



## **Report on Wilton Park Conference WP912**

### **DEVELOPING CHINA'S GLOBAL ROLE**

**Monday 12 – Thursday 15 May 2008**

#### **The Challenge: How to Communicate?**

1. Two opening questions set the challenge. What do we expect of China? How does China see itself? The aim of the conference was to analyse and seek to close that gap in perceptions. The title of the conference, “Developing China’s Global Role” could be linked either to viewing China as a developing country or to a sense of expanding China’s global role. With either interpretation, China’s interests and impact would be global, encompassing issues of national security, human rights and economic and social development. China and the West need to find a pattern of relationships in which both parties gain, rather than accept relationships in which one party won and the other party lost.

2. The Chinese tend to see their own leadership as a strength, which is balanced by problems such as a large population, one-fifth of the global total, high disparity of wealth within China, and the presence of some 60 different ethnic groups. While globalization is an opportunity, relationships with the West are still a risk within a global perspective. At times, Chinese people feel like home owners who have invited guests to their homes, but then feel it necessary to cover up a messy bed with a sheet, so that all the faults of the society will not be seen by outsiders, especially outsiders from the West. Whatever the strengths, weaknesses, opportunities and risks inherent in their breakthrough growth, China is determined not to be intimidated or dictated to by anyone. Chinese argue that every country needs to decide for itself what types of investment are appropriate to achieve their goals.

3. The start of the conference coincided with the earthquake in China's south-western Sichuan province and many non-Chinese participants expressed their heart-felt sympathy and made offers of financial assistance for the relief effort. In marked contrast to the 1976 earthquake, for which all offers of foreign assistance were declined, the Chinese welcomed help. This was seen as a reflection of awareness nowadays, among both Chinese and Western leaders, that China's interests and impact are global, requiring international dialogue. There was also consensus that what unites us is more important than what divides us. However, we do need to develop a greater shared perception about issues of security, development and human rights. In the midst of preparation for the Olympics in Beijing this summer, as well as the protests about Tibet focused on the global tour of the Olympic torch, there is a need for dialogue and honest statements of belief, rather than angry isolation or boycotts.

4. No attention is bad, but too much attention is worse! All Chinese participants believe China's development should not be restrained by other countries. There was disagreement over whether China was following any particular model of growth, given the present mixture of Communist and capitalist principles. Yet there was general agreement that China (with its coal-dominated high energy use and resulting pollution) was emulating earlier Western models of industrial development. Clearly, neither China nor any other emergent country was solely responsible for the build-up of carbon dioxide in the atmosphere. The industrial development of the West had caused the increasingly high level of greenhouse gases. Therefore, many believe the West should accept considerable responsibility for improving the global environment, including providing technological transfers at a minimal cost to China.

5. Both genuine communication and sustained technological transfer were a two-way process requiring changes of attitudes in China and in the West. With the United States and China as the two main global polluters, environmental problems could only be tackled if there were a change in the

style of political leadership in the United States, and a willingness in China to make the substantive political and economic reforms which would lead to environmental improvements. The Chinese were hesitant to implement the necessary reforms because of a genuine concern to ensure the stability of the country. Local officials often ignored Beijing's instructions on issues such as treating sewage in order to focus their time and resources on promoting further economic growth.

### **Internal Reorganisation**

6. The number of national government ministries has been reduced from 52 in 1982 to 27 in 2008. One Chinese view suggested the long-term goal was small government in a big society, with a shift in public sector priorities from a developmental to a regulatory and service focus. However, such a bold long-term transformation would only be possible while maintaining economic growth in the short-term, reducing inflation, and arresting the decline in central government macroeconomic performance. The problem is not that many parts of the economy are *out of* control, but that they are *beyond* control in a country as immense and populous as China. One Western view notes a further major problem is that both national and local leaders in China are often appointed on the basis of their career success in the Communist Party, rather than ministerial experience or ability.

7. In attempting to balance international and domestic considerations, the rulers of China face an immense management challenge. After the emphasis in the 1980s on growth at any cost, there is now an attempt to balance growth with environmental considerations. Chinese aspirations for further growth are certainly warranted, but if Chinese growth is modelled on the earlier industrial revolution in Europe, pollution within China and greenhouse gas emissions throughout the world will reach levels at which present lifestyles will be unsustainable. There is a need throughout the world for Low Carbon Development Zones, grounded in international dialogue that leads to local implementation. It is not yet clear which countries and regions will take the

lead in creating sustainable growth, but at the moment it is in Europe that many of the necessary innovations are taking place.

8. To suggest that there was a single 'Chinese view' about the future of China would be misleading. Many Chinese participants believe the Communist Party in China, rather than the Government, make the key decisions. Some Chinese believe influences from abroad do not lead to changes in government policies, while others stress the impact of outside influences on Chinese nationalism. Many, both Chinese and non-Chinese, view China as a meritocracy, rather than an autocracy. For many, China's political and economic policy was not a systematic set of ideas, but rather a pragmatic problem-solving approach in which there was considerable tension between central government policy pronouncements and regional or local non-implementation.

### **Global Governance: The Chinese Connection**

9. The exercise of Chinese financial power has already changed the world economy. China's reserves are valued at US\$1.5 trillion, 70 per cent of which is in US dollars. China's financial power is now so great that during the past year it has supported the US economy with considerable loans, together with inflows from sovereign wealth funds in other parts of Asia and the Middle East. At the same time, China invested some \$500 billion in US Treasury bonds. In China links between private and state enterprise are highly complex, with the state exercising a significant role. Some 22 per cent of China's tax revenues are from foreign owned enterprises in China. Yet, at the same time, some 60 per cent of all Chinese exports are processed goods based on imports into China, in other words, of products that have been assembled, in part, from raw materials that come from outside China.

10. Global economic flows are increasingly from resource-poor to resource-rich countries, especially with respect to oil, food and water. As a nation, China is using its vast trade surpluses and reserves with three guiding

principles: first, to secure a reliable supply of resources, energy and food; second, to increase China's economic and political power, making no distinctions between economic and political aspirations; and third, to gain a good return on investment. Although China is making significant external investments, while at the same time the outside world is keen to invest in China, the Chinese themselves are still very cautious about how foreign investment in China should develop, especially in certain key industrial sectors.

11. After the Second World War, China was excluded from many reconstruction plans, and from the process that led to the creation of the United Nations (with the exiled Kuomintang government in Taiwan being recognised as the sole representative of the Chinese State). As a result, the People's Republic of China believed its sovereignty was threatened. However, China has become increasingly involved in international institutions, especially after becoming a member of the UN, with a seat in the Security Council, in 1971.

12. Within international institutions, China is increasingly part of international economic and political interaction predicated on openness of values. China, as a modernising state, has to face, and arguably accept pressure to embed the nation in a constructive partnership with other nations. International law is at the core of global governance, so the more China is integrated into international institutions, the more China as a nation will have an interest in complying to agreed rules. This web of international arrangements includes the World Trade Organisation (which China joined in 2001), and also involves acceptance of intellectual property rights and trade quotas, international peace and security, and sustainable development in the face of climate change.

13. The attitude of Chinese leaders has moved from "we don't play the game," to "we don't know the game," to "we will play the game, but very carefully," and finally to, "we're winning the game." In this process, the

Chinese are seeking to understand democracy and separate it from capitalism, while at the same time aiming to create a market economy without capitalism. To understand this complex process requires an analysis of China's relationship with different regions of the world.

## **China and Europe**

14. Several participants viewed the relationship of China with the European Union (EU) as China's most promising 'bilateral' relationship. Economically, since 2004, the EU has become China's major trading partner, while China has been second for the EU, just behind the United States. With nearly 500 million people, the EU ranks third behind China and India in population, ahead of the United States. By the end of 2006, there were more than 20,000 European enterprises in China, with the EU as the number one supplier of technology to China. In December 2004, an EU-China Strategic Partnership was launched. However, the specific objectives of this partnership have not been clearly defined. It has been argued the EU-China Strategic Partnership cannot yet move beyond commercial and economic co-operation, due to differences in shared values and political systems.

15. The current EU-China Strategic Partnership is essentially engagement by both sides, based on dialogues and concrete actions on specific issues, for example the Beijing Olympics, North Korea, Darfur, Kosovo, currency exchange rates. At times, it is difficult to make progress without explicit trade-offs. From a Chinese perspective, three objectives are paramount. First, the continued *economic* development of China is the pre-condition for the *political* and *social* stability of China. Second, in facing tensions between the people and the Communist Party, between the developed (mainly coastal areas) and less developed (inner) regions, and between rich and poor, China hopes to learn from (but not copy) European experiences. Third, the success of EU-China relations has become an important step in gradually integrating China into the world economic system. Yet in the midst of this EU-China pattern of co-operation, a recent policy paper from the European Commission has

indicated that on most bilateral issues “China is the single most important challenge for EU trade policy”.

16. The future of EU-China relationships is not yet clear, but the phrase ‘partnership with competition’ may characterise EU-China relationships for many years to come. China and the EU do not have a conflict of fundamental interests or outstanding historical issues. China and the major EU member states follow similar principles in addressing international issues, in part because their interests increasingly overlap. Even in the midst of economic competition, their economic interdependence is increasing rather than decreasing. Both China and the EU are already working together to meet global challenges such as energy security, anti-terrorism, climate change, non-proliferation of nuclear weapons, etc. This engagement is, arguably, reinforced by the fact that both sides are attracted to each other’s cultures; an indication of this is the recent statistic that more Confucius Institutes (official Chinese language learning and cultural centres) have been set up in Europe than in any other continent.

### **China and the United States**

17. Some regard the United States as not seeking to contain China, but rather to help to shape its economic and political relations. US-Chinese relations are improving rapidly, with US exports to China expanding significantly. The US wants China to have a stable government and a successful Olympic Games. The rise of China is viewed, by the US, as a positive development internationally, but serious issues within China, in the context of religious freedom, human rights and freedom of the press cannot be ignored. The US Government is puzzled by Chinese military policy, while continuing to hope that China and Taiwan will be able to work out their relationship, without violence, in a manner agreeable to both sides.

18. This fundamentally positive perspective on US-China relationships was challenged by a Chinese claim that the US did not want to share its

knowledge, especially if that knowledge was important to retaining US economic, political and technological dominance. Americans perceive a developing attitude that the US is open to foreign investment, but that the same situation does not prevail in China. Chinese often perceive US comments on human rights, Tibet, Taiwan and other issues as unwarranted neo-colonialism, which are seen as interference in internal Chinese affairs. Both China and the US are not prepared to allow significant investment in key national strategic security areas. On both sides, patience is essential, with Chinese policy makers arguing US policy makers should be more patient, whilst US policy makers would like to see Chinese policy makers being more pro-active in key social and human rights issues.

### **China and the Region**

19. Along with Japan, China is certainly one of the two motors of regional growth, but China's influence on stability in the region is much more complex. China has been active, both within the Association of Southeast Asia Nations (ASEAN) and the ASEAN Regional Forum (ARF). There is a policy of non-intervention and informal relationships in both regional groupings, but China does work diligently toward returning to what is viewed as its natural place in the international order, which includes becoming the biggest economy. As a member of the Asian Development Bank, and a founder member of Asia Pacific Economic Cooperation (APEC), China is working for free and open trade and investment. Furthermore, in 1997, China stabilized the regional economy by pegging its currency, the Renminbi (RMB), to the US dollar. Some regard continued economic integration of China with the rest of the region as more important for China than trade with Europe or the US.

20. China has become an exporter of foreign direct investment in the region, but its activities vary according to sub-region. Much of the export processing growth has been focused on economic exchanges with Japan and South Korea. China has abolished tariffs on many products and services from Hong Kong, so that most foreign direct investment in mainland China is now being

channelled through Hong Kong. Perhaps, most intriguingly, with the Cross Strait Common Market, Taiwan is now making a significant contribution to China's industrial manufacturing sector, especially in electronics and information technology. Some concern was expressed about the role of the Chinese diaspora in Southeast Asia, an historical problem linked to concerns that they could be a bridgehead for Chinese interests. This is a problem in Indochina, particularly where the Chinese are often seen as foreign agents. At the same time, China is rapidly developing its relationships, both economic and political, with border states such as North Korea, Myanmar (Burma), Cambodia and Vietnam, in part to strengthen domestic regional policies in parts of China that are less developed than coastal areas. Furthermore, it is not yet clear how the Chinese will engage India, despite considerable Chinese interest in this country. Whereas China is focusing on economic integration with all parts of Southeast Asia, India does not yet have a clear strategy in Southeast Asia.

21. Perhaps the key to regionalism is improving Sino-Japanese relations, especially as Japan remains the biggest economic power in Asia, with a \$4,300 billion economy in 2006, compared to China's \$2,700 billion. These two economies have still to resolve the fundamental issue of leadership in the region. Japan has its own plan for a regional currency, which some claim, China is hijacking. At the same time, Japan plans to increase its overseas development assistance, foreign direct investment, and soft power; all of which carry potential social consequences.

## **China and Africa**

22. In the midst of changing relationships with Europe, the United States and the rest of Asia, China has sought stronger cooperation with many African nations. The Forum on China-Africa Cooperation (FOCAC) in 2000 has been followed by frequent intra-governmental contacts between Chinese and African leaders. This strategic partnership is now linked with the goals set out in April 2006 by President Hu Jintao for strengthening political mutual trust

and cooperation in international affairs, increasing 'win-win' economic cooperation, strengthening cooperation on security issues and increasing cultural interaction. In contrast to Africa's earlier experience with both European colonialism, and precise United States guidelines on how overseas development assistance should be used, the Chinese see the Africans as equal partners and treat them accordingly. In the view of many Africans, China and Africa have long sympathised with, and supported each other in the struggle for national liberation and independence. During the past eight years, China-Africa relations have been deemed highly positive by both sides, whether official or unofficial, bilateral or multilateral.

23. The scale and speed of the transformation in relationships between China and Africa is striking. In 2006, the volume of bilateral trade between China and Africa was valued at \$55.5 billion, more than five times that in 2000. In 2006, China invested \$6.64 billion in 49 countries in Africa; some 9 per cent of China's total external investment, and contract projects worth \$9.5 billion were completed. China is also taking an active role in seven peace-keeping operations in Africa, deploying more than 1,200 troops. Yet in the midst of this economic, political and military activity, China has focused on economic development and taken little, not to say no, interest in governance in Africa. Such an emphasis has been well received by many African nations because awkward questions are not being asked about accountability, human rights, commercial obligations or corruption within specific countries. However, policy makers in both Europe and the United States would like to see a less pragmatic approach with more emphasis placed on improving governance within Africa.

24. Chinese participants regard China's engagement with Africa as based explicitly and genuinely on the goals for strategic partnerships set out by the Chinese President. China's African policy is part of a grand external global strategy, referred to as a 'building a harmonious world'. The goals are becoming even more ambitious: to double China's 2006 development assistance to Africa by 2009; to provide Africa with a further \$3 billion in

preferential loans and \$2 billion preferential buyers' credits; to cancel debt owed to China by the least developed countries in Africa; to set up a China-Africa Development Fund worth \$5 billion; to make a significant contribution to public health and agriculture in Africa, and to increase from 190 to 440 the number of export items to China that receive zero tariff treatment. China is already Africa's third largest trading partner; and Sino-African bilateral trade volume is projected to double between 2006 and 2010 to \$100 billion. One view suggested "China's presence in Africa is good for economic development but bad for governance". This could change as China and individual African countries learn from each other how to create positive synergies involving economic development, good governance and accountability.

### **Energy, Climate Change and Environment**

25. No single issue generated greater interest throughout the conference than the links between economic development, energy use, climate change and the environment. One argument suggests that if China pursued present economic objectives at its current pace, the bulk of the world's resources would be virtually exhausted by 2030. This poses the challenge that fundamental changes are required now in China's development trajectory. But are such changes feasible without undue delay, and what conditions might be attached by Chinese policy makers in return for making them?

26. Since 1978, energy consumption in China has grown three-fold. China is now the second largest energy consumer in the world (after the United States). Since 1991, energy consumption has surpassed production, and since 1993 China has become a net oil importer, with 40 per cent of China's 2004 crude oil consumption derived from imports. China's basic energy strategy has three goals: first, to step up prospecting for domestic resources and ensure basic supplies; second, to improve energy efficiency; and, third, to change consumption composition by reducing reliance on oil. An important consequence of China's policy of intensive national energy development has been extensive use of coal, which now accounts for 70 per cent of China's

energy consumption (compared to 23 to 25 per cent in the US, Japan and Germany; and less in the United Kingdom and France). This, of course, results in considerable pollution and greenhouse gas emissions. Eight of the ten most polluted cities in the world are in China, and many of China's largest rivers have become severely contaminated. Although China's Gross National Product (GNP) grew at 9.6 per cent per year from 1980 to 2006, several studies have suggested that the cost of pollution in China is now at least equivalent to 2 to 3 per cent of GNP per year. If these concerns are factored in, the real rate of growth is much lower than that indicated by official figures.

27. Extensive subsidies keep energy prices low for Chinese consumers. The Chinese Government is hesitant to permit price increases because of the political impact. China believes many energy saving technologies developed in Europe could be adopted in China, but the key is to make them affordable and appealing to consumers and businesses. There is an awareness that China will need to adjust its energy intensive industrialisation sooner or later, but there are few concrete proposals of precisely how this will be done. China would need a 2.5 fold increase in energy consumption to enjoy the living standard of the developed nations. There was considerable sympathy for the view that China is entitled to such a living standard, but much higher levels of energy efficiency are necessary in China *now*, or the world environment would be destroyed *later*.

## **Conflict Resolution**

28. There is, currently, minimal armed conflict between China and other nations. However, there was a need for 'peace building', which involves continuing multi-dimensional efforts to achieve reconciliation in the face of the structural causes of conflict (e.g. security, economic development, governance). In this regard, the work of the independent British charity, Conciliation Resources, was relevant ([www.c-r.org](http://www.c-r.org)) because of its goal: "To prevent violence, promote rights and transform armed conflicts into opportunities for sustainable societies and development." This was linked to

the question: How can sustainable economic development in China be achieved without destroying the global environment? There is a need to establish a negotiating framework with a sufficiently comprehensive agenda and sufficiently inclusive participation that a road map for a sustainable future can be clarified and implemented.

## **Moving Ahead**

29. Four key problems noted were China's spiritual disorientation, a growing gender imbalance within China (by 2028 there will be 118 men for every 100 women), the need for effective administration of domestic policy, and clarification of the goals of Chinese foreign policy. The earlier historical commitment to Confucian ethics has given way to widespread confusion and searching, especially among young people. China needs a well-trained, competent group of administrators capable of running both the central government and the provinces. Many Western observers are unsure about the nature of China's foreign policy goals. Genuine dialogue needs to take place between Chinese and Western leaders about China's view of its present and future place in the world.

30. These problems can be considered in the context of three significant opportunities: the growth of the Chinese economy, the growing international perspective gained by Chinese students and young people in general, and the increasing interest of the world in China's success. With its cheap labour, commitment to hard work and considerable investment, the Chinese economy is set to become the key economy of the twenty-first century. When this economic power is linked with the internationalisation of Chinese students and growing international interest in China, there is a real opportunity for international dialogue. However, Western and Chinese strategies for this dialogue differ.

31. By 2018, two scenarios were possible in China. The country could become a strong and stable nation, which was playing a significant and

positive international role. However, there is a danger that China could also threaten the global environment with its problematic economic policies based on intensive use of coal and failure to observe international environmental safeguards.

32. The Western strategy for relating to China is a complex mix of engagement, confrontation and acceptance of China. The West is already adopting a conscious policy of seeking to draw China out of its earlier isolation, in part through increasing numbers of students, teachers and entrepreneurs going to China. Yet at times there are confrontations on issues such as trade and dumping China's surplus and exchange rates with many nations. The West has to accept China on its terms, and then decide on a policy of confrontation or non-confrontation issue by issue.

33. China's strategy for relations with the West is an equally complex mix of relentless modernisation, while striving to open minds within China and the West as well as seeking to understand the rest of the world. In a sense, the vast majority of China's problems, as well as its success, rest on the process of modernisation. The Chinese leadership needs to guide its own people towards a sustainable and prosperous future. Pivotal to this is understanding that foreign financial investment is motivated by the desire for financial reward rather than interpreting it as a modern form of economic colonialism.

**Robert Kahn**  
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