China Goes Global

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Preface by Bo Wang and Liz Padmore, Accenture

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The FPC's China project was launched with a series of seminars held at Downing Street, HM Treasury, Parliament and the Guildhall in May 2004. The Downing St Seminar was attended by the Chinese Premier Wen Jiabao and Prime Minister Tony Blair, and leading business and government figures from the UK. The launch included release of *The Beijing Consensus*, by Joshua Ramo, a publication that has since been translated and circulated to China's leaders. The launch saw the establishment of a formal partnership with the Chinese Academy of Social Sciences (CASS).

The FPC's China project aims to engage a broader group of actors with emerging new thinking on the social and economic consequences for China of globalisation and the impact of the rising Chinese economy on the future of globalisation. The China project will take Chinese perspectives as its departure point, focusing on three principal areas:

- how China's government, interest groups and diverse communities see their values and how they project these values to the world;
- outside attempts to understand and engage with the values of the Chinese government, leading interest groups and diverse communities; and
- the role of these diverse, often competing, Chinese actors in globalisation and global trends.

The 'China and Globalisation' project aims to penetrate beyond broad generalisations about China as some hypothesised monolithic actor yet to have its significant impact on global order. The programme will examine a variety of new issues and cutting edge ideas arising from the huge influence that the wealthier China and its diverse interest groups and communities are already having, both internally and externally on: energy and raw materials; public diplomacy; security and international order; development and governance; technology; and finance and the international economic order.

Preface

Introduction

China is emerging once more as a major player on the world stage. As its economy pushes full steam ahead, the rest of the world is being forced to examine how to respond. This Foreign Policy Centre paper goes beyond the debates on what international role China will choose to play in the decades to come and examines the thought-provoking notion of China's 'appointment' with globalisation. What is particularly interesting for business is how these issues will play out.

Extraordinary growth … but at what cost?

Few observers can fail to be impressed by China's astounding success story. Its amazing growth has been particularly good news for those countries that export the raw materials, agricultural products, and hi-tech goods needed to fuel China's growth. The recent health of Australia's economy, for instance, has been attributed in large part to Chinese investments in its liquid natural gas (LNG) products. Just last year, Australia signed its biggest single export contract (totalling A$25 billion) to supply the gas for China's first LNG terminal in Guangdong. From a business perspective, companies that can tap into China's burgeoning demand will undeniably secure a long-term advantage.

But rapid growth has also brought complications for China, for the rest of Asia and for the entire global economy. The cost of China's environmental degradation has been estimated at between US$130 billion and US$200 billion a year, raising strong concerns about the sustainability of this extraordinary growth. China's emergence as the workshop of the world has had significant implications for newly industrialised countries, especially those in Southeast Asia that have seen a mass exodus of manufacturing factories to China. The surge in China's labour-intensive manufactured product supply has caused product prices to fall, and put a competitive squeeze on those countries seeking to exploit the same export markets. At the same time, China's increased production has led to growing demand for energy, minerals and raw materials – which as a result have increased in cost for China as well as other net importers of such commodities.

Investment goes both ways

China has been attracting unparalleled levels of foreign direct investment (FDI), with 10 per cent of global FDI flowing into the country in 2003. This enormous surge – totalling over US$60 billion – has certainly captured international attention. But, as this paper highlights, China's *outward* FDI has also been gaining ground. The country's average annual investment (spanning 160 countries) increased nearly ten-fold from the 1980s to US$3 billion over the period 2000-2003. As restrictions on outward investment are lowered and government efforts to promote 'going out' are stepped up, China's role as an outward investor can only continue to grow. For example, Chinese companies such as China Mineral and Metal Corporation, Sinochem and Huawei Technology have been recently setting their sights on investment projects in Brazil, Chile and Mexico.

This trend is reinforced by China's recent hunt for global acquisition opportunities. In an attempt to raise China's global economic profile and expertise, the Chinese government has been encouraging Chinese firms, big or small, to invest abroad and purchase foreign assets. The logic underpinning this move is clear – new markets, increased scale, acquiring skills and technologies. In 2004, overseas acquisitions completed by Chinese companies surged 99 per cent to US$3 billion. Recent high-profile cases like Lenovo's acquisition of IBM's PC business and the move of its PC worldwide headquarters to New York are not only demanding more international attention, but are also suggesting that China's re-emergence may yet have significant beneficial knock-on effects on other economies.

However, this 'going out' will require new skills and capabilities to combine and manage disparate businesses across borders. With this in mind, Chinese domestic companies are increasingly nurturing the relevant skills and expertise they need to overcome the management and governance challenges they face as they integrate into the international business arena.

What next for China?

Those who still see China primarily as a low-cost manufacturing location may be surprised to learn that China already has over 750 foreign R&D centres dotted around the country. No nation can sustain the growth figures China currently enjoys by staying a global manufacturing base forever, and China's government is well aware of this. Not only does China have the second-highest number of researchers in the world (totalling 743,000 behind the US with 1.3 million, but ahead of Japan with 648,000), but the government's strong backing and financial incentives aimed at encouraging both local R&D and high-value investment from overseas are laying solid foundations for the future. Accenture believes that the opportunities for businesses in this area are considerable as China continues to take actions that speed its journey to becoming a centre for global innovation.

Collaboration will reap rewards for all

China's recent transformation from 'isolated' to 'globalised' has been a reflection of the Chinese government's desire to maintain sustainable long-term economic prosperity, which it believes can only be achieved through full integration into the global economy. While this further transition into the international fold has begun to reshape the internal priorities and commitments of the Chinese government, China in turn has begun to redefine the world economic order of which it seeks to become a part.

So as China becomes a more influential player on the global business stage, how should the international community itself respond? China can certainly be expected to converge with global standards, reducing uncertainty for businesses in China. But China's pervasive impact on the global order suggests that leaders of foreign companies will also need to adjust their mindsets to accommodate an increasingly prominent 'Eastern' orientation.

There are hurdles in China's path, but the opportunities are certainly there, promising considerable rewards to all those with the ability and foresight to tap into them. A combined effort on all sides will ensure that the remarkable transformation occurring in China will bring multiple benefits, not only for China, but also for the global economy as a whole.

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Global Director Policy and Corporate Affairs, Accenture

Executive Summary

China's creative responses to and engagement with economic globalisation have begun to be acknowledged, readily by some and grudgingly by others. The implications of the rise of China for world politics and global political economy remain, however, a point of fierce contention.

This paper advances an argument fundamentally different from the current literature on the rise of China. Its major concern is neither about the growth of China's absolute economic or political power and possible scenarios of great power rivalry nor about speculations of China's intentions for political and economic coercions in the future. Rather it aims at providing a critical perspective in understanding China's appointment with globalisation and looks at how a globalised China presents policy challenges for the future of the global political economy.

Barely three years after China joined the World Trade Organization (WTO), China has risen to be the third largest global trader. Its total trade for 2004 is over $1.1 trillion, surpassing that of Japan. Three years on, WTO enforced compliance has fostered a new normative basis for China to embrace norms, institutions and laws prevailing in the global economy.

China has also become a significant global investor. In recent years, Chinese companies have become increasingly aggressive in investing globally. The acquisition of IBM's global PC business by China's largest computer manufacturer Lenovo most recently best illustrates this point. China's investment in energy sectors around the world and its recent promise to invest heavily in Latin America are also worth noting.

China's evolving prominent role as both a global trader and global investor is but one most observable expression of a fundamental and revolutionary transformation of China, i.e. from an isolated nation to a

globalised state. Such transformation is best seen recently in how the Chinese state successfully brokers between China and globalisation.

Globalisation: the Chinese way has, therefore, fostered and formulated a special set of relationships between globalisation and China, which has induced shifting normative commitment of the Chinese state. It is, however, not only a process of how the Chinese state is transformed and globalised, but also how globalisation is reproduced. The ultimate irony is that it is China's national ambitions and aspirations that have guided its choices and policies of engagement with globalisation.

This transformation of China has profound implications for global political economy. As the largest global production platform and the largest emerging market, China's contribution to the emergence of a truly market-oriented global economy has been indispensable and unmistakable. The changing purpose of the global economy in the 21st century is likely to facilitate accommodation, rather than promote confrontation, between China and the United States.

Yet, China still occupies an impossible position in terms of global governance. On the one hand, China's willingness and capacity to play an active and responsible role in global economic governance is questionable. On the other, China's unusual identity as a rising economic power, a non-democratic state and the largest emerging market combined makes the inclusion of China a compelling and complex challenge to the institutions, structures and mechanisms of global economic governance.

The fact that China is going global therefore asks four big questions for the future global governance, namely, global democracy, global prosperity, global stability, and viability of custom-made globalization. For the most important players in global political economy, particularly the United States and such global economic institutions as WTO, intellectual and policy challenges posed by China in this regard are no less daunting than those readily acknowledged in the more power-oriented arguments in the current China debates.

CONTENTS

Introduction

Reading global business periodicals today, one is likely to be struck by the frequent appearances of China as a poster child either in the front cover or in their lead stories. One often feels the struggle of editors and reporters alike to find appropriate hyperbole to describe China's roaring economic transformation. Economic development in China, a 'super-tiger', is 'superfast'. Shanghai has become the 'world's most happening city'. And 'China's power brands' are challenging global multinationals. At the same time, China continues to be haunted by 'gigantic political and social problems', and 'a terrifying level of bad debt'.[1] Lenovo Group's $1.25 billion acquisition of IBM's PC business in December 2004 prompted new media speculations and fascinations about global ambitions of Chinese companies.[2]

This is perhaps a general reflection and appreciation that the pace with which the Chinese economy has been growing beats common expectations. It is an acknowledgment that the magnitude of socio-economic changes within China often confounds many of its critics and skeptics. It is also a realization, particularly among global business circles, that its attention to challenges China poses and opportunities it offers as an upcoming global player is already overdue.

For China watchers reading policy journals and academic publications, two public debates can hardly escape their notice. Among foreign policy establishment, the simple question 'Does China Matter?' has provoked continuous reassessment of whether and how China matters in world politics and global economy.[3] Among economists working on

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[1] *Time*, 11 October 2004, *Business Week* (Asian edition), 8 November 2004, *Economist*, 20 November 2004.

[2] See in particular, 'China Goes Shopping', *Business Week*, 20 December 2004; and 'Corporate China Steps onto the World Stage', *International Herald Tribune* (on-line edition), 10 December 2004.

[3] Gerald Segal first raised this question in his article of the same title in Foreign Affairs, 1999. Gerald Segal, 'Does China Matter?' *Foreign Affairs*, 78 (5), September/October 1999, pp. 24-36. See also Robert Sutter, 'Why Does China Matter?', *Washington Quarterly*, 27 (1), pp. 75-89; Stuart Harris, 'Does China Matter? The Global Economic Issues', Working Paper 2003/1, Department of International Relations, Australian National University; and Barry Buzan and Rosemary Root (eds.), *Does China Matter? A Reassessment: Essays in Memory of Gerald Segal*, London: Routledge, 2004.

China, China's deeper integration into the global economy, particularly after its accession to the World Trade Organization (WTO), and trajectory growth of the Chinese market, continue to captivate their attention.[4]

This paper brings these three stories together to formulate a new perspective for understanding a particular aspect of China's interaction with globalization at the beginning of the 21st century. Two central questions asked and discussed below have only been mentioned in fragments, but not considered seriously as an integral whole in current debates.

- In what sense is China going global?
- How and why does China, as a globalized state, matter in the evolving global political economy?

These two central questions inform the organization and structure of this paper. It consists of four sections. It first discusses the WTO effect on facilitating China as a global trader. This is followed by a brief examination of China as a new global investor from the developing nations, one aspect of China's engagement with global capital market that has been until very recently much obscured but has become increasingly exciting. Based on these discussions, the third section considers the proposition that China is becoming a globalised state and teases out the implications and challenges of such transformation for China as well as for the world. The final section outlines four perspectives from which a better appreciation can be obtained as to how China is likely to have considerable impact on the emerging global economic order and future governance of global political economy, given the trajectory of its economic transformation and its growing weight in global economy.

This paper advances an argument fundamentally different from the current literature on the rise of China. Its major concern is neither about the growth of China's absolute economic or political power and

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[4] For the most recent example of this fascination, see Eswar Pradad et al, *China's Integration into the World Economy: Prospects and Challenges*, Washington D.C.: IMF, 2004. See also Nicholas Lardy, *Integrating China into the Global Economy*, Washington D.C.: Brookings Institution, 2002.

possible scenarios of great power rivalry nor about speculations of China's intentions for political and economic coercions once it is established as a powerful state. Rather, it looks at China's global engagement as a transformative process for both the Chinese state and the future governance of global political economy. It is argued that for the most important players in global political economy, particularly the United States and such global economic institutions as the International Monetary Fund (IMF) and WTO, foreign policy challenges posed by China in this regard are no less daunting than those readily acknowledged in the more power-oriented arguments in the current China debates.

China as a Global Trader: The WTO Effect

China in the WTO Three Years on

It is three years since China's formal accession to the WTO. Just a little over three years ago, China's pending entry into this global economic institution sparked fears and skepticisms and was a source of consternation. Within China, some were worried that China's 'dangerous liaison' with the WTO would cost millions of jobs and brought about the collapse of its agriculture and the premature demise of China's infant industries such as automobile and information technology.[5] Outside China, many others questioned China's pronounced commitment to implementing WTO rules in reforming its highly regulated economy. They were sceptical of China's willingness and sincerity and of its state capacity to fulfil its promises. Still others were apprehensive that the incorporation of such a super-sized non-market economy would prove to be disruptive, if not destructive, of the WTO, a global institution committed to the principles of liberalization

[5] See Special Issue of *Social Sciences in China* (The English edition), *Impacts of China's Accession to the WTO on its Economy*, No. 4, 2002. See also Yu Yongding et al (eds.) *Zhongguo rushi yanjiu baogao: jinru WTO de zhongguo chanye* [Research Report on China's Entry into the WTO: Impact on Chinese Industries], Beijing: China Social Sciences Documentation Publishing House, 2000; and Wang Shaoguang, 'The Social and Political Implications of China's WTO Membership', *Journal of Contemporary China*, 9 (5), pp. 373-405.

and free trade.[6] These worries evoke memories of fears articulated just thirty years before on the eve of the People's Republic of China's acceptance into the United Nations in 1971.

Three years on, those fears and apprehensions have largely dissipated. Post-WTO China has proved to be constructive and cooperative rather than revisionist within the WTO. China has resorted to the dispute settlement system within the WTO for resolving its trade disputes with its major trading partners, including the US.[7] China's actions in Cancun at the Doha Round of talks and its political alignment with the emerging G22[8] are also 'well within the scope of legitimate actions in the WTO' and 'did not breach the dominant accepted norms'.[9] Legal reforms have brought progress, though uneven in many aspects, on China's commitments to WTO-related rule of law.[10] Greater market access, a central promise of China's accession to the WTO, has been progressively realized.[11] Nothing better illustrates this than the simple fact that between 2000 and 2003, while the US sale to the rest of the world declined by 9%, its exports to China grew by 76%.[12]

Complaints and controversies about China's compliance with its WTO obligations, however, continue to centre on agriculture, services, enforcement of intellectual property rights, national treatment, and

[6] See for example, Ellen L. Frost, 'China, the WTO and Globalization: What Happens Next', www.iie.clom/publications/papers/frost0801.htm.

[7] For a recent case illustrating this point, see 'US and China Resolve WTO Dispute Regarding China's Tax on Semiconductors', The Office of the United States Trade Representative Press Release, 8 July 2004. www.ustr.gov/Document_Library/Press_Release/2004/July.

[8] G22 is a new grouping of developing countries. The group was formed in Cancun, Mexico, in September 2003 to oppose continuing farm subsidies in the United States and the European Union. The current members of the G22 are Argentina, Bolivia, Brazil, Chile, China, Colombia, Costa Rica, Cuba, Ecuador, Egypt, Guatemala, India, Indonesia, Mexico, Nigeria, Pakistan, Paraguay, Peru, Philippines, South Africa, Thailand and Venezuela.

[9] Margaret M. Pearson, 'Is China Playing by the Rules? Free Trade, Fair Trade and WTO Compliance', Written Testimony at Congressional-Executive Commission on China, 24 September 2003'. www.cecc.gov/pages/hearings/092403/pearson.php.

[10] For further details, see Ibid.

[11] With tariff and non-tariff barriers either removed or substantially reduced, China is now readily poised to meet its obligations to lower its overall tariff to 10% in 2005.

[12] USTR Fact Sheet—'Trade Facts, 21 April 2004: America's Trade with China'. www.japan.unembassy.gov/e/p/tp-20040423-06.html.

transparency. While China's full and satisfactory compliance continues to be questioned, its willingness and good faith approach to implementing its commitments is certainly less contested now than three years ago. Further liberalization and legalization of China's trading practice in the last three years, it is generally agreed, has made its trading system more compatible to the WTO norms and rules, and principles.[13]

Trade Growth

The most dramatic manifestation of the WTO effect on China is the growth of China's foreign trade in the last three years. Although the trade expansion was widely expected after China's accession to the WTO, the scale and speed with which such expansion has been happening far exceeds those expectations. Just consider the following:

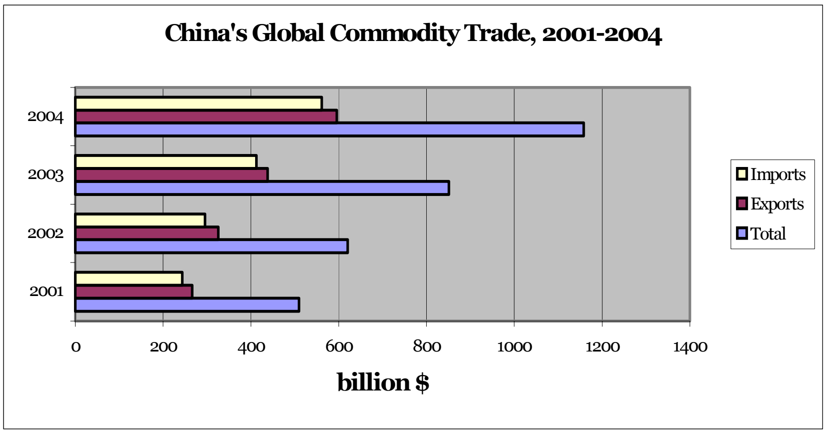
- On the eve of China's accession to the WTO in 2001, China's commodities trade totaled $509.65 billion. In 2004, it is expected to reach well over $1.1 trillion.[14] (See Figure 1)
- The annual growth rate is respectively 21.8% for 2002, 37.1% for 2003 and 36% (estimated) for 2004, making the average annual growth over 30% in this period, doubling the trade volume.
- This growth is to elevate China to be the third largest trader in the world in 2004, just after the United State and Germany but surpassing Japan, confirming China's status as one of the most significant global traders.

[13] See Gerald Chan, 'China and the WTO: The Theory and Practice of Compliance', Asian Programme Working Paper, No. 5, The Royal Institute of International Affairs, June 2003. Deputy Assistant U.S. Trade Representative Charles W. Freeman III, 'Prepared Testimony before the US-China Commission', 5 February 2004. www.usinfo.state.gov/ei/Archive/2004/Feb/05-859371.htm. 'China's WTO compliance not up to scratch', *Business Report*, 15 October 2004. For an earlier assessment, see 'China Taking a "Good Faith" Approach to WTO Membership', Deputy USTR Huntsman testifies to Congressional-Executive Commission, 6 June 2002. www.usinfo.state.gov/ei/Archive/2003/Dec/31-985759.html.

[14] By the end of November, China's total trade in 2004 has already reached $1 trillion.

- In 2003, China accounted for 5.3% of the total imports and 5.9 % of total exports of global trade respectively. In 2004, both are expected to account for over 6% in the global trade.
- In 2003, foreign trade accounted for 33% of China's GDP, 6% higher than in 2002.
- In November 2004, China's **weekly** trade amounts to $24 billion ($12.2 billion in exports and $11.8 billion in imports), which exceeds considerably China's **annual** trade volume in 1978, which was $20.64 billion ($9.75 billion in exports and $10.89 billion in imports).[15]

Figure 1



Source: The Chinese Ministry of Commerce website www.gcs.mofcom.gov.cn. The 2004 total are estimates.

[15] According to the Ministry of Commerce of the PRC, the total trade for November 2004 is $103.83 billion, of which $52.96 billion was exports, and $50.87 billion was imports. www.gcs.mofcom.gov.cn/article/200411/20041100303134_1.xml.

It is worth noting that before China's accession to the WTO, it was already 'an unusually open' economy.[16] The recent surge of China's global trade has multiple explanations.[17] As detailed trade statistics for 2003 indicate, while China continues to be a significant global producer for manufactured goods, its significance as a market for raw materials and industrial products has also grown. For example, China imported 91.12 million ton of crude oil, 28.24 million ton of oil products, 37.17 million ton of steel, and 1.2 million ton of natural rubber, an increase of 31.3%, 38.8%, 51.8% and 25.8% of the previous year respectively. The fastest growing sectors in exports, on the other hand, are machinery and electrical products (44.8%) and high and new technology products (62.7%).[18]

Such increasingly heightened trade dependency for China on the global market, in terms of both supply and demand, is set to continue. This is indispensable for China's development strategy, and is likely to determine both China's policies and its behavior in the global trading system in the future.

Normative Commitment

In addition to trade growth, there is one other particular WTO effect, which remains mostly under-appreciated, but is potently most transformative of China. There is no doubt that China's original intention to join the GATT/WTO had strong instrumental reasoning. As I have argued somewhere else, early trade reforms were motivated more by strategic adaptation than by China's normative commitment to liberalization and free trade. Throughout China's negotiation for its membership in the WTO, such behavioral changes did lead to China's partial internalization of the WTO norms, principles and rules in

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[16] Huang Yasheng, 'Is China Playing by the Rules? Free Trade, Fair Trade and WTO Compliance', Statement by Yasheng Huang at Congressional-Executive Commission on China, 24 September 2003'. www.cecc.gov/pages/hearings/092403/huang.php.

[17] For example, price hike on the international market may be one of them. As the Chinese statistics show, in 2003, the prices for its imported crude oil and natural rubber grow respectively 18.3% and 33.1%. In 2004, the historically high crude oil price will undoubtedly weigh heavily on China's import statistics.

[18] Ministry of Commerce, *2003 nian zhongguo duiwai maoyi fazhan zhuangkuang* (China's Foreign Trade in 2003), www.gcs.mofcom.gov.cn/article/200405/20040500221121_1.xml. In comparison, China's exports of textiles and apparels increased only 27.7%, and shoes, 16.8% in 2003.

Chinese trading practices. However, China's embracing of the WTO norms by then was at best highly selective, decidedly tentative and often reluctant and half-hearted.[19]

In this context, China's WTO membership serves a dual purpose. It helps create and foster a new normative basis to induce and sustain China's changing trade policies and practices compatible with the WTO principles and rules. It promotes China's cognitive embracing of laws, institutions, norms, and standards prevailing in the global economy. At the same time, it assists the WTO to turn the compliance enforcement into a process of norm diffusion to encourage China's cognitive understanding that the WTO rules and norms are legally binding as well as practically benefiting to China's long-term development goal as a global trader. As I will argue later in this paper, such new normative understanding is fundamentally transformative of China in the global economy.

China as a Global Investor: A New Upstart

In December 2004, the Lenovo Group, China's largest computer manufacturer, successfully acquired the global PC businesses of IBM through a deal worth $1.25 billion. Lenovo has subsequently announced that it is moving its headquarters to New York. Lenovo's acquisition has catapulted China into the international limelight as a significant emerging global investor.[20] Also quietly at the same time, the China Minmetals Group was negotiating for a 100% acquisition of the Canadian nickel and copper mining giant Noranda.[21] China Minmetals was reported to be ready to spend as much as C$7.5 billion for this acquisition. Shanghai Automotive Industry Corporation (SAIC), on the other hand, was considering injecting up to 1 billion pound sterling to form a joint venture with MG Rover, Britain's sole remaining

[19] Yongjin Zhang, 'Reconsidering the Economic Internationalisation of China: Implications of the WTO Membership', *Journal of Contemporary China*, 12 (37), November 2003, pp. 699-714.

[20] See for example, William Pesek Jr. 'Corporate China Steps on the World Stage', *International Herald Tribune* (Online edition), 10 December 2004; and 'China Goes Shopping', *Business Week*, 20 Dec ember 2004, pp. 32-35.

[21] See 'Noranda and China Minmetals Negotiations', www.noranda.com.

carmaker.[22] After more than 20 years testing and experimenting with outward investment, Corporate China seems to be ready to go global in earnest.[23]

Snapshots of China's Outward FDI

On the eve of China's entry into the WTO, *Newsweek* carried a story on *The Spread of China Inc.* on 3 September 2001. It noted 'a bit unusual' presence in midtown Manhattan of the US headquarters of Haier Inc., a Chinese white appliance manufacturer. 'The "China boom" story', the report claimed, 'has been missing the Chinese multinationals. But not for long.'[24] Earlier in the year, the Chinese Premier Zhu Rongji had called for Chinese enterprises to implement a strategy to 'go out' and invest beyond Chinese borders.[25] This is, however, almost a retrospective call. By then, China had already quietly but aggressively accumulated a sizeable outward investment stock and had joined the elite league of the so-called 'primary Third World investors'.[26] (See Table 1) By the end of the 1990s, China's own multinationals had already made noted presence in the global economy.[27]

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[22] 'Chinese Set to Bale out Britain's Ailing MG Rover Car Maker', www.asia.yahoo.com/041121/afp/041121031814business.html.

[23] For a detailed book length study of Chinese government policy to encourage outward investment and of the transnationalization of Chinese companies between 1980 and 2000, see Yongjin Zhang, *China's Emerging Global Businesses: Political Economy and Institutional Investigations*, Basingstoke and New York: Palgrave, 2003.

[24] Richard Ernsberger Jr. , 'The Spread of China Inc.', *News Week*, 3 September 2001.

[25] Zhu Rongji, *Report on the Tenth Five-Year Plan for the National Economic and Social Development* (in Chinese), 2001. www.cei.gov.cn/lszl/report07htlm.

[26] See John Dunning et al, 'Third World Multinationals Revisited: New Development and Theoretical Implications', in John Dunning (ed.) *Globalization, Trade and Foreign Direct Investment*, Amsterdam:Elsevier, pp. 255-286.

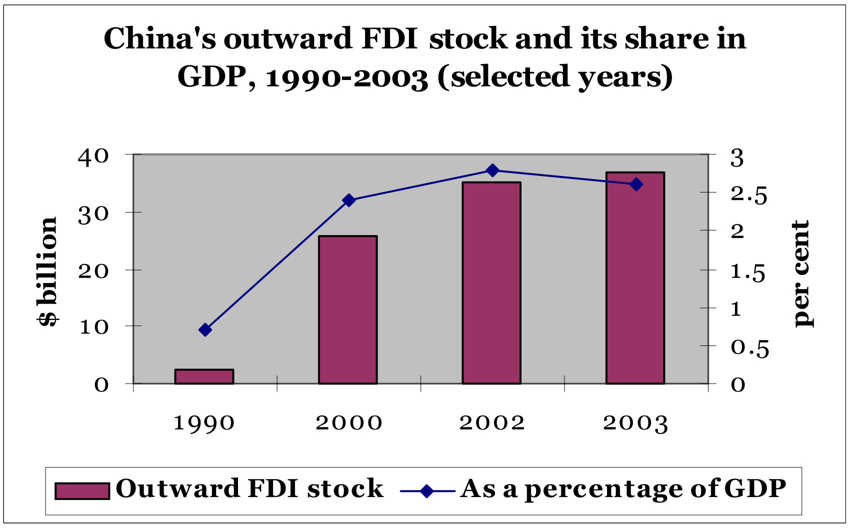
[27] According *World Investment Report 1998*, China claimed four spots in the UNCTAD list of top 50 TNCs from developing countries in 1996. Their average transnationality index is 30.

Table 1 China's outward FDI stocks in comparative perspective, 1980-2000
(selected years in $million)

	1980	1990	1995	2000
China	--	2,489	15,802	25,804
Korea	127	2,301	10,231	26,833
Malaysia	197	2,671	11,042	21,276
Singapore	3,718	7,808	35,050	56,766
Argentina	5,997	6,106	10,696	21,118
Brazil	38,545	41,004	44,474	51,946
Chile	42	178	2,425	11,154

Source: UNCTAD World Investment Report, 2004 'Country Fact Sheet'

Figure 2



Source: UNCTAD *World Investment Report, 2004*, 'Country Fact Sheet: China'

Mutual Accommodation

Until recently, this particular aspect of China's global engagement has been enigmatically neglected. In sharp contrast to FDI flow into China, which continues to capture the imaginations of many, the unprecedented upsurge of China's outward investment that fostered the emerging Chinese global businesses received little serious attention, although it occasionally made its way into news headlines. One moment of reflection here on China's historical insulation from the world economy after 1949 and its economic transition since 1978 is informative of the significance of this phenomenon. Prior to 1978, the Chinese economy was a model of stark autarky. While the People's Republic pursued a self-reliance development strategy, prohibiting the participation of international capital in the Chinese economy and maintaining minimum trade as the only tenuous linkage with the world economy, non-recognition of the PRC and sanctions imposed mostly by the United States prevented any possible opening for meaningful engagement of global capital with the Chinese market. There was also an intellectual gap. As late as the 1980s, Multinational Corporation was perceived in China as a capitalist invention for the purpose of exploiting the Third World. Their operations worldwide were contested and the idea of China's own multinationals was largely rejected.

Viewed from such a perspective, it is not difficult to understand the intellectual agonies with which China's ideological opposition to multinational corporations turned gradually into political acceptance. Innovative policies and major institutional changes had to be initiated for China's experimental engagement with transnationalisation of Chinese firms.[28] The growth of China's outward investment and the rise of Chinese global businesses, therefore, dictated certain aspects of radical transformation of the Chinese economy. China's embracing of this capitalist-dominated institution, i.e. multinational corporations, in its development strategy is indicative of mutual accommodation between China and globalization. China's global reach in this particular thrust can also be regarded as China's creative interaction with globalization.

New Global Investment Thrusts

Since the late 1990s, China has sought aggressively to list parts of its largest and probably also the most profitable state-owned enterprises on the international equity markets. In 2000 alone, four large Chinese companies—the China National Petroleum Corporation (CNPC), the China Petrochemical Corporation (Sinopec), the China National Offshore Oil Corporation (CNOOC) and China Unicome—listed their subsidiaries in Hong Kong and New York and raised a total of $15 billion. These overseas listing created a new platform and enabled the pooling of financial strength and of managerial expertise for the listed companies and their parents to mount aggressive cross-border mergers and acquisitions. This has not only become a new pathway for the transnationalisation of large Chinese firms, but also a new thrust of China's investment activities. For example, in June 2004, China Mobile

[28] For more detailed discussions, see Yongjin Zhang, *China's Emerging Global Businesses*, Chapter 3 Towards the Transnationalization of the Chinese Firms: Policies and Debates, particularly, pp. 49-53.

(HK) Ltd. Acquired assets of various communications companies in China with a deal valued at $4.1 billion.[29]

Table 3 China's Cross-border Merger and Acquisition Overview, 2000-2003 (in $ million)

	2003	2000	2001	2002
Sales	3,820	2,247	2,325	2,072
Purchases	1,647	470	452	1,047

Source: *World Investment Report, 2004*, 'Country Fact Sheet, China'

In the first 11 months of 2004, before the Lenovo-IBM deal was announced, China had already completed 31 deals of overseas M & A, worth $1.6 billion. These include SinoChem's acquisition of Inchon Oil Refinery Co. Ltd. valued at $544 million in September, and China Huaneng Group's acquisition of OzGen valued at $246 million.[30] They may also include SAIC's acquisition in October of a controlling stake in Ssanyong Motor, South Korea's fourth largest carmaker worth $500 million, and China Minmetals acquisition in April of 51% of controlling interest in Shervin Alumina, the second largest aluminium producer in North America, with an undisclosed amount.

A spate of new government policies was also announced in 2004 on China's outward investment. The government support of Chinese firms investing overseas is more explicitly expressed in a document jointly issued by the State Development and Reform Commission (SDRC) and China Import and Export Bank in October. The document outlines

[29] KPMG, '2004: First Hard Evidence of Recovery of Global M & A', 13 December 2004. www.kmmp.com.cn/en/about/KPMG_news/041213_FirstHardEvidence.html.

[30] This is in comparison to 33 deals worth $1.7 billion for the total of 2003. KPMG, '2004: First Hard Evidence of Recovery of Global M & A', 13 December 2004.

basic policies concerning giving credit support to key overseas investment projects encouraged by the government.[31]

The Quest for Energy and Raw Materials

China's global investment in the energy sector is another case in point. Driven by the need to access natural resources, particularly oil and gas, Chinese oil giants have invested in the oil industry of 14 countries, which include Angola, Indonesia, Iran, Kazakhstan, the Sudan, Venezuela and Yemen. For example, from 1995 to 2003, the CNPC invested $2.7 billion in the Sudan.[32] It claims to have accumulated more than $5 billion worth of assets overseas now.[33]. It is reported most recently that China is to invest $5 billion in Argentina for joint exploration of oil field.[34]

Indeed, the recent visit of the Chinese President Hu Jintao to Brazil and Argentina has not been just accompanied by a bilateral deal for both countries to recognize China's market economy status. It has also been marked by a spate of agreements and announcements of large-scale Chinese investment in the two countries. China International Trust and Investment Corporation is to invest $2 billion to construct North-South railway in Brazil.[35] Sinopec and Petrobras was to sign a gas pipeline deal worth more than $1.2 billion.[36] China's investment package to Argentina totals $19.7 billion, which includes $8 billion in railway, $5 billion in oil exploration, $4.5 billion in telecommunication. China also promised that it would make a total investment of $100 billion in Latin America in the next ten years.[37]

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[31] See State Development and Reform Commission and China Import and Export Bank, *Notice on the Policy of Giving Credit Support to the State Encouraged Key Overseas Investment Projects* (Chinese version) at www.sdrc.gov.cn. Two other notable policy documents issued also in October 2004 are Ministry of Commerce, *Provisions on Matters Related to the Exmamination and Approval of Establishment of Enterprises for Overseas Investment*; and State Development and Reform Commission, *Interim Measures on the Administration of Exmination and Approval of Overseas Investment Projects*.

[32] *Zhongguo Jingying Bao* (China Management Daily), 14 August 2004.

[33] *Jingji Guancha Bao* (Economic Observations) 24 October 2004.

[34] Associated Press, 16 November 2004.

[35] *Financial Times*, 16 November 2004.

[36] *Financial Times*, 18 November 2004.

[37] *Di Yi Caijing Bao* (First Finance and Economics Daily), 19 November 2004.

China: Towards a Globalised State?

China's evolving role as both a global trader and a global investor are important parts of China's creative responses to and engagement with globalization. They are, however, but two most observable aspects of a fundamental and revolutionary change of China. Economic reforms over the last three decades have transformed China from an isolated nation into a globalized state. This state transformation also constitutes part of the production of globalization in the same period.

Chinese Economic Reforms in Global Context

The start of China's opening and economic reforms at the end of the 1970s coincided with what Robert Gilpin calls 'a revolution in international economic affairs' when the overseas expansion of multinational firms and foreign direct investment began to have profound impact on almost every aspect of the world economy and in integrating national economies more completely.[38] Together with the prevalence of the neoliberal economic policy agenda of liberalization, deregulation and privatization in the decades to come, it facilitated the emergence of a truly global and market-oriented economy. China's appointment with globalization is a concurrence between China's conscious choice and a historical incident.

Chinese economic reforms were also launched, however, at a time when there had already been prevailing embedded norms, institutions and procedures in the world economy. As Robert Cox argued, by the end of the 1970s, the habit of policy harmonization among major advanced capitalist countries had been institutionalized. The inter-state consensus formation among them had all but completed in defining ideological basis for such consensus, the norms of 'correct behavior' and the principles and purposes within which to harmonize their policies. More importantly, through power structure in international politics as well as in international production, such a consensus was turned into a global one, with which national policies and practices of

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[38] For more deliberations, see Robert Gilpin, *Global Political Economy: Understanding the International Economic Order*, Princeton: Princeton University Press, 2001. Chapter 1 'A New Global Economic Order'.

all participating members in the global economy had to be adjusted to comply.[39]

With hindsight, the most punishing step in China's short march towards a globalized state, i.e. China opting to be embedded into the global market economy, is to confront the hegemonial capitalist world economy of this nature, which threatens to turn the Chinese state inside out. China's 'shallow' and then 'deep' economic integration has accordingly been accompanied by progressive restructuring of its economic policies and institutions aimed at instituting a general pattern of 'correct' and acceptable economic behavior in this capitalist-dominated system. To accommodate the exigencies of the global economy, strategically adopting commonly accepted practices, norms, standards and principles in the China's national economic system is perhaps inevitable. Such adoption, however, is also partially enforced externally. According to Cox,

> … the ideological and political power of global hegemony restricted the forms of state that were tolerated within this world order. A combination of rewards and penalties—access to credit for compatible and political destabilization of incompatible national regimes—enforced conformity.[40]

China's entry package to the WTO represents and reflects its compromises with as well as contestations to this hegemonic global economic order.[41]

Brokering Globalization

That globalisation has been transforming the Chinese state has other manifestations. The characterization of the transformation of China from a revolutionary power to a reformist state captures only the early

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[39] Robert Cox, *Production, Power and World Order: Social Forces in the Making of History*, New York: Columbia University Press, 1987, pp. 254-260.

[40] Ibid, p. 266.

[41] Although China has accepted conditions for its entry into the WTO as a non-market economy, it continues to regard these conditions as discriminatory against China. One of the thrusts of its foreign policy now is therefore to negotiate for bilateral recognition of its market economy status. This is widely regarded as China's own contestations to the discriminatory practice within the WTO. By the end of 2004, 36 countries have agreed to recognize China as a market economy.

transition of the Chinese state in the reform era. As Chinese economic reforms progress, the puzzling and haunting question is: What has brought about the success story of China in the age of globalisation? The Chinese themselves often make sterile statement that globalisation presents both opportunities and challenges and then attribute China's successful economic story in the last two decades to economic globalisation.[42] Global economic institutions, such as the World Bank, repeatedly projects China as a winner in globalisation.[43] The simple caricature of China either a successful globaliser or as a winner in globalisation misses an important point: the changing nature of the Chinese state.

One particular perspective that helps to appreciate such a change is to look at how the Chinese state has played an increasingly successful broker's role in the mutual engagement between globalisation and China. There is little doubt that as a broker, the Chinese state has navigated Chinese economic reforms through a testing global/domestic vortex, which has been extremely volatile and has not always been hospitable. It has played an enviable role in cushioning and mediating the destabilizing and unsettling effect of globalization, ensuring domestic social and political stability. It has at the same time enabled China to take full advantage of globalization for its economic development. As Ian Clark argues, the state is 'a key player in determining whether the cost of international disciplines should be borne domestically, or whether domestic disturbance will be allowed to overthrow international regulation'.[44] The difference is then between a good broker and a bad one.

This can be best illustrated by the paradox of its success in the alleviation of poverty. China was praised by the World Bank to have given globalization a human face by lifting 400 million Chinese people

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[42] Zha, Peixin, 'China and Globalization', www.chinese-embassy.org.uk/eng/dsjh/t27161.htm.

[43] Sven Sandstrom, 'Globalization with a Human Face: Opportunities and Challenges for China and East Asia'. www.web.worldbank.or/external/default/main, etc.

[44] Ian Clark, *Globalization and International Relations Theory*, Oxford: Oxford University Press, 1999, p. 67.

out of poverty between 1978 and 2000.[45] At the same time, the gap between rural and urban incomes has widened alarmingly. In 1981, the Gini coefficient was 29. It was 44 in 2003.[46] The regional disparities between the rich coastal areas and the poor interior provinces have been allowed to continue to widen. For example, in 2003, the GDP per capita of Shanghai reached almost $5,500, whereas that of Guizhou province, the poorest, was only less than $400, a factor of 12.

This is much closer to what one Chinese economist terms as 'custom-made globalization'.[47] It has not only underlined the ongoing successes in Chinese economic growth. It has certainly energized the resilience of the Chinese state. It seems to have also reconfigured the Chinese state and redefined the legitimacy of the current government. *Globalization: the Chinese way* has fostered and formulated a special set of relationship between globalization and China. It is not only a process of how the Chinese state is globalized, but is also where China is making a major contribution to reproducing and maintaining the momentum of globalization. The Chinese way of globalization, if ultimately proved successful, will be one source of the 'soft power' that China has been painstakingly searching for in recent years.[48]

'Globalised State': A Contentious Concept

Whether and in what sense China is a 'globalised state' is of course a matter of fierce contention. The fourth annual A. T. Kearney/*FOREIGN POLICY* Globalization Index published in April 2004 lists China as one of the least globalised, ranking the 57th among the 62 countries it considers.[49] It is even lower than Bangladesh (56th), Kenya (54th) and

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[45] Sven Sandstrom, op. cit. The managing director of the World Bank also claimed that 'The progress and the poverty reduction that have taken place in China have far exceeded expectations'.

[46] 'China in 2003—Ambassador's Outreach to Canada', September 2003 at www.beijing.gc.ca/beijing/en/navman/ambassador/594/968.htm.

[47] Fan, Gang, 'Lessons from China: custom-made globalization', *The Straits Times*, 23 October. S8.

[48] For a more assertive claim of how China provides a model for developing countries to engage globalisation, see Joshua Cooper Ramo, *The Beijing Consensus*, London: Foreign Policy Centre, 2004.

[49] Foreign Policy and A. T. Kearney, 'Measuring Globalization: Economic Reversals, Forward Momentum', *Foreign Policy*, March-April 2004. www.foreignpolicy.com/issue_marapr_2004/countrydetail.php.

Sri Lanka (51st). Apart from methodological issues,[50] our conceptualization of 'globalised state' here is essentially different from that offered in *Foreign Policy* globalization index. Kearney/*FOREIGN POLICY* is more concerned about the overall involvement of each country in political, economic, personal and technological globalization in terms of a predetermined set of statistics. Its purpose is to decide who is the most or least globalised by applying their measuring. We are more interested here in how effectively a particular state acts as the broker of globalization and how in turn globalization transforms the nature of that state. Our analytical concept aims to offer an approach to understand shifting normative commitment of the state and dynamic mutual constitution between globalization and transformation of the state.

At first glance, 'globalised state' seems to be an inherently self-contradictory term. The conventional wisdom is that globalization erodes state sovereignty and upsets the foundation of the existing international system. In creating a borderless world, globalization accentuates the tensions between the market and the state, which embody two fundamentally different organizing principles in our global political and economic life. The survival of the state and the system of states accordingly depends on their successful resistance to or accommodation of globalization as externally imposed conditions. There is, in short, an inherent antagonism between the antithesis of globalization and the state.

If mounting a full and effective refutation of this false dichotomy is beyond the scope of this paper, an alternative perspective on globalization is worth noting. This perspective does not see globalization as an externally imposed, technology-driven project of modernity. Instead, it looks upon globalization as a new stage of a historically protracted process through which states seek to integrate among themselves, choose to engage in different forms of interaction

[50] Kearney admits, for example, that 'China's enormous population makes it difficult for the nation to improve its standing, since many of the index indicators are calculated as a percent of total population.'

and pursue convergent policies to promote peace and prosperity. Globalization is therefore what states make of it.[51]

There is clear analytical advantage of this perspective. First, state has not lost sovereignty and power. Rather, sovereignty and state power are reconstituted and reconfigured for individual state as they choose to respond to and produce globalization in different fashion. Second, as states are responsible for the production of globalization, state's choices matter. They explain the different stages of individual state in the process of globalization and their mutual engagement.

The Limits of China as a Globalised State

Viewing from this perspective, it is not difficult to understand an ultimate amalgam of contradictions China embodies today. Contemporary China is undoubtedly a product of globalization. As discussed above, China seems to have consciously chosen to engage actively in economic globalization by pursuing increasingly convergent policies and practices in the global economic system. In so doing, its outlook has become increasingly global. At the same time, it remains deeply committed to nationalism, though with increasing ambivalence, as one of the fundamental values in international life. It is its national ambitions and aspirations that have guided its choices and policies of engagement with globalization. This unequivocally spells the limitations of China as a globalized state.

A brief examination of China's recent discourse on globalization clearly reinforces this interpretation.[52] The Chinese leadership no longer pretends to maintain the separation between the domestic and the international, the local and the global. There are strong indications that they have cognitively embraced globalization, at least in its economic incarnation. Former Premier Zhu Rongji justified the deepening of China's economic reforms and opening on the basis of China's need to 'adjust itself to the trend of economic globalization'.[53] Even the

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[51] For further arguments along this line, see Ian Clark, *Globalization and International Relations Theory*, pp. 52-69.

[52] See for example, Deng, Yong and Thomas Moore, 'China Views Globalization: Toward a New Great-Power Politics?', *Washington Quarterly*, 27:3, pp. 117-136; and Garrett, Banning, 'China Faces, Debates, the Contradictions of Globalization', *Asian Survey*, 41:3, pp. 409-427.

[53] Zhu Rongji, *Report*, 2001

understanding of state sovereignty among Chinese elites has become less clear-cut, particularly in economic sphere. The ultimate ideal goal for China to realize through its appointment with globalization remains, however, to make China a strong state and a powerful nation. A 'globalized state', contradictory it may be, perhaps best reflects what China wants to be.

What are implications of China becoming increasingly a globalized state for the future of Chinese political system? The state-society relationship within China has undoubtedly already been reshaped. The transformation of the Chinese state in brokering between globalization and China so far seems to have successfully accommodated the constraints and exigencies of globalization. There is, however, undoubtedly an embedded mismatch between a state run according to authoritarian rules and an economy based on largely liberal principles. The democratic imperative, which is said to have prevailed in many parts of the world, is yet to exert its decisive influence on China's political changes.[54] Whether, how and when a globalized China will correct that mismatch is an ultimate challenge to globalization as well as to the Chinese state.

China and Global Political Economy

> 'In the year 2040, China is the leading industrial country in the world. Sony-Toyota and General Electrical Motors auto plants are scattered along the country's coastline. The newly minted electronic cars are shipped out to markets around the world on COSCO, the Chinese-owned shipping line that is the world's largest'.[55]

This is not an excerpt from a science fiction. It is but a projection of a possible scenario of Chinese economic dominance in not a too distant future by a veteran China watcher. Many have argued that using the purchasing power parity measure of GDP, China is already the second

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[54] See Adrian Karatnycky, 'The Democratic Imperative', *The National Interest*, 1 June 2004, pp. 107-116.

[55] Nicholas Kristof, 'China in 2040—Leading the World?', *The Globalist*, 3 November, 2001, www.globalist.com.

largest economy in the world. Current discussions about the trajectory growth of Chinese economy are rife with speculations about when China will overtake the United States as the world's largest economy.[56] Yet, paradoxically, a central question in these discussions continues to be the prospects of China's full integration into the global economy.[57]

The ongoing focus on China's integration is patently anachronistic. It sounds increasingly patronizing and is less rewarding. For a developing economy, arguably China is already remarkably integrated, particularly in comparison with many others in the developing world. More importantly, such a focus tends to either obscure or negate a story of growing significance, which has imperative global policy implications, namely, possible impact that a globalized China exerts on the evolving global political economy.

The discussions below examine briefly four areas of interest that I believe has important bearings on facilitating our understanding of such an impact. Analytically, four questions are asked.

- Has China's intensified global engagement already begun to shape the new global economic order?
- In which way has the changing purpose of the global economy affected the mutual accommodation between China and a truly global economic system?
- Whither China in the global economic restructuring?
- How and why is a globalized China likely to affect the future of global economic governance?

China and the New Global Economic Order

The emergence of a new global economic order at the beginning of the 21st century, Robert Giplin argues, has been facilitated by political transformation, economic revolution and technological innovation. This

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[56] For example, Bernard Wasow's prediction is the year 2033. See Bernard Wasow, 'The US-China Race', *The Globalist*, 1 January 2003, www.globalist.com.
Others believe that the most likely year is around 2050.

[57] For the most recent debates, see a new study by Eswar Pradad released by IMF in October 2004 on *China's Integration into the World Economy: Prospects and Challenges*.

new global economic order has two striking characteristics. It is truly global and it is increasingly market-oriented. The end of the Cold War and the collapse of Communism removed the strategic rationale that underlined the fragmentation of the world economy and created necessary political conditions for the participation of more and more developing economies and former communist countries in the global market system. With these emerging markets, a truly global economy was created. Simultaneously, trade and investment barriers have been substantially reduced through negotiations at such global forum like the WTO. As neoliberal agenda becomes widely accepted as a norm in the global economic system, 'more and more nations have been pursuing neoliberal economic policies such as deregulation and privatization. These developments have resulted in an increasingly market-oriented global economy.' [58]

If the general thesis of such arguments is correct, China is an integral part of this emerging global economic order. China's contribution to the emergence and construction of a market-oriented global economy is unmistakeable. It could be argued that it is the end of the Cold War that removed a formidable barrier for full and deep integration of China into the global economy. It is commonly accepted that without successful accommodation of China into the WTO, there would not possibly be a truly global trading system. It remains debatable whether the Chinese leadership has truly subscribed to the neoliberal policy agenda. The opening of China to foreign investment, economic liberalization, and the changing role of the Chinese state, however, have all led to increasing convergence between Chinese economic policies and the prescriptions of neoclassical economics. China has become the largest emerging market.

Speaking at Qinghua University on the topic of 'China's Role in the 21st Century Global Economy', Lawrence Summers summed up this eloquently.

> '… for the first time the world has a truly global economy. I am convinced that when the history of the last twenty years of the twentieth century is written, the end of the Cold War will be the second story in that history. The first story will be about the

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[58] Robert Gilpin, *Global Political Economy*, pp. 5-10

> appearance of emerging markets—nowhere more than China—places where, when added up across the world, three billion people live and where, for the first time in human history, we are seeing economic growth at rates where standards of living more than doubled within a single decade, and then do it again, and do it again'.[59]

The Changing Purpose of the Global Economy

The end of the Cold War brought about one other fundamental change in the new global economic order: the changing purpose of the capitalist-dominated world economy. During the Cold War years, security interests and alliance politics between the United States and its allies dictated the political framework within which the capitalist world economy operated. It functioned principally to promote cohesion and cooperation among the anti-Communist alliance. Compromises of important national economic policy differences were made in the name of common strategic interests. The purpose of the international economy then was

> 'primarily to strengthen the economies of the anti-Soviet alliance and solidify the political unity of the United States and its allies; this goal frequently necessitated acceptance of trade discrimination and illiberal policies'.[60]

In contrast, such a clearly defined purpose of the global economy is obviously absent today. What is nevertheless clear is that it is vitally different. Many would agree that the primary purpose of the global economy today is to promote growth, development and prosperity, some would also hasten to add democratization, through free trade and open market.

The changing purpose of the global economy affects mutual perceptions between China and the dominant powers, particularly the United States, and consequently their mutual engagement, in fundamental ways. While the restrictive nature of the international

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59 Lawrence Summers, 'China's Role in the 21st Century Global Economy', Speech delivered at Qinghua University School of Economics and Management, 25 October 1999. www.hongkong.usconsulate.gov/uscn/trade/general/others/1999/1025d.htm.

60 Robert Gilpin, *Global Political Economy*, p. 11

economy during the Cold War adds to the explicability of their mutual hostility, today there is clearly a broad agreement between China and dominant powers on the primary purpose of the global economy. It is here that their strategic and security interests are often seen as converging. This lays the foundation for their cooperation in areas beyond global economic governance and makes their rivalry amenable to compromises.[61] It leads to China's reading of the unipolar world as not so threatening and to its grudging acceptance of the hegemony of the United States.[62]

For the global economy, China is no longer seen as a willful disruptive force committed to a different economic order. With unfolding economic transformation, it is increasingly viewed as a market opportunity and an engine of growth for regional and potentially the global economy. That perception has certainly been matched by exciting hard facts. In 2003, 43 percent of Japan's export growth can be accounted for by China, 45 percent for Korea, 28 percent for Germany and 21 percent for the United States.[63]

This general agreement is crucial for China's embracing of economic globalization and the new global economic order, which, the Chinese policy elites believe, provides opportunity for the realization of China's ambitious goal to build up a well-off society by 2050. The following quote from the Chinese Ambassador to the United Kingdom is revealing

> 'Globalisation is the objective trend of economic development in the world today, featured by free flow and optimised allocation of capital, technology, information and service in the global context. It is the inevitable result of the development of productive forces and advances of science and technology, especially the revolution of information technology since the

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[61] For an essentially different argument, see Deng, Yong and Thomas Moore, 'China Views Globalization: Toward a New Great-Power Politics?', *Washington Quarterly*, 27:3, pp. 117-136

[62] For a similar discussion, see Wu, Xinbo, 'Globalization and the Restructuring of the Strategic Foundation of Sino-US Relations', *Shijie Zhengzhi yu Jingji* (World Economics and Politics), September 2002, pp. 55-60.

[63] The highest is Taiwan, which is 68 percent. See Stephen Roach, Presentation at IMF Economic Forum on *China in the Global Economy: Prospects and Challenges*, 19 October 2004.

> 1980s and the 1990s. … Therefore we should embrace and seize the opportunities presented by globalisation and adopt reforms to keep up with the steps of the changing world'.[64]

China and the Global Economic Restructuring

One of the opportunities in the global economic transformation alluded to above is the pervasive global economic restructuring entrenched in the new global economic order. One main feature of this restructuring is the increasingly accelerated shift of world industry away from the world old industrial bases such as the United State, Europe and Japan to newly industrializing economies. The economic restructuring of this nature has been largely driven by technological innovations and by the emergence of an information economy. It is marked by a shift from manufacturing to services such as finance, software, and retail in industrialized countries.[65] Most important in the context of our discussions here is the fact that the bulk of this manufacturing capacity has now been shifted to China, either through newly industrializing economies such as Korea, Singapore and Taiwan or directly from the United States, Europe and Japan. Foreign investment has now made China a global factory. The following statistics speak for themselves.

- By October 2004, China has accumulated $555.25 billion in FDI,[66] mostly in the manufacturing sector. More than 400 of Global 500 multinationals have invested in China. 'China is on the CEO's agenda at virtually every global company', a recent Boston Consulting Group report claims.[67]

- China produces over 50% of the world's cameras, 30% of air conditioners and television, 25% of washing machines and

[64] Zha, Peixin, 'China and Globalization', speech at Chinese Economic Association Annual Conference, 14 April 2003. www.chinese-embassy.org.uk/eng/dsjh/t27161.htm.
[65] Robert Gilpin, *Global Political Economy*, p. 10.
[66] This is the statistics from the Ministry of Commerce of the PRC. The contracted value for FDI is $1062.1 billion. www.mofcom.gov.cn/
[67] David Michael and Kevin Rivette, *Facing the China Challenge: Using an Intellectual Property Strategy to Capture Global Advantage*, The Boston Consulting Group Report September 2004. www.bcg.com.

almost 20% refrigerators. China is expected to produce 20% more cars than its market demand by 2010.

- China's total exports in 2003 were $438.37 billion, accounting for 33% of GDP, compared to 18% in 1996. Foreign-invested companies exported $240.34 billion, 62.4% of the total.

- Exports of industrial and manufactured goods were valued at $403.56 billion, 92% of the total exports. More than $110 billion were exports of high technology products. The processing trade, valued at $241.85 billion, close to 60% of total exports.

- Wal-mart alone purchased $15 billion in China and is expected to purchase $25-$30 billion in five years time.[68]

Undoubtedly, China's rapid industrialization owes much to this transfer. While consolidating the global economic restructuring, the rise of China as a global factory is changing the dynamics of the supply and demand chain in the global economy. It has already exerted deflationary pressure worldwide. It has become a hungry dragon for energy and for raw materials from iron ores to natural rubber. China will no doubt retain its comparative advantage of cheap labor for some years to come. But China's competitive edge will also be increasingly found in its vastly improved infrastructure, able managers and more skilled and enthusiastic work force. As many global companies are relocating their production hubs to China at the same time seeking to establish their R&D center there, this global factory is not only going to become bigger and more efficient. It is also expected to move up the value chain. The impact of China's rapid industrialization on the global economic restructuring is yet to be properly appraised and fully appreciated.

[68] These figures are compiled from Ira Kalish, *The World's Factory: China Enters the 21st Century*, published by Deloitte Research in 2003, and Chinese Ministry of Commerce, *2003 nian zhongguo duiwai maoyi fazhan zhuangkuang* (China's Foreign Trade in 2003) at www.gcs.mofcom.gov.cn/article/200405/20040500221131_1.xml.

China and the Global Economic Governance

Either as the largest global production platform or the largest emerging market, China presents itself as both a problem and a solution in the global political economy. As a growing economic power, China occupies an impossible position in terms of global economic governance. Until three years ago, China was not even a member of the WTO. By design, China is not included in the G8, an exclusive club that makes important decisions on global economic governance issues. Yet, as Jeffrey Garten claimed, 'China has become far more important to the global economy than most other G8 members such as Italy, Canada, and even France'. Without China's active involvement around the G8 decision-making table, 'the world's big economic issues can no longer be effectively addressed'.[69]

The recent grudging acceptance of China into the G8 finance ministers meetings and into the G20 may be the beginning of a changed mindset. The involvement of China, as commented, 'illustrates both the glaring gap in global governance and the increasing economic and policy interdependence between industrial countries and major emerging market economies'.[70] The inclusion of China will make the global economic governance structure and mechanisms more representative, thus enhancing their legitimacy.

However, China has long been a club of one in international politics. It has traditionally been a self-sufficient economy. Until very recently, it has purposely shunned from too close involvement in multilateral international institutions, regional and global. Its full integration into the global economy is still very much a subject of contention. China's willingness and capacity to play an active and responsible role in the global economic governance is questionable. Further, China's unusual identity as a rising economic power, a non-democratic state and the largest emerging market combined makes the inclusion of China a compelling and complex challenge to the institutions, structures and mechanisms of global economic governance.

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[69] Jeffrey Garten, 'China: The Missing Member at the G-8 Table', *YaleGlobal Online*, 3 June 2004.

[70] Colin Bradford, Jr. and Johannes Linn, *Global Economic Governance at a Crossroads: Replacing the G-7 with the G-20*, Policy Brief 131, The Brookings Institution, 2004.

Assuming there exists a general agreement between China and other dominant players on the primary purpose of the global economy, this only provides necessary conditions for constructive participation of China in the global governance. China's national ambitions informed by its unusual identity are sufficient conditions that are likely to drive China's participation in and cooperation with existing and future global economic institutions on governance issues.

In rhetoric, China has already positioned itself to challenge the existing rules of the game in global economic governance. As is widely acknowledged, the existing global economic institutions derived largely from the Bretton Woods have been shaped by the dominant powers of the North. The most powerful states continue to establish global norms and rules, either directly through consultation among themselves, or by proxy through their dominance at the IMF and the World Bank. As has been forcefully contended,

> 'Globalisation is not divorced from the power structures associated with inter-state relations and, as such, the strong states of the North have thus far imposed heavier imprints upon it'.[71]

The governance issues in global finance are a case in point. China has already articulated clearly its discontent and argued for a more balanced and equitable representation in the decision-making mechanisms on global economic issues. At the United Nations, the Chinese Ambassador Zhang Yishan asserted that,

> 'Since global governance has not kept pace with the rapid development of market globalization, the negative impact of the latter has greatly increased, further aggravating the inequities in the global financial and trading systems'.[72]

In other words, Zhang continues to argue, that the democratization of global economic governance lags behind global integration. Therefore,

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[71] Ian Clark, *Globalization and International Relations Theory*, p. 55

[72] Zhang, Yishan, 'Statement by H. E. Ambassador Zhang Yishan on Globalisation and Interdependence at the 2nd Committee of the 57th UN General Assembly', 2002.

the first priority for initiating a democratic governance of global economy is to reform the existing global financial, monetary and trading systems, making them more equitable and democratic, and increasing developing countries' participation in global decision making and norms setting so as to have their interests and needs properly reflected.[73]

At a different forum, the Chinese Ambassador to the United Kingdom Zha Peixin was more explicit,

> 'All countries, big or small, poor or rich, strong or weak, should have the right of equal participation in international economic affairs, and the formulation and revision of 'rules of the game' should not be determined by only a small number of countries or groups of countries'.[74]

China is also expected to raise the issue of global economic distributive justice. The new global economic order and its governance should ensure 'that the benefits of globalisation are shared more widely and equitably'. It should be 'conducive to narrow the gap between the North and South'.[75] As mentioned earlier, at Cancun in 2003, China joined the G22 group and became part of a new coalition and realignment of alliances of the South in the global economic bargaining.

In more substantive areas, it may push for a more inclusive agenda of global economic governance, which, in addition to trade and finance, would also include health, poverty reduction, environment, human security, and sustainable development. It will possibly also make it a policy priority to call for the reform of those governance structures, which, it believes, work to the detriment of developing countries; the so-called Northern driven 'network governance', for example.

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[73] Zhang, Yishan, op. cit.
[74] Zha, Peixin, op. cit.
[75] Ibid

Conclusion

As the largest emerging market, the successful transformation of China has contributed in its own fashion to the emergence of a truly global market economy in the 21^{st} century. China's engagement with global market, particularly in trade and investment, is unprecedented in both its intensity and its breadth. China is undoubtedly going global. It surely has its own global ambitions. These global ambitions are driven, however, by neither realpolitik considerations, nor great power rivalry. The main thrusts of China's global ambitions have been facilitated by and are predicated upon the transformation of China from an isolated nation to a globalized state. They are fostered, encouraged and endorsed by mutual accommodation between China and globalization. If fundamental social and economic changes in China today induced by globalization are amenable to globalizing the Chinese state, in constructing a globalized China, globalization has also been produced, and its legitimacy, enhanced.

This forms a critical perspective in understanding the rise of China in the 21^{st} century and in formulating policy responses to manage China's rise. The question of whether China matters has fast become a moot point. It is arguably also a misguided question. It is not China *per se*, but the transformation of China that matters for global politics and economy. Once this is accepted, it is not difficult to understand why the China threat debates in the United States have become very much muted. It also becomes clear that continuing focus on projecting China as a rising power challenging the existing dominance of the United States in global and regional settings is increasingly misdirected.

If the transformation of China induced so far by its appointment with globalization is anything to go by, a globalized China is asking big questions of future global political economy, which are important considerations of global policy makers and establishments. Grossly stated, they include the following:

- *Global democracy*. This is not just about better and more equitable representation of global majority in the institutions, structures and mechanisms of global economic governance. It also means a more inclusive decision-making process and active participation by global majority in shaping emerging global norms related to such issues as worsening inequality and distributive justice.

- *Global prosperity*. The capacity of the U.S. economy to act as a sole sustained engine of growth for global prosperity has been increasingly questioned. Global prosperity will have a much better chance if propelled by multiple engines of growth. As a globalized China has already emerged as an engine of growth for the Asia-Pacific region, can it provide a new and an additional path to global prosperity? How to promote such a prospect?

- *Global stability*. Emerging markets have contributed greatly to global economic growth and integration in the last decade. They are also the main source of global economic and financial instability. Mexico in 1994, East Asia in 1997-1998 and Brazil and Argentina in 1999 and 2000 are just some cases in point. As the largest emerging market, China holds the key to global stability. It has so far avoided economic and financial crisis while maintaining its momentum of economic growth and globalization. What lessons can we learn from the Chinese experience?

- *Custom-made globalization?* If anything, China's engagement with globalization is innovative. It has selectively adopted the neo-liberal policies, but forcefully rejected one-size-fits-all prescriptions for engaging the global market. Does the China model provide an alternative approach for states with diverse political, social and economic conditions to engage globalization successfully?

By asking these big questions, a globalized China testifies the transformative role of globalization and shows how states make of globalization. It is in this sense that China matters.

Also available from the Foreign Policy Centre:

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