ widely leading to sometimes incoherent, sometimes conflicting

policy outcomes. For actors pursuing their aims, structures and institutions matter (Breslin, 2006). The PRC's global actions are thus shaped primarily by domestic political structures, secondary level institutions and negotiations between collective actors (Lampton, 2001, Lu, 2000). Different perceptions among Chinese elites affect international actions (Deng, 2008; Yan, 2001, 2006) particularly on issues like Taiwanese independence as do social trends and issues (Buzan, 2010).

Perceptual and institutional approaches look at China's rise in very different ways but they share a very important aspect: they open up the black box of the Chinese state and bring in bureaucratic policies, intra-elite conflict and processes of political bargaining. They complement the state-centric view by bringing in state-controlled and non-state actors like enterprises, regulatory agencies or the nascent civil society. Thus, they link up with the growing literature on global politics as a result of trans-national activity (Helleiner and Pagliari, 2010).

Following this approach, we interpret China's role in this process of joining and redefining global politics as a result of actions by Chinese leaders and non-state actors reacting to domestic and external expectations pursuing individual interests and preferences. We conceptualize China's position in global politics as a national role that is based on both domestic and external expectations regarding "appropriate behaviour". This approach highlights the mutual interdependence between China's policies towards the international order and the impact of the order on China's policies. It enables us to integrate external perceptions of China by state- and non-state actors alike, addressing causal alleys for adaptation and learning. We open up the domestic dimension by referring to the expectations of the domestic audience and, finally, allow for ideas, notions of historical traditions and interests to be integrated through the self-perception of the Chinese leadership regarding its role. Our approach thus identifies early signs of change as a form of partial role adaption taking place within an increasingly challenging global environment defined by the potentially deepest political-and economic crisis since the early 20th century. Linking it to the field of foreign policy change it offers an integration of recent approaches to the study of China's domestic policies discussed as learning or adaptive authoritarianism with current debates in the study of foreign and regional policies.

### ***2.1. China's Changing Role in Africa the Balancing of Expectations***

China has played a role in Africa since antiquity and was an actor of note during the cold war where its actions on the continent were heavily influenced by the ideology of socialist internationalism and anti-colonial struggle. Although its influence in Africa declined during the reform era of the 1980s,

it has rediscovered its interest in the continent since the turn of the century and has once again become a major actor in the region. China is now Africa's second largest trading partner, a key supplier of development aid and a major source of FDI. A growing number of Chinese citizens have taken up residence in Africa. Summing up, in "the last sixty years, no country has made as big an impact on the political, economic and social fabric of Africa as China has since the turn of the millennium" (Moyo, 2009: 103).

China has become deeply involved with Africa both in terms of economics and culture and encompassing state, semi-state and non-state actors (Raine, 2009: 60). The Chinese state has acknowledged this and launched a new China-Africa Policy in 2006 (Foreign Ministry of the PRC, 2006) accompanied by a number of remarkable China Africa Summits in 2000 (Beijing), 2003 (Addis Ababa), 2006 (Beijing), and 2009 (Sharm el-Sheikh).

The foreign perception of China's role in Africa has frequently been negative, even referring to neo-colonialism. Sighting such actions as the unconditional provision of finance, selling of arms, or the protection of "rogue states" from international sanctions, many critique China for its negative impact on African society and economy. Some observers also accuse the PRC of instrumentalizing its traditional emphasis on sovereignty and non-interference to carve out economic deals (Holslag, 2006).

From an African perspective, China's involvement is regarded a mixed blessing. The PRC seems to use Africa as a resource both in terms of raw materials and international influence. From this point of view, China has damaged many of the rights won through independence e.g. workers right, free press, etc. Here, China has simply replaced the old colonial powers in spite of its claims to be a leader of the developing world, with Sudan being a prominent case in point (Srinivasan, 2008). A different view depicts China as an alternative source for investment and aid to western powers. It has also delivered on needed infrastructure projects which delivered significant improvements to the lives of many people in Africa.

Within China itself, the principal view held describes the PRC as Africa's "All Weather Friend", whose presence creates a win-win situation for both (Xu, 2008). From this perspective, China's role is defined by a number of key principles outlined in the 2006 White Paper, most notably the respect of state sovereignty (cf. Zheng, 2010: 42-45). Due to the complex relationship between state and society in African nations, local elites emphasize the principle of non-interference in the internal affairs of sovereign states by external actors, too (Taylor, 2010). For many African states who have found the restructuring programmes under the Washington Consensus very difficult and for governments who have been marginalized by Western criticism of their human rights records, the PRC's interpretation of sovereignty is particularly attractive. Along with a shared experience of colonialism and



imperial oppression, China provides an alternative role model and new legitimacy for African autocratic polities (Sicular *et al.*, 2007).

In contrast to this official definition, many Chinese observers take a less favourable approach. They insist that large foreign aid projects need to benefit the Chinese economy, since these funds could have been used domestically for internal poverty relief. For this reason, development projects must create “win-win” situations in substance and not only in rhetoric. Consequently, Chinese involvement in Guinea decreased in line with the fall of prices for copper and other raw materials highlighting the need for its external involvement not to produce costs at home (Polgreen, 2009). The Chinese government is pressed to publicly protect its interests abroad, including interventions in the domestic affairs of sovereign African states. So-called “soft” interventions were employed on several occasions to protect Chinese MNCs in Africa. In Namibia, the PRC government pushed for the release of a CEO who had been charged with corruption (Grobler, 2010). In Zambia, it threatened to pull out its investment should a candidate, Michael Sata, who was accused of anti-Chinese policies, win the presidential elections (BBC, 2006).

In the case of Chinese involvement in Sudan, Beijing substantially altered its role behavior over the course of the humanitarian crisis in Darfur. The PRC started with an obstructionist role in the Security Council, but eventually dispatched peacekeeping forces under a UN Security Council mandate (Huang, 2008). This policy shift indicated a delicate balance of two conflicting expectations, namely external role expectations on the one hand and the Chinese concept of “peaceful development” on the other hand. China’s Africa policy had been based originally on the earlier model as a “leading developing country”. On this basis, China in 2004 effectively diluted Washington’s sanctions policy in the UN Security Council (UNSC). In January 2005, the PRC began to modify its policy due to the “Comprehensive Peace Agreement” and under heavy criticism from non-governmental groups and the Bush administration. China’s abstention on Res. 1593 – which allowed for ICC investigations in Darfur – signaled for the first time that China would not always align with the Sudanese leadership and the Arab League on Darfur. Instead, and despite the establishment of the “China-Arab Cooperation Forum” the preceding year, Beijing even supported UNSC Res. 1679, which strengthened the African Union Mission in Sudan (AMIS), and justified its vote “on the basis of our political support for the AU” (UN-Doc. S/PV.5439, 16.5.06). While Beijing hesitated to embrace the AU position on Darfur, China launched a “Darfur initiative”, appointing a Special Representative, pressuring the Bashir government and offering 275 engineers in support of the hybrid AU/UN mission (Evans and Steinberg, 2007).

Daniel Large suggested that China’s Africa policy shifted to such an extent that it has led other actors to reconsider their conduct (Large, 2008:

74). First, the intervention by the Chinese President Hu Jintao appeared to have been instrumental in persuading the Sudanese leadership to take on a more constructive role towards the AU/UN mission. Second, the Chinese abandonment of its obstructionist policy in the Security Council arguably added pressure on Arab regimes to moderate their support for Khartoum. Right after China's policy shift 10 Arabian states decided to provide substantial funding for the AMIS operation. The Arab League itself persuaded the Sudanese government to accept the AU/UN force at the AL Summit in March 2007. Subsequently, Qatar, a key member of the AL, voted in favour of UNSC Res. 1769 which mandated the AU/UN mission in Darfur.

Other factors in the context of Sino-Sudanese relations also had their impact. The growing restlessness of the Southern Sudanese Government contributed to China's policy shift. The proposed referendum on independence in Southern Sudan in January 2011 might create a new independent state controlling the vast majority of Sudan's oil reserves (Srinivasan, 2008). Many believe that the growing Chinese engagement in Juba is therefore motivated by two factors: one, to address its acknowledged unpopularity and, two, to gain a more strategic political foothold in the South (Large, 2009). The contribution of the PRC to persuading Khartoum to accept the AU/UN Mission can thus be interpreted as an attempt to present itself to the future government of an oil rich South Sudan as a positive influence in the region.

This brief analysis of China's Sudan policy shows that a host of factors have contributed to how a country conducts its affairs on the international stage. We can see a shift from a broadly ego-based to a more comprehensive national role conception combining both ego- and alter-expectations. Increasing international pressure moved Africa higher up the policy agenda of the central leadership which beforehand had left much of its Africa policies to the various ministries and bureaucratic units. Positions and conduct were modified to meet the expectation of others, most notably the African Union. Moreover, China's increasingly active position in Africa – veto suspension, appointment of a Special Representative, dispatching peacekeepers – suggests the position has become “firmer” over time and will probably stabilize if counter-roles by significant others (the US, AU, AL) evolve accordingly.

The increase in Sino-African trade as well as in other economic activities has created a more complex relationship. The number of influences which affect how China conducts its activities in Africa has grown, with particular influences becoming more important than others. For example, the international pressure on the PRC to become a more proactive member of the global community, a ‘responsible stakeholder’ in the promotion of global standards and ethics, is now more influential than the domestic pressure to maintain China's role as an anti-establishment actor which still seems to bear a significant influence on the PRC North Korea policies. The Chinese leadership

even qualified its adherence to the core principle of non-interference: President Hu Jintao has pointed out that China is now willing to intervene in other nations' internal affairs to protect its national interests, hinting at an incipient departure from the soft interventionism of the recent past. This move addresses domestic pressure to better protect Chinese interests abroad. At the same time, China has also shown a growing willingness to engage in international conflict-settlement. Its participation in peacekeeping missions indicates the growing awareness of external expectations and willingness to fulfill them – at least as long as they can be sold to its domestic audience as beneficial for China's long-term socioeconomic development.

### **3. Reluctant Crisis-Manager: China's New Role as a Stabilizer/Initiator of Global Financial Governance**

The interplay of external and domestic expectations with the self-perceptions and preferences of the Chinese leadership became almost irritatingly obvious during the current financial crisis. The insolvency of the American investment bank Lehman Brothers in September 2008 triggered a chain-reaction of global financial turmoil. Governments all over the world struggled to prevent a melt-down of their financial systems. Most ended up with majority stakes in one or all of their former national champions. Greece and Ireland needed the support of the IMF and the EU to avoid a sovereign debt default. In Asia, Japan struggled to refinance its debt while in the US the Fed embarked on several rounds of quantitative easing fuelling fears of new speculative bubbles in emerging economies. Most governments agreed that the crisis required a well-coordinated global response. The leadership of the PRC found itself drawn deeper into the efforts of global crisis management than it had envisaged. A new and very substantial role emerged for the PRC and its hesitant government (Godement, 2009: 19).

In the perspective of comparative government, the PRC has been aptly described as a learning, adaptive authoritarian system, with the state dominated by the Leninist party apparatus (Shambaugh, 2008; Naughton, 2008; Niquet, 2009). Learning from its own history, from Western market economies and from the results of extensive experiments, the CCP has managed to strengthen its grip on the Chinese polity while at the same time introducing fundamental economic and social reforms (Brodsgaard and Zheng, 2006; Heilmann, 2008; Pearson, 2001; Zheng, 2010). The global crisis erupting in 2008 threatened the cornerstone of China's export and FDI oriented development. This has put the capabilities for adaptation of the Chinese polity to a severe test as there was no "best international practice" in dealing with this unprecedented event. And time was too short to conduct the usual set of trial-and-error policies. Besides, the crisis challenged and threatened China's preferred role as a

benevolent bystander and generally non-committal supporter of multilateral global governance. It took the central leadership in Beijing some time to agree on a political reaction. They had to recognize that the “globalization of the crisis requires a globalized response” (Bergsten, 2008) even if it included a revision of China’s traditional role in international relations.

### **3.1. China’s Initial Reaction: Defending Its Role as Benevolent Bystander**

China’s economy was in particular good shape when the crisis hit (Sheng, 2010). Banking and financial services were government-controlled, partly state-owned and had only limited exposure to global turbulence. The balance sheets of the main banks are regularly propped up by the state coffers<sup>3</sup> and its securities markets offer only limited access to foreign investors while Chinese savers still face hurdles if they wish to keep their deposits outside the Chinese system (Zeihan, 2010). Some of the riskiest instruments were banned inside China. Overall, Chinese banks managed to escape the financial crisis with relatively low losses. Foreign exchange controls, vast foreign exchange reserves and an emerging consumer culture offered strong options for macro-economic countermeasures against the fall-out from the crisis.<sup>4</sup> Finally, the Chinese leaders had gained a reputation for its high-quality policy-making and were safe from electoral pressures. From a Chinese perspective, the financial crisis met an economy which was well-prepared to turn the challenge into an advantage (Sun, 2009).

For all these reasons China initially took its responsible bystander position when first signs of a financial crisis merged in the US in the first half of 2008. The original impression was that the events were an issue for Western capitalism (Warden and Stanway, 2008). Chinese leaders reassured their domestic audience of the strength of their own economy. Even after the global public discussed the events as an economic crisis, Chinese newspapers and magazines kept the official description as a Western *financial* crisis (Zheng, 2008). Only the official investments in US and European financial service companies and in US bonds raised public anger. The situation changed when Chinese exports started to dive. Acknowledging the fundamental threat of the crisis to its export-led growth model, the Chinese leadership finally accepted the need for political action. In a two-tier approach the CCP created a macro-economic stimulus package for the domestic economy and took a more pro-active approach towards reforming global governance for financial services.

Up to the crisis, China has been a rule-taker much more than a rule-maker in the area of financial services. This role dovetailed nicely with China’s traditional approach to global governance best described as that of ‘a benevolent bystander’ to global governance who would adopt

international norms and standards *à la carte* (Walter, 2010). In global trade, it was exactly the wish to become part of the rule-makers which pushed the Chinese leadership to achieve membership of the WTO even in the face of substantial domestic opposition (Fewsmith, 1999; Fischer, 2000). China's active participation in the Cancun conference on World Trade, its key support to the multilateral attempt of dealing with North Korea's nuclear weapons programme, China's support for the Chiang Mai Initiative or the founding of the Shanghai Cooperation Organization signalled a more positive perception of multilateralism among the Chinese leadership (Wu and Landsdowne, 2007).

Initially, the Chinese leadership voiced their support for global co-ordination, but refused to become too engaged (Wang, 2008; Zheng, 2008). Only after intensive domestic debate, and bowing to growing external pressure, the government in a first revision of its initial positions announced a 4 trillion renminbi yuan package to boost its domestic demand on Sunday, 9th November 2008 (Xinhua, 2008). The announcement addressed both audiences: the domestic one by reassuring them of government action against the fall-out from dwindling exports, and the foreign one by stressing the willingness of the Chinese leadership to preserve China as a centre for global economic activity (Niquet, 2009). At the same time, the central government loosened constraints on local government investments (Wu, 2010) and ordered the state-controlled banks to facilitate cheap credits (Anderlini and Hughes, 2010; Cavey, 2009; Chan and Chu, 2009). The international reaction was euphoric (Branigan, 2008). Only a few observers raised their concern, pointing at the paucity of information provided on the planned use of the funds. Some asked how much of the package constituted additional spending and how much of it was just a repackaging of already measures which had been planned and budgeted beforehand. China also refused steps to address what many perceived as a gross imbalance of the exchange rate between the managed RMB yuan and the fully convertible US dollar, referring only to the need to tackle global macro-economic issues. It stressed its reluctance to decrease the control of its currency when it announced an increase in exchange rate flexibility shortly before the Toronto summit but then had its large commercial banks buy US dollars in order to limit the appreciation of the renminbi.

The Chinese leadership attempted to declare the stimulus package the key element of China's contribution to the global crisis response. Leading cadres like Hu Jintao and Wen Jiabao reiterated that the measures would keep China growing and that a growing China provided a substantial resource for the more advanced economies in their attempts of reigning in the economic downturn (Xinhua, 2009a). The main points of reference and the by far most important partners for the PRC to develop and to revise their position in the global fight against the fall-out from the financial crisis were the United States and the European Union (Gottwald, 2010).

At the ASEM Summit in Beijing, China and the EU hammered out a joint position for the G20 Summit in Washington in November 2008. Prime Minister Wen Jiabao announced his support for the EU position on regulating global financial markets, highlighting a growing convergence between the two economic superpowers. From an internal perspective, Hu Jintao's speech in Washington defined the official approach of the PRC towards future regulation (FMPRC, 2008). On Wen Jiabao's visit to Europe in January 2009 and during the preparatory meeting of the G20 Ministers of Finance and Governors of Central Banks, China sought actively to coordinate its position with the US and Europe.

The Group of 20 leading industrial and developing countries, the G20, quickly superseded the old G8 to become the focal point for global crisis management.<sup>5</sup> As they reached beyond that contested exclusive club, the G20 became "de facto ... the main global grouping of countries that is driving responses to the crisis". (Prasad and Sorkin, 2009) A China that "was very cautious about joining any multilateral or regional arrangements" (Yu, 2005: 5) to avoid any limitation of its sovereignty was proud to be a leading member of the G20 but kept a sceptical attitude towards committing to multilateralism.

### ***3.2. China Reluctantly Adapting Its Role in the G20***

For China's role in global crisis management, the London Summit in 2009 became a turning point. The United States, the EU and fellow emerging markets all explicitly called on the Chinese government to take a leading role beyond the stimulus package and "responsible investment" by joining the work of rewriting global governance rules for financial markets. This led to an increased debate in China about its dawning dominance in the new world order.<sup>6</sup>

Deciding on the best policy in these circumstances, however, proved difficult and complex. In theory, the centralized structure of the Chinese one-party-state allows for coordinated decision-making. China's position for the G20 was decided at the highest level of the CCPCC Political Buro. The preparatory documents were prepared under crucial involvement of the political strategy research department of the CCPCC.<sup>7</sup> At a meeting of 50 economists, the acting vice-head of the political strategy research department, Zheng Xinli, confirmed the official view that China's integration into the global economy, including global governance institutions like the WTO, was following the internal imperative of domestic reform and opening up. In this regard, the financial crisis was expected to further strengthen China's reform policies.<sup>8</sup>

Vice-Prime Minister Wang Qishan, the leading executive in the State Council in financial affairs, and even more so the finance ministry were

initially sidelined.<sup>9</sup> Positioning China for the meeting of the finance ministers in London in March 2009, Wang stressed that keeping China's economy on a sustainable growth course would constitute a major contribution to global crisis management. Implicitly quoting Hu Jintao's remarks at the Washington Summit, he again underlined China's willingness to join hands with the global community to contain the effects of the downturn (Wang, 2009a). He added that China was now ready to take a more active role within the IMF under the implicit condition of a clear timetable for IMF reform to the benefit of emerging market member states (Wang, 2009b). China raised its profile within the Bretton Woods institutions by delegating and promoting highly-qualified experts. While this is a strong indicator about the growing importance of the IMF for Chinese policies, the exact reform plans are still under discussion. Even the official denunciation of a G2 global order is qualified by open expressions of disappointment regarding the European role which is predominantly perceived as weak and incoherent. The loose structure and non-binding nature of the G20 help to avoid a premature definition of Chinese positions.

For the Chinese foreign ministry, global crisis management was declared number one priority for the 2009. It called for a better structured and fairer global financial order.<sup>10</sup> Together with Brazil, Russia and India it requested a stronger representation of the BRIC countries in the emerging new governance of global financial markets (Mo, 2009). The top candidate for the future secretary-general of the CCP, Xi Jinping, was sent out on a tour to Latin America and Malta that was described in the official Chinese media as a major contribution to defining the Chinese position regarding the global crisis, the limited role of its host countries in the world economy notwithstanding.<sup>11</sup> When Wen Jiaobao expressed his dissatisfaction with the American safeguards for PRC investment in treasury bonds, he triggered a global discussion and a quick response by the Obama administration. In various meetings and phone calls, the new US government promised to protect China's interests.<sup>12</sup> According to Hong Kong media, Wen needed to assuage his domestic constituency who became increasingly irritated with the high exposure of the PRC to American bonds. Even the top central leadership was supposedly shocked when it was informed about the investments taken by the Chinese state vehicles in US financial institutions.<sup>13</sup> On the other hand, top-down Chinese analysts emphasize the opportunities the crisis offers to improve Chinese investments abroad (Zheng, 2009).<sup>14</sup> In the run-up to the London summit, the central bank stirred up confusion among observers with its call for a replacement of the US dollar as the global lead currency through a reform of the IMF special drawing rights, a little known instrument.

With the London Summit in April 2009, the G20 clearly took over the key role in coordinating the global response and in reforms of global

financial governance. It defined steps towards a comprehensive reform of principles and organization guiding the IMF and World Bank, something China had called for long before the crisis. The push by the UK government to set up the G20 as a leading organization, calling the IMF a supporting infrastructure (Norman, 2010) further corresponded with traditional Chinese preferences regarding sovereignty and supranational commitments. The PRC duly strengthened its involvement. The G20 offers the Chinese government its preferred mechanism for decision-making (Garrett, 2010): unanimity, thus providing a de facto veto-power against any measure deemed unacceptable. Committing to a club, rather than to a multilateral organization with supranational elements, allows the leadership to preserve considerable autonomy within the G20 while at the same time selling its new, higher profile to its domestic audience as a symbol of strength and to the international audience as enhanced responsibility.

This policy was reflected both in China's preparations for the G20 summit in Pittsburgh and for Toronto in 2010. In Pittsburgh, Hu Jintao reiterated three main issues: the G20 should continue to coordinate macro-economic stimulus to secure sustainable economic growth, to implement the reform package for global financial regulation agreed at the London summit, and it should also address imbalances in the global economy rooted in the wide gap in development between the North and the South (FMPRC, 2009a). His final point again deflected criticism of China's state-managed exchange rate considered to be one of the causes for the crisis by Western observers. Hu stressed the significance of China's domestic policies and reiterated China's substantial contribution to the global response in spite of its severe domestic challenges. The official English language report did not refer to multilateralism or China's increased role in setting the rules for global governance (FMPRC, 2009b),<sup>15</sup> but the stronger representation within IMF and World Bank and the enhanced influence on the future of global governance for the emerging states was hailed as the major success even as the details of the reform still need further consideration (Xinhua, 2009).

At the G20 meeting of finance ministers and central bank governors before the Pittsburgh summit, the Chinese delegation provoked criticism at home and by foreign media for its refusal to hold press briefings. Instead, key statements were disseminated via official Xinhua news bulletins, very much to the dislike of foreign and Chinese media (Poon, 2009; Zhang, 2009). However, Chinese delegations held press meetings when Hu Jintao participated in meetings. This indicates the strict limits for the ministry of finance and the central bank to produce statement on key economic policy issues; those are reserved to the top echelon of the party state. At the same event, the BRIC countries did not follow their tradition of holding a separate meeting of finance ministers leading to a joint communiqué. Instead, only



vice-ministers of finance came together without an official document being produced. This was interpreted as a sign that the rather effective cooperation among the most important emerging economies during the crisis was beginning to fade away (Poon, 2009). China's attempt to position itself as a leading representative of emerging and developing countries suffered from its reluctance to discuss exchange rates which the leadership only changed shortly before the Toronto summit.

After the Pittsburgh summit, optimistic foreign expectations of China's commitment were disappointed. The willingness of the PRC leadership to cooperate was publicly called into question. The IMF complained that a progress report on national stimulus packages was blocked by China. Five heads of government took the unusual step to address the members of the G20 in a joint letter containing hardly disguised criticism of China's vanishing enthusiasm for the G20 and its reluctance to honour its commitments (Giles and Beattie, 2010).

In Toronto, the official Chinese position comprised four proposals: first, that the summit would send out a loud and clear signal to keep the global economy on track for recovery; second, that the summit would come to a shared understanding regarding the reform of global financial governance, strengthening the representation of emerging markets and developing countries; third, to enhance support for the least developed countries; and finally, to come up with a substantial push for the global trade talks to prevent a return to more protectionist trade policies (Zheng, 2009). Strengthening the voice of developing countries in the Bretton Woods organizations was explicitly called one of China's own objectives for the work of the G20. In addition, the BRIC countries including China called for a fairer representation at the highest level of management in IMF and World Bank. The summit itself, however, was dominated by the rift between US and European governments on the phasing-out of loose fiscal policies to sustain economic recovery. In sharp contrast to earlier events, the Chinese position and statements from Chinese leaders hardly figured in international press reports after the summit.

A rapidly inflating property bubble and growing social disparities at home reduced the resources the Chinese leadership had at its disposal for global cooperation. The G20 seem to have dropped down the list of priorities of the central leadership. The government of the PRC is caught between a rock and a hard place: a domestic audience expecting tough actions on social and economic development, including the maximum use of national resources for the development of China's economy on the one side, and increasingly critical American and European audiences pushing for China to tackle issues of market openness, the exchange rate and adherence to international norms and standards.

#### **4. Conclusion**

China's national role conception includes, as we have shown, elements of both cooperation and conflict with key international actors. To the extent that China's domestic development and thus the security of the CCP regime is concerned, Beijing's role taking is a function of expectations by a host of different and diverging domestic political actors, both within the government and beyond. This results in a balancing act in China's foreign policy between internal and external forces. This often results in contradicting action by the PRC as policies are adopted to meet these factors. China is in the process of adapting its internal policies to external standards while at the same time pursuing strategies to set new global standards close to its domestic ones.

In its Africa policies, China finds itself in transition between presenting itself as guardian of the developing/third/non-aligned world and becoming a leading member of the club of the most powerful nations. Its power base, however, still lies with the developing and newly emerging world, particularly with the other BRIC countries. China has moved towards meeting some international norms and standards, particularly in the run-up to the Beijing Olympics. This in itself, however, is not necessarily a positive development as it has brought about increasingly open and proactive interventions in other nations' domestic affairs. When protecting the interests of state-owned and state-controlled enterprises, the PRC often fails to live up to its rhetorical commitments on sovereignty.

China's response to the Global Financial Crisis highlights the difficulties for the leadership to deal with its strong involvement in the US economy while at the same time rejecting notions of becoming one half of a G2. A young urban population calls increasingly for a policy of using Chinese resources for the benefit of the PRC and for counteracting a perceived US supremacy. US and European governments, however, pressure and lobby the Chinese leadership to take on a more cooperative and pro-active role in global governance. While China's government clearly sees the advantages of increasing its influence on the reform of global financial markets, it has benefited enormously from the "old" US-backed form of globalization. Defining a coherent strategy of reshaping the global order in finance seems to be beyond Beijing's resources at the moment. Its policy so far rather follows the traditional step-by-step learning-by-doing approach which has been implemented so successfully in domestic reforms over the last three decades.

Most of the public and considerable parts of the academic debate on China's role in global policies turn around the impact of its rise on the existing world order. Most China watchers would be cautious to project past successes in socioeconomic modernization into the foreseeable future. In the realm of international relations, however, the question only too often seems to be

when China will be the next superpower, rather than *whether* it will manage to obtain this status. A world ruled by China (Jacques, 2010) is perceived as an explicit departure from Western norms, standards and experience. Using a role model approach provides a different picture. The unitary state PRC with its CCP leadership finds it increasingly difficult to navigate between external and domestic expectations. Demands from domestic audiences quite often do not fit over-optimistic foreign expectations and challenge the decision-making and diplomatic stamina of the Chinese leadership.

In the reform of the global governance of financial markets, the Chinese leadership had to revise its position on several occasions: from flatly referring the crisis to Europe and the US first via creating its own huge stimulus package to rhetorically taking a lead in the reform of IMF and World Bank (while committing only limited financial resources), to significantly tuning down again its cooperative stance after the Pittsburgh summit. While the domestic audience may welcome China's higher profile as a sign of return to superpower status and of the decline of the US, the property bubble, the debt burden of local authorities and growing social imbalances all lead to calls from the domestic audience for a clear focus on China's economy rather than on the reform of global governance. A Chinese specialist put it bluntly: "We do not have the time to care much about G20. Our domestic problems are too demanding."<sup>16</sup> An attempt to balance these conflicting sets of expectations is becoming increasingly difficult for the Chinese leadership. Yet the traditional priority to put domestic issues first has not changed.

Looking ahead, the difficulties to create and execute a coherent set of policies to tackle the challenges of its increasing integration in the global economy, society and polity will grow further. China's CCP increasingly encompasses conflicting social interests and political tendencies. In the run-up to the next National Party Congress in 2012, at least two main groupings have been identified so far, and competing efforts of party leaders to position themselves for future leadership posts have already had an impact on key policy issues. No matter how these personnel and policy issues are going to be resolved, the co-existence of divergent interests within the leadership is going to add further complexity to the challenge of revising China's role in global affairs.

## Notes

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2. Interviews in Beijing and Shanghai, 2009; in Beijing, 2010.
3. In February 2009, the government announced plans to transfer US\$30 billion to the Agricultural Bank of China. See Ftd online, "China p appelt Bauernbank mit Milliarden" <<http://www.ftd.de/politik/international/Neues-Konjunkturpaket-China-p%E4ppelt-Bauernbank-mit-Milliarden/468766.html>> [10th February 2009]. According to *The Economist*, from 1998 to 2005, China has propped up the balance sheets of its major banks by US\$260 billion.
4. These assets are mostly US-dollar denominated thereby creating, the so-called "dollar-trap", because their value will most likely diminish as the US has to face its growing public deficit.
5. The G20 originated as "an informal forum intended to promote dialog between the industrialized and the developing countries with the aim of global economic stability. Annual meetings of their finance ministers and central bank governors had started in 1999 with their deputies meeting twice annually. Members of the G-20 are Argentina, Australia, Brazil, Canada, China, the European Union, France, Germany, India, Indonesia, Italy, Japan, Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, the United Kingdom, and the United States" (Fues, 2007: 14; see also Bergsten, 2004).
6. See for example "China Bids for Yuan to Trump US Dollar", in *Caijing*, 28th November 2008.
7. See "Zhongguo Zhongyang Zuzhi Tu" <<http://cpc.people.com.cn/GB/64162/64163/6418742.html>> [20th March 2009].
8. See "Zhonggong Zhongyang Zhengce Yanjiushi Fuzhuren Zheng Xinli Yanjiang" <<http://finance.sina.com.cn/hy/20090216/19575861569.shtml>> [20th March 2009].
9. Interview with Chinese analysts, 19th March 2009.
10. Said Foreign Minister Yang Jiechi at a press conference in Beijing on 7th March 2009. See "Zhongyang Zhengfu Menhu Wangzhan" <[http://www.gov.cn/2009lh/content\\_1254270.htm](http://www.gov.cn/2009lh/content_1254270.htm)> [10th March 2009].
11. "Vice FM: Chinese VP's Visit Boosts Consensus, Friendship, Co-op", 24th February 2009 <[http://www.gov.cn/misc/2009-02/24/content\\_1240628.htm](http://www.gov.cn/misc/2009-02/24/content_1240628.htm)>.

12. According to some experts in China, pressure from Beijing supposedly contributed to the decision to give a state guarantee for the biggest provider of mortgages in the US. Interviews in Beijing and Shanghai, May/June 2009.
13. See “Wen Jiabao yu Hanhua Shengdun” <<http://cn.chinareviewnews.com/crn-webapp/search/allDetail.jsp?id=100919047&sw=20%E5%9B%BD%E9%9B%86%E5%9B%A2>> [20th March 2009].
14. See f.e. Zheng Xinli as quoted in *sohu.com* <<http://news.sohu.com/20090305/n262610819.shtml>> [20th March 2009].
15. The full text in Chinese is available at <[http://www.cnr.cn/09zth/hjtcxlhgxlfh/xinbaodao/200909/t20090926\\_505487927.html](http://www.cnr.cn/09zth/hjtcxlhgxlfh/xinbaodao/200909/t20090926_505487927.html)> [12th April 2010].
16. Interview at the Development Research Centre, Beijing, May 2010.

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