

Contemporary Chinese Political Economy and Strategic Relations

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Emile Kok-Kheng Yeoh

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Biwu Zhang, Chinese Perceptions of the U.S.: An Exploration of
China's Foreign Policy Motivations (2012)
reviewed by Emile Kok-Kheng Yeoh

Contemporary Chinese Political Economy and Strategic Relations: An International Journal (CCPS) is a triannual academic journal published by the Institute of China and Asia-Pacific Studies, National Sun Yat-sen University, Taiwan, focusing on the Chinese polity, economy and society, and the interrelationship between sociopolitical and socioeconomic factors that influence political, economic and social outcomes in contemporary Mainland China and Taiwan, as well as Hong Kong and Macau, and their politico-economic, strategic relations with other regions and countries.

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Inaugural Issue: Changing China



Contemporary Chinese Political Economy and Strategic Relations: An International Journal

Notes for Contributors

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Inaugural Issue – *Changing China*

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The Editor, *Contemporary Chinese Political Economy and Strategic Relations:
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E-mail: ccpsij@gmail.com, yeohkk@um.edu.my

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China's Foreign Policy Motivations (2012)
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Contributors

Dr Uziel Batista **Nogueira** holds a Master and PhD degree on Natural Resource Economics from Michigan State University, East Lansing, 1975-1980. Upon returning to Brazil he did a brief stint from 1981 to 1982 as Adviser at the Ministry of Labor in Brasilia. There, he developed the first input-output matrix model to assess job creation of the first fuel ethanol program in the world. In 1982 he joined the Department of Socioeconomic Studies at the Inter-American Development Bank (IDB) headquarters in Washington DC. From 1982 to 1996 he was involved in economic assessment studies covering energy, transportation, infrastructure, environment, macroeconomics and economic integration. Most of Central America, Caribbean and South American countries were covered. From 1996 to 2010 he worked as Deputy Director of the Institute for the Integration of Latin America and the Caribbean (INTAL), an IDB outfit specialized in economic integration, located in Buenos Aires, Argentina. Currently, Dr Nogueira is happily retired and living in Southern Brazil where he writes daily columns at *The New York Times* online debate fora. <Email: macielun@gmail.com>

Dr **Mutahir** Ahmed is Professor and Chairperson at the Department of International Relations, University of Karachi, Pakistan. Dr Mutahir was a Visiting Fellow at Henry L. Stimson Center, Washington, US, and Asia Fellow at the University of Malaya, Kuala Lumpur, Malaysia. His areas of research interest are religious extremism, State-society relations, arms control and disarmament in South, Central and West Asian regions. <Email: mutahir62@yahoo.com>

Dr John A. **Donaldson**, Associate Professor of Political Science at the School of Social Sciences, Singapore Management University, studies local rural poverty reduction policies in China, the transformation of China's agrarian system, and central-provincial relations. His research has been published in such journals as *Politics and Society*, *World Development*, *International Studies Quarterly*, *The China Journal* and *The China Quarterly*. His book, *Small works: Poverty and development in southwest China*, came out from Cornell University Press in 2011. John graduated in 2005 from George Washington University in Washington DC with a PhD in political science, focusing on comparative politics and international relations. <Email: jdonaldson@smu.edu.sg>

Dr Qian Forrest **Zhang** is Associate Professor of Sociology at the School of Social Sciences, Singapore Management University. He received his undergraduate training at Fudan University in Shanghai and obtained his PhD in sociology from Yale University in 2004. He has been teaching at Singapore Management University's School of Social Sciences since 2005. His current research focuses on two themes: the fate of petty commodity production (especially self-employment and family farming) in China's transition to capitalism and the role of family in shaping people's mobility processes. His work on rural China, which documents the rise of agrarian capitalism and analyses its impact on family farming and the rural social structure, has appeared in the *Journal of Agrarian Change*, *Politics & Society*, and *The China Journal*. His work on the role of the family in the social mobility processes has been published in the *Journal of Marriage and Family*, *World Development*, and *Sociology*. <Email: forrestzhang@smu.edu.sg>

Dr Im-Soo **Yoo** is Professor Emeritus at the Department of Economics, Ewha Womans University, Seoul, Republic of Korea. He obtained his Bachelor of Arts and Master in Business Administration from Yonsei University, Seoul, Republic of Korea, and holds a PhD in Economics from University of Cologne, Germany. Dr Yoo has been Visiting Professor at various universities throughout Europe and Asia including

University of Munich, University of Potsdam and University of Paris III. He has served as Visiting Professor at the Faculty of Economics and Administration, University of Malaya, Kuala Lumpur, Malaysia, and Senior Research Fellow at the Institute of China Studies, University of Malaya. He has also taught at the Asia-Pacific Center for UN Peace Studies, and was Visiting Professor at the National Economic University, Hanoi, Vietnam. Dr Yoo was Adviser to the Board of Audit and Inspection of Korea and also several other government and corporate organizations. He is the President of the Asia-Europe Perspective Forum and formerly the President of the Korean Association for Contemporary European Studies. His current research interests include international economics, trade, economic development and global finance especially for economic integration between European Union and East Asian community. <Email: isyoo@ewha.ac.kr; imsooyoo@gmail.com>

Dr Emile Kok-Kheng **Yeoh** is Associate Professor at the Department of Administrative Studies and Politics, Faculty of Economics and Administration, University of Malaya, Kuala Lumpur, Malaysia. He holds a PhD on ethnopolitics in socioeconomic development from the University of Bradford, West Yorkshire, England (1998), was the director of the Institute of China Studies, University of Malaya, from 13th March 2008 to 1st January 2014, the founder and editor of the institute's top-tier Scopus-indexed journal, the *International Journal of China Studies* (2010-2014), and is currently a member of the international editorial committee of several journals in Asia and Latin America. His latest publications include "Rising China as a regional power and its new assertiveness in the South China Sea" (book chapter, Palgrave Macmillan, 2014), "Poverty reduction, welfare provision and social security challenges in China" (book chapter, Routledge, 2014), "Evolving agencies amid rapid social change: Political leadership and State-civil society relations in China" (book chapter, Palgrave Macmillan, 2013), and *China – State, public policy and society* (edited special issue of *The Copenhagen Journal of Asian Studies*, 2014). <Website: <http://emileyeo5.wix.com/emile-yeoh>; e-mail: yeohkk@um.edu.my, emileyeo@gmail.com>

FOREWORD

Changing Chinese Political Economy and Strategic Relations: An Update

This special volume, “Changing China”, represents the inaugural issue of the *Contemporary Chinese Political Economy and Strategic Relations: An International Journal* (CCPS) – a triannual academic journal focusing on the Chinese polity, economy and society, and the interrelationship between sociopolitical and socioeconomic factors that influence political, economic and social outcomes in contemporary Mainland China and Taiwan, as well as Hong Kong and Macau, and their politico-economic, strategic relations with other regions and countries. Contemporary political economy or political economics is an interdisciplinary field of social science that studies the interrelationship between political and economic processes, taking political science and economics as a unified subject, and this represents the central approach of the journal that is clearly reflected in the four articles carefully selected for publication in this special inaugural issue in the context of China’s domestic front as well as her external strategic relations.

The first article in this inaugural issue, “Beijing replaces Washington’s dominant position in Latin America: Meet the new boss. Same as the old boss?”, by Uziel Nogueira addresses the opportunities and challenges presented by China’s increasing presence in Latin America – primarily, whether the Asian giant will foster or constrain MERCOSUR’s industrial economic development. China’s rise as a major global trade player, according to Nogueira, is creating winners and losers in Latin America and the Caribbean, thus the perception of threat

or opportunity. On the winning side, he notes, are the economies of MERCOSUR, comprised of Argentina, Brazil, Paraguay, Uruguay and Venezuela (full members of the custom union) and Bolivia, Chile, Colombia, Ecuador and Peru (associated members) with strong natural resource-based exporting sector of agricultural products, minerals and petroleum. On the losing side are Mexico, Central America and the Caribbean countries whose exporting manufacturing economies are highly integrated into North America's industrial production chain. After all, observes Nogueira, if Latin America could not develop a highly competitive manufacturing-exporting base during the Twentieth Century, how can it accomplish such goal in this new century, given the presence of China and India?

The next article, "Sino-Pakistan relations and the challenges of post-Cold War era", by Mutahir Ahmed, analyses under the overall Pakistan-China relations the challenges faced by both China and Pakistan in the post-Cold War era, and on the side of China, her ethnoregional instabilities in the context of the Chinese central State nationalism linked to regime legitimization and the peripheral nationalism in Xinjiang. This is in turn connected to the post-Afghan War regional rise of religious fundamentalism and radicalism and ethnic economic disparity which have led to ethnic riots in Xinjiang in recent years including among others the most deadly disturbance on 5th July 2009. Indeed, the recognition of the source of tension in the South, Central and West Asian regions as one of the factors for China's ethnoregional instabilities has led to her initiating the idea of Shanghai Five in 1996 which was later on transformed into the Shanghai Cooperation Organisation (SCO). To sustain economic growth within, China depends heavily upon a stable security and peaceful environment in her neighbourhood which is constantly under threat from the Indo-Pakistan tension in South Asia, the presence of the United States in Central Asia and violent religious extremism in the Southwest Asian region which directly affects the stability of Xinjiang. In the light of the threat of a "New Great Game" stemming from the presence of the US in Afghanistan and reactions from the South, Central and West Asian regions in the forms of ethnonationalism and violent religious extremism, it is interesting to

observe the role of these regional and extra-regional powers¹ in affecting China's economic, political and security interests, and China's responses to these threats. Meanwhile, these extra-regional powers that are directly involved in the region have also aggravated the conflict between India and Pakistan, and to deny India a free hand in the South Asian region, as Mutahir observes, Pakistan has a special place in Chinese foreign policy – hence the South Asian strategic triangle where “there is a prolonged confrontation that involves military preparations and military fights, ideological and status disputes and diplomatic controversies” as defined by Ashok Kapur “in the case of relationships between China, India and Pakistan” (Kapur, 2011: 52).

On China's fast-transforming rural sector, John Donaldson and Forrest Zhang in their article, “Rural China in transition: Changes and transformations in China's agriculture and rural sector”, introduce a fivefold typology of agribusiness-farmer relations to analyse the growth of agribusiness and the role it has played in the rise of agrarian capitalism in China and the resultant changes to the rural society. Looking at the various forms in which agribusiness companies are transacting with individual agricultural producers, Donaldson and Zhang contend that China's unique system of land rights has played an important role in shaping agribusiness-farmer interactions and served to provide the individual agricultural producers a source of income and political bargaining power and protected them from being dispossessed of their land by corporate actors.

To conclude this inaugural issue, Im-Soo Yoo in his article that brings together China's domestic political economy and her international strategic relations, “China's transformation policies for 2015 and beyond: *Quo vadis?*”, reflects upon China's over three decades of economic reform and now, a few years into the Xi Jinping presidency, ruminates on the coming decades down the road in the country's continued growth and transformation. China's economic miracle has prompted Joshua Cooper Ramo to introduce into the mainstream political lexicon in 2004 the concept of “Beijing Consensus” (Ramo, 2004) as an alternative economic development model in view of the perceived failure of the well-known “Washington Consensus” codified

in Williamson (1990), a failure particularly attributed to over-adherence to “market fundamentalism”². From the perspective of the ruling Communist Party of China (CPC/CCP), “Beijing Consensus” has clearly not only vindicated the three decades of economic reform policy, but also the caution against parallel reform in the political system as well as the final decision taken in June 1989 in the face of the pro-democracy demonstrations in Tiananmen Square, as typified, for instance, by a Chinese scholar’s opinion of the four cornerstones of the “Beijing Consensus”: 1) Contrary to “neo-liberalism” and the “Washington Consensus”, in China there exist a powerful political party and a powerful government led by the said party constituting a crucial political prerequisite for the success of the country’s “reform and open” policy; 2) Inductive, not coercive, institutional change and “gradualist”, not “radical”, reform; 3) “Rationally advancing (radical)” in economic reform and “rationally holding back (conservative)” in political reform; and 4) Unswervingly persisting in the market economic reform direction, yet maintaining sharp vigilance against market fundamentalism by means of firmly upholding the reform target of “socialist market economic system” (Zou, 2006: 411-412). This year, 2015, marks the 66th anniversary of the founding of the People’s Republic of China which in 1949 marked the birth of the first major Marxist-Leninist country in Asia, preceded only by the establishment of the Mongolian People’s Republic in 1924. It is a time to reflect, Yoo observes, upon the apparent contradictions inherent in this unique “China model” (Zou’s cornerstones of the “Beijing Consensus”) of combining pragmatic open-market economy with one-party political centralism, and as he proceeds to caution, to seriously appraise the sustainability of this model and the possible pitfalls along the way, which cast aspersions upon the present “China miracle” – whether it would be a lasting leading light in the world arena, or just a transient bright spark of the moment. Such pitfalls do not only stem from the unusual combination of open-market economy and political authoritarianism, but also from the instabilities engendered by the State’s nationality policy and the growth of peripheral ethnonationalism, as exemplified by the troubles in country’s western frontier regions of Xinjiang and Tibet in recent years.

As the first issue of the journal, this volume thus brings together research outputs on the various main areas of political economy and strategic relations encompassing the many challenges stemming from the emergence of China as a global and regional economic power and an increasingly important political player in the contemporary globalizing world.

Emile Kok-Kheng Yeoh 楊國慶, PhD
Special Inaugural Issue Editor
 Contemporary Chinese Political Economy and
 Strategic Relations: An International Journal
Associate Professor
Department of Administrative Studies and Politics
Faculty of Economics and Administration
University of Malaya
Malaysia

Notes

1. Regarding the role of the regional and extra-regional powers, an early example is the formation of the Six plus Two (China, Iran, Pakistan, Tajikistan, Turkmenistan and Uzbekistan, along with Russia and the US) in 1998 to contain the Taliban regime, though the group was soon locked in internal power politics linked to the member states' different priorities and interests (Mutahir, 2007: 193; Mutahir, 2001: 69).
2. Critique from, among others, Nobel Laureate Joseph E. Stiglitz (see Williamson, 1999).

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- Mutahir Ahmed (2007), "Challenges of Religious Fundamentalism to China: Policies and Responses", in Emile Kok-Kheng Yeoh and Evelyn Devadason (eds), *Emerging Trading Nation in an Integrating World: Global Impacts and Domestic Challenges of China's Economic Reform*, Kuala Lumpur: Institute of China Studies, University of Malaya, pp. 186-196.
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Articles

**Beijing Replaces Washington's
Dominant Position in Latin America:
Meet the New Boss. Same as the Old Boss?+**

Uziel Nogueira*
Formerly IDB-INTAL

Abstract

Ceteris paribus, 2015 onward should be the years of China's consolidation of its presence in the Southern Hemisphere, particularly in the commodity-exporting MERCOSUR countries. The South American integration process became obsolete and irrelevant. China has gained dominant position in all Southern Cone economies. Domestic policy mistakes will strain China-Latin American relations over time. Latin nationalism and populism politics will resurface. This time against China. The reality is that, in this new century, China is not the problem but rather the only solution for Latin America.

Keywords: *China-Latin America relations, MERCOSUR, ideology, populism*

JEL classification: *F15, F40, F52, F59*

1. Introduction

During the presidential campaign of 2002, then candidate Luis Inacio “Lula” da Silva made an unprecedented trip to Beijing, the first ever by a presidential candidate. That trip signaled Lula’s ambition of creating a strategic relation with a group of emerging economies known as BRICS – Brazil, Russia, India, China and South Africa. Lula’s vision was pragmatic, non-ideological and sought to position Brazil among the leading countries of the world. He shared similar world affair views as President Hu Jintao and was convinced that cooperation would create prosperity for both nations. One reason is that resource endowment factors make the two economies highly complementary. China is demanding large quantities of Brazilian commodity-based products that suffer market access barriers in advanced countries. Brazil offers a growing market for Chinese products and business opportunity for direct investment in infrastructure, energy and natural resources. The growing trade and economic links between the two countries in the last four years seems to vindicate President Lula’s strategic vision on this promising relation.¹

Despite President Lula’s administration strategic bet on China, there are doubts among intellectual and business circles on whether Brazil is ready to face Chinese industrial competition. Mexico, at this point, is being closely scrutinized because it has taken the brunt of Chinese competition. Mexican companies are losing market share in the United States (US), that absorbs ninety percent of their exports, and finding it increasingly hard to compete with Chinese products in their own market.² Current thinking about China’s presence in the world economy goes like this: Export what China is demanding, i.e. commodities, and you surely win. Try to compete with Chinese manufactured goods and you certainly lose. Economic data shed some light on the impact of world competition, including China, in Latin America’s manufacturing industry.³

- a) Latin America’s manufacturing value-added (MVA) declined from US\$316.6 billion in 2000 to US\$285.7 billion in 2004, with the contribution to GDP also contracting from 17.2 per cent to 16.6 per cent.

- b) Latin America's manufactured exports in the same period grew by only 5.1 per cent per annum, well below the world average of 8.8 per cent. As a result, its regional share of world manufacturing trade plunged from 4.0 per cent in 2000 to 3.5 per cent in 2004.
- c) In medium- and high-technology exports, the fastest growing and highest value-added end of trade, Latin America's world market share dropped from 3.8 per cent in 2000 to 3.2 per cent in 2004.
- d) The regional share of manufactured exports as a percentage of total exports has declined from 49.2 per cent to 48.2 per cent, which shows an increasing trend towards low value-added commodity trade.

Taking notice of Mexico's travail, President Lula's administration is under political pressure to come up with solutions to deal with Chinese competition. Critics point out that if history serves as a guide, the outlook is not particularly promising for Brazil and Latin America. The question then is whether the bilateral relation will flourish or turn into rivalry-commercial conflict. This paper explores those points in three parts. The first one reviews recent research done by the Inter American Dialogue (IAD) and the Inter-American Development Bank (IDB) on China-Latin America's relation. The second part evaluates socioeconomic weaknesses and strengths of MERCOSUR and Mexico. The third part depicts different assumptions – scenarios to evaluate China-Latin America's medium term trade relations, followed by a summary and final comments.

2. Literature Review

The impact of China in Latin America and the Caribbean has sparked a large number of academic papers, books and newspaper articles in the last five years. Recent research done by the Inter-American Development Bank⁴ and the Inter-American Dialogue⁵ are prominent by their depth, analysis and bibliography. Let's start with IAD, a research organization, specialized in Latin America-Caribbean countries and located in Washington DC. The IAD study takes the interesting approach of looking into Sino-Latin American motivations-incentives for closer

economic, commercial, political and military cooperation.⁶ The underlying hypothesis is whether China's growing presence in Latin America should be considered a challenge to the US.

2.1. The 2006 Inter-American Dialogue Report

The study starts by pointing out that Latin America's international relations, in the beginning of the 21st Century, faced two exogenous shocks. First, a growing distance between the region's governments and the administration of George W. Bush over many political and economic issues. Second, the dramatic entrance of China as a significant economic and, in some instances, political partner of Latin America (p. 46). Regarding distance from Washington, frustration in Latin America was caused mainly by poor results of the economic reforms of the 1990s, known as the Washington Consensus. Also, the US one-dimensional, simplistic approach to free trade agreements as a solution to solve deep-seated social and economic problems in the region did not help to improve relations either.

Chinese long-term strategic thinking is revealed in how Beijing is engaging the Latin American countries since the 1970s. One important aspect of this strategy was to send young diplomats to study Spanish and learn about Latin American culture in "El Colegio de Mexico" (p. 21). From my own experience, Chinese diplomats posted in Latin America are second to none to any Western country. They are well trained, tackle problems with determination, listen with care and incorporate local concerns in their decision making process. Increasingly, knowledge of Latin America's culture and politics allows Chinese diplomats to avoid past mistakes made by western developed countries. Chinese top leadership avoids empty promises and presidential diplomacy is only used when concrete commercial and economic deals are on the table for discussion.

The report states that Brazil-China relations are truly strategic in nature because they encompass growth of trade, cross country investment and technology cooperation. Also, both countries seek a stronger and more influential place in international affairs and welcome a more restrained role by the US (p. 27). A section on the China-

Venezuelan relation concludes that then President Hugo Chavez's efforts to get closer political and economic relations with Beijing, as a counter force to the US, has few chances to succeed. The reason being that Beijing needs a benign relation with Washington far more than a strategic partnership with Venezuela (pp. 42-44).

Critics may take stock with the conclusion above, arguing that it may hold true only in the short term. However, if President Chavez continues to win elections and holds to power, in a way similar to Fidel Castro in Cuba, the relation might become strategic. Historical evidence shows that long-term economic links between countries lead, inevitably, to deeper cooperation in cultural, political and military affairs.

In summary, the IAD report laid down a comprehensive overview of geo-political, security-defense and economic issues of current Sino-Latin American relations. As in any complex and new phenomenon involving geo-politics, economics and security-defense matters, there are no definitive answers on how the situation will evolve in the near future. For the reader, everything comes down to what one believes based on ideology, knowledge and economic interest. Take, as an example, the intellectual framework in which the Chinese presence in Latin America is being debated by think tanks located in Washington DC.

Current thinking is divided into two groups. The first one, with a radical view, thinks that China represents the most serious challenge to Washington since the end of the Cold War, pointing out Beijing's presence in the Panama Canal, political support of Fidel Castro and growing interest in Venezuela's abundant oil and gas reserves. Venezuela has always been a special source of concern for three reasons. First, it is a major oil supplier of the US, representing 15 per cent of its total imports. Second, the late President Hugo Chavez was an outspoken critic and political adversary of Washington. Third, President Chavez's approach of tackling the country's massive level of poverty – via an authoritarian style of government – might spread and create a "pink tide" anti-American coalition in the region.

The second group, with a slightly moderate view, argues that growing economic and commercial ties between China and Latin America can play a positive role in helping international insertion and

development of the latter. As one expert of this group recently quipped: Perhaps the Chinese have better ideas on how to solve Latin American problems after one hundred years of attempts by the US. At this point, views expressed by radicals and moderates are debated only in academic and diplomatic circles and do not influence policymaking. The reasons are the US administration's total focus on the Iraq war and, both groups could not articulate a set of workable policies to support their respective positions.

2.2. The 2006 Inter-American Development Bank Report

The IDB was the first multilateral financial institution to undertake major research to assess the strategic implications of China's economic performance on growth and development in Latin America.⁷ Despite a variety of topics being touched, the main focus is centered on trade and investment. The book is divided into five chapters, including a vast and rich bibliography review, background papers and references.

The main conclusions of this research can be summarized as follows. Historically, China's emergence as an economic powerhouse is not entirely new. Reemergence is a more appropriate description, since China had the world's largest economy for most the past thousand years. Until the 15th century, China was not only the world's richest country but also a technological leader. Current high rates of growth will be accompanied by radical changes in the makeup of Chinese export competitiveness and import demand. Countries enjoying a boom in commodity demand from China, or facing stiff competition in basic textiles and apparel, may find a different playing field ten years hence. China will be buying "lighter" imports and selling much more specialized and sophisticated textiles and apparel. Anticipating China's position in the international value chain is as important strategically as managing the benefits and competitive challenges of today.

For Latin America, China's emergence as a major player in the world markets involves at least three important dimensions: 1) A potential market of 1.3 billion consumers but also a low-cost producer of goods and services; 2) China's becoming an important economic-commercial partner; 3) China turning into a strong competitor for Latin

America's manufactured goods. The main challenge for policy makers is how to reconcile findings from these separate three dimensions and forge an effective response to the Chinese phenomenon (pp. 195-198).

The Bank's research is the best analytical reference on the challenges and opportunities presented by China's emergence. In this respect, it touches the crux of the matter i.e., whether Latin America is prepared, or not, to cope with Chinese competition. The rapporteur takes a rather optimistic view on the so-called competitive (positive) assets of Latin America to face global- Chinese competition. They are resource endowment-geography, democracy, vibrant private sector and economic integration. Conversely, inequality, poor educational system, highly skewed income distribution and weak public institutions are mentioned as negative assets (pp. 209-226).

The Bank's report can be enhanced further if additional research is done on the (difficult) task of weighting and judging Latin America's positive and negative assets. For instance, do positive assets offset the negative ones or vice-versa? Is there a set of effective socioeconomic policies to enhance the positive assets and offset the negative ones? Policy makers require this type of analysis in order to prepare a coherent strategy to deal with the questions at hand. For many, a merging of MERCOSUR-NAFTA is probably the only chance to create a level playing field to face global competition, particularly from China and India.

A background paper prepared for the main IDB report takes a less optimistic view on whether Latin America can compete with Chinese manufactured goods.⁸ According to Mesquita, even without the presence of China, the future of manufacturing in Latin America is usually seen with pessimism on the grounds of geography and endowments. The sector's tribulations of the last two decades seem to corroborate this point of view. Yet, geography and endowments do not tell the whole story. The import substitution legacy, macroeconomic volatility and the overreaction to the excesses of government intervention also played a major role in the sector's misfortunes (p. 27). To deal with the shortcomings, a set of policy recommendations are made: a) strengthen macroeconomic fundamentals; b) lessen credit-constraints of domestic

producers competing with highly leveraged Chinese firms; c) boost domestic technological capabilities i.e., human capital, science and technological infrastructure (pp. 27-28).

Mesquita's excellent analytical work can be enhanced further with research on whether macro and micro-economic policies in Latin America are correctly in place and are sustainable in order to support policy recommendations. In the case of Brazil, as discussed next, macroeconomic policy is not compatible with and, far from being an ideal one to promote industrial development and increase productivity in manufacturing production.

3. MERCOSUR and Mexico⁹

At the end of 1980s, after the successive energy crises of 1974-1982, it became clear that the industrial import-substitution strategy to overcome underdevelopment had failed in Latin America and the Caribbean. Mexico, Brazil and Argentina, the most advanced industrial economies in the region, took different integration paths as a way to correct the failures of the past. In the case of Brazil, Argentina, Paraguay and Uruguay the decision was to form a custom union, mirrored in the European model, which culminated in the creation of the Southern Common Market under the Asuncion Treaty of 1991. Chile, Bolivia and Peru became associated members i.e., linked to the bloc via a trade agreement. Venezuela became the fifth full member of the custom union on 4th July 2006.¹⁰ Its definitive acceptance, however, depends on approval by the respective Congresses.

Mexico's leadership decided to deepen the country's historical economic ties with the US via the North American Free Trade Agreement (NAFTA), signed in December of 1994. The novelty of this agreement was that, for the first time ever, a developing country accepted integration with a highly advanced economy without any financial support except for managed trade and promises of direct investment. Before NAFTA, the idea of integration was the European Union (EU) model. Criticism of NAFTA should be tempered by reality and *Realpolitik*. It would be politically impossible for business

corporations and the US Executive branch to sell the European integration model to Congress. It requires macroeconomic coordination, joint trade negotiations and financial support to other member countries. More importantly, labour mobility is a key factor at the advanced stage of a common market, something unthinkable in the US political system.

3.1. Competitiveness: How Latin America is Positioned in the Global Economy?

The main objective of economic integration in Latin America and the Caribbean is to be competitive in the global economy. According to Professor Michael E. Porter of Harvard Business School: "The world economy is not a zero-sum game. Many nations can improve their prosperity if they can improve productivity. The central challenge in economic development, then, is how to create the conditions for rapid and sustained productivity growth."¹¹

Since independence from Portugal and Spain in the 19th century, there were several attempts at political and economic integration in Latin America and the Caribbean. After 15 years of the existence of MERCOSUR and 12 years of Mexico's integration in the North America Free Trade Area (NAFTA), how are the main economies of Mexico, Brazil and Argentina globally positioned?

In order to answer the question above, three sets of indicators, 2006 Global Competitiveness Index (GCI), the Corruption Perception Index (CPI) 2005 and World Trade Organization (WTO) exporting ranking 2006 are used in Table 2.1. Countries are grouped according to geographic location and/or trading-integration blocs, i.e., NAFTA, EU, Asia and MERCOSUR. The global competitiveness index provides qualitative data on how countries are positioned in the global economy as far as attracting investments, doing business and overall quality of life for their citizens. The corruption perception index works as a proxy to evaluate economic performance.¹²

Essential public work such as roads, bridges, schools, hospitals (despite cost overruns) is always finished in advanced countries. Corrupt officials and politicians are punished, most of the time. Public work in a developing country is kept unfinished and, when finished, presents cost

overruns that sometimes bankrupt public finances. Corrupt public officials and politicians are seldom found guilty and/or punished.

Table 1 Global Competitiveness, Corruption Perception and WTO Export Ranking

	GCI ^{/1}	CPI ^{/2}	Exports Ranking ^{/3}
<i>NAFTA</i>			
Canada	15	8.1	12
México	61	3.5	17
United States	3	7.4	3
<i>EUROPE</i>			
Austria	21	7.2	31
Belgium	18	7.6	21
Denmark	13	9.2	37
Finland	4	8.9	47
France	23	6.9	7
Germany	5	7.9	4
Greece	81	4.3	65
Iceland	30	7.9	113
Ireland	25	7.4	35
Italy	49	4.3	11
Netherlands	8	8.3	8
Norway	11	8.6	33
Portugal	36	6.3	54
Spain	35	6.0	13
Sweden	10	8.7	28
Switzerland	1	8.6	25
United Kingdom	9	7.8	5

Table 1 (Continued)

	GCI ^{/1}	CPI ^{/2}	Exports Ranking ^{/3}
<i>ASIAN BLOC</i>			
Australia	22	8.0	22
China	28	3.6	1
Hong Kong	7	7.4	14
India	71	3.8	19
Japan	6	7.6	6
South Korea	26	5.5	9
Malaysia	20	5.2	24
New Zealand	17	9.1	62
Singapore	2	8.4	15
Taiwan	14	6.1	20
Thailand	31	3.8	26
<i>MERCOSUR</i>			
Argentina	104	3.4	44
Bolivia	105	3.5	90
Brazil	57	4.3	23
Chile	33	7.3	46
Paraguay	120	2.4	81
Uruguay	80	7.3	92
Venezuela	131	1.9	41

Notes: ^{/1} Global Competitiveness Index – 2014 Rank – Source: World Economic Forum (2014), Global Competitiveness Report 2014-2015.

^{/2} Corruption Perception Index 2014: relates to perceptions of the degree of corruption as seen by business people and country analyst and ranges between 10 (highly clean) and 0 (highly corrupt) – Source: Transparency International (2014).

^{/3} 50 Leading exporters and importers in world merchandise trade, 2013 – Source: WTO (2013).

The use of export ranking index deals with the question of trade-wealth creation and income distribution. The set of indicators would be complete if education had been included. Knowledge is a key proxy to measure economic competitiveness and quality of life. Latin America is consistently below world standards in primary, secondary and university education levels. The ranking of university quality teaching illustrates this point. Among the top two hundred best universities in the world, there are only two located in the region i.e., Universidad Autónoma de Mexico (UNAM), ranking 175 and Universidade de São Paulo (USP), ranking 132.¹³

3.2. What Does Table 1 Tell Us?

Mexico is well ranked in trade due to strong links with the US but competitiveness is low and perception of corruption is high. Income generated by exports of goods and services worth \$215 billion in 2005, including 1.8 million of barrels of oil a day (Banco de Mexico's statistics) is highly concentrated in the hands of a few. Since NAFTA came into effect in December 1994, the number of Mexicans seeking to enter the US illegally increased substantially. Nearly half of the country's 106 million people live in poverty. However, it has more billionaires (10 as of 2005) than Switzerland according to Forbes magazine's list of the world's richest people. A recent in-depth World Bank report concludes that concentration of wealth is the main constraint for economic growth.¹⁴ The state of Nuevo Leon, capital Monterrey and Chiapas, capital Tuxtla Gutierrez illustrates the relation between wealth, trade creation, regional inequality and concentration of income.

Monterrey, along the US border, has the highest per capita income in the country and a sophisticated manufacturing industry highly integrated to North America's production chain. The state enjoys a high rate of literacy and its political-business elites are comfortable with US culture. Tuxtla Gutierrez, bordering Guatemala, has the lowest per capita income in the country and a subsistence-type of agriculture as the main activity. It holds a very large illiterate population and the highest poverty level in the country. Domestic political dynamics explains such regional

contrast. As elsewhere in Latin America, the political system creates regional inequality and a highly skewed income distribution, enhanced further by trade creation wealth generated in the last decade. Brazil's socio-economic picture is a mirror image of those of Mexico. The states of São Paulo, capital São Paulo and Maranhão, capital São Luis are the counterparts of Nuevo Leon and Chiapas.

Chile holds the best competitiveness ranking for a Latin American economy with a good export performance and low perception of corruption. Chile's success story is due to economic reforms undertaken in the 1970s and 1980s. These reforms included reduction of import tariffs, attraction of foreign direct investment, prudent fiscal and monetary policies to control inflation while maintaining a favourable exchange rate to promote exports. The country's economic reforms were only possible after leaving the "Comunidad Andina de Naciones" in 1976, a custom union type of integration incompatible with Chile's decision of unilateral import tariff reduction.

Despite Chile's success in promoting natural resources based exports, it is still unable to develop an effective strategy to create knowledge-based products. Switzerland's ranking (1) in competitiveness illustrates this point. This European country success is due to good institutions and competent macroeconomic management, areas in which Chile stands in the same league as Switzerland. Also, Swiss world-class educational system has focused on technology and innovation that leads to a successful strategy for boosting competitiveness. In this requisite, Chile has a long way to go in relation to advanced countries.

MERCOSUR as a platform to compete in the dynamic sectors of world economy has failed so far. Brazil and Argentina have very low marks on competitiveness, perception of corruption is high and trade position is mediocre for countries with great export potential. Brazil's ranking as the 11th economy in terms of size is irrelevant given its (low) ranking in competitiveness and high perception of corruption. China and India present levels of competitiveness not much better than Brazil. However, if Brazil, Argentina and Mexico are having problems competing with Chinese and Indian manufactured goods today, what will happen in a few years when both Asian economies will certainly be

better positioned?

Latin America's main lesson is that trade-based integration of an emerging economy with an advanced one is not a short cut and/or a solution for underdevelopment. Trade wealth creation, not accompanied by compensatory public policies, exacerbates an income gap between regions and social groups. This situation leads, inevitably, to political turmoil and social unrest. Democracy, as practiced in Latin America and the Caribbean, has failed to provide an effective solution for income distribution. From a historical perspective, it has created few winners and millions of losers.

Finally, there is a connection between competitiveness, corruption, trade and security-defense. Countries highly competitive, with strong trade position and low levels of corruption have modern public defense forces, extremely costly nowadays. Also they provide better internal security for their citizens against violence and crime. Conversely, countries with poor levels of competitiveness, weak trade position and high levels of corruption have outdated defense forces and cannot provide adequate domestic protection for their citizens against violence and crime. This is true for MERCOSUR and Mexico, except for Chile that provides adequate internal security and is rapidly modernizing its armed forces.

3.3. MERCOSUR: Strengths and Vulnerabilities

The strengths and weaknesses can be grouped into three areas: Institutional framework, perception of the elite and strategy of insertion into (dynamic) areas of global trade. There is a divorce between the theoretical project of constructing a custom union, aimed at becoming a common market, and the day-by-day reality. A free trade area, requisite for a full custom union, has not been established yet. The integration bloc lacks rigour and discipline to apply norms and regulations agreed upon. Three fourths of approved community norms and regulations were never adopted by each country, since there is no penalty and/or incentive to do so. Despite the existence of a conflict resolution mechanism (Protocolo de Olivos) to settle commercial disputes, another instrument – Mecanismo de Ajuste Competitivo (MAC) – was signed between

Brazil and Argentina in 2006. This mechanism resembles a safeguard type of instrument, prohibited in a custom union.

Important segments of the political, business, academic and diplomatic corps lack strong belief in the integration process. They argue that economic integration among poor countries is bound to fail since there is not a single example of a success story until now. Another weakness is lack of competitiveness of Brazilian and Argentinean manufactured goods in the global markets. This leads to bilateral conflicts of difficult resolution. As manufactured goods lose competitiveness in extra-regional markets, exporters start to compete for a (relatively) small market offered by the integration bloc. The conflicts between Argentina and Brazil mirror those of the EU in agriculture products, revealing in both cases low levels of competitiveness.

Brazil – the largest economy of MERCOSUR – illustrates the (unsolved) problem of how to implement a comprehensive strategy to increase competitiveness of manufactured goods. For more than a decade, the country has been experiencing low rates of growth, that can be described in macroeconomic terms as follows: High public debt (60 per cent of GDP) combined with high real interest rates + overvalued currency + heavy taxation (39 per cent of GDP) = Average GDP growth of 2.5 per cent per year. Besides a mediocre growth rate, the unfavourable macroeconomic framework induces a high marginal propensity to import and a low propensity to export products with high value added. In turn, this increases the share of low value added commodities in the balance of payments. In addition, a tight public budget position, caused by payment of public debt, prevents allotting much-needed funds to upgrade the decaying and antiquated infrastructure. Therefore, macroeconomic policy can and must be changed in Lula's second term in office. The question is how long it will take to turn the economy around.

The shortcomings of the macroeconomic policies cited above, combined with an antiquated and decaying infrastructure, are causing trouble to producers and exporters to compete domestically and internationally. The country is rapidly losing market share in products such as shoes, textiles, clothing, transport vehicles, machine tools,

chemical products and steel that were highly competitive in the past. The problem is compounded by low literacy rates and poor training of the workforce that prevent development of knowledge-based industries. Consequently, leveraged companies are starting to move production outside the country, in a rapid process of internationalization. Steel, mining, food processing, pulp-paper and construction are leading the way. The presence of Brazilian multinational companies is already being felt in South America and elsewhere. In 2006, for the first time ever, Brazil's foreign direct investment surpassed those coming into the country. The acquisition of INCO, a Canadian mining company, worth \$18 billion by Vale do Rio Doce exceeded the total foreign direct investment in Brazil during 2006. This economic phenomenon deserves academic research because of its implication for domestic social policies.

Internationalization strengthens companies; make them more profitable but leads to job losses domestically. The possible hollowing out of the industrial base is a serious socio-economic problem because of the high degree of urbanization (90 per cent) of the country. Already, Brazilian major cities are populated by an increasing army of thousands of poor-uneducated young men and women that, with easy access to guns, are creating a lethal social problem of crime and violence. If industrial de-basing is permitted to happen, the consequences will be serious since urban violence and crime will become more out of control. To find a solution for this complex conundrum should be the top priority for President Lula in his second term in office and his successor in 2010.

Finally, despite conflicts and differences, MERCOSUR has been expanding with the inclusion of Venezuela that became full member on the symbolic date of 4th July 2006. Commercial-economic links with other South American countries have been strengthened due to the internationalization process of Brazilian companies. The bloc's continuity can be explained by internal and external factors. The weak institutional framework described previously, paradoxically, is a strength since its "flexibility" helps to withstand constant political and economic crises within the bloc. If MERCOSUR had adopted a rigid system of rules and regulations, similar to the EU-NAFTA, the bloc would have

collapsed a long time ago.

The impasse on WTO-Doha, Free Trade Area of the Americas (FTAA) and EU talks also works to strengthen the bloc because regional integration remains the only game in town to be played. China's demand for commodities helps the bloc since it guarantees a large and steady flow of hard currency. One school of thought argues that the world's economic paradigm has been changed by the spectacular growth of the Chinese and Indian economies for the foreseeable future. If that proves to be the case, MERCOSUR – strong on natural resources based exports - will continue to benefit from this shift in paradigm.

4. Outlook for MERCOSUR-China Relations

The future is always elusive but what can we expect from China-Latin America's relations in the near future? As the title of this paper proposes, will the relation be of partnership or rivalry-conflict? To attempt to answer those questions, the endgame of WTO-Doha trading talks is used to do an exercise of scenario-construction. The best-case scenario is a successful ending of Doha-FTAA talks combined with sustainable growth of the world economy. The worst-case scenario is "status quo", i.e., impasse and/or collapse of Doha-FTAA talks combined with a slow down of the world economy.

Scenario I. Positive outcome from Doha-FTAA talks

Brazil-MERCOSUR = Extremely Positive

Mexico, Central America-Caribbean = Neutral or Negative

Scenario II. Negative outcome from Doha-FTAA talks

Brazil-MERCOSUR = Negative

Mexico, Central America-Caribbean = Negative

Scenario I. A successful ending of Doha-FTAA talks implies better market access to the agro-business. Brazil-MERCOSUR, agriculture and bio-energy powerhouse is a clear winner. The result is neutral or negative for Mexico, Central America and the Caribbean since they are

net agricultural importers. Brazil-MERCOSUR trading position is strengthened since improved access to high-income markets can be translated into a permanent improvement in the balance of payments position. This, in turn, gives extra time to update infrastructure and improve productivity of manufactured goods. Mexico, Central America-Caribbean continue to suffer full court pressure from Chinese imports and worsening trade position with the Asian economy can be expected. The only solution for Mexico is to continue attracting large amounts of foreign direct investment, upgrade antiquate infrastructure, significantly improve education-training of the workforce and promote an effective income-distribution policy.

Scenario II. The status quo of impasse and/or collapse of Doha-FTAA talks is very dangerous for Latin America because the balance of payments becomes vulnerable to abrupt changes in external conditions. Trade conflicts can escalate in sensitive areas of steel-related production of consumer goods and automotive manufacturing. This scenario can turn even worse if the world economy slows down, stagnates or goes into recession.¹⁵ This worst case is an acid test for economic-commercial relations with China because diplomacy and cooperation will be first casualty all over the world. In this case, for Mexico, highly dependent and integrated into the North American market, the results would be catastrophic. Brazil-MERCOSUR perhaps could fare better since it has a relatively large domestic market to fall back on and a diversified trade-exporting base.

The outcome of the FTAA talks, included in the two scenarios above, is a question for a post-Bush administration. It can opt out from two policy positions to deal with Latin America:

- (I) Keeping the status quo of benign neglect (high probability). China's presence in the region continues unabated. Only a serious Beijing-Brasilia conflict (highly unlikely) could check the Asian influence in South America. Beijing can prevent escalation of trade disputes through fine-tuning of economic diplomacy. In case bilateral trade balance turns highly negative for Brasilia, it can be compensated via speeding up direct investment in Brazilian natural resources-based industry and infrastructure.

- (II) Engages Brazil-MERCOSUR with an integration agenda that cannot be refused (very low probability). A merging of MERCOSUR-NAFTA creates a hybrid integration process with components of free trade and the European model. This implies making (politically) difficult concessions on immigration and financial assistance to Latin America. This (highly unlikely) scenario is the only chance to counter China's growing presence in South America. A tight, highly integrated Western Hemisphere would become a strategic rival rather than a partner of China.

5. Summary and Conclusions: The Answer Is Not in China or in the Stars

To sum up, this paper concludes that China's emergence has already been felt in the Western Hemisphere, creating winners and losers in the short run. Using boxing as a metaphor, the first round is over. In one corner, the bruised economies of US-Mexico. Next to US/Mexico, the still unscathed economy of Brazil-MERCOSUR. In the opposite corner, the Chinese economy observing with a mixture of joy-apprehension the next round. What will happen next is difficult to forecast. A simple exercise shows that under different assumptions, the relation can vary from partnership to rivalry. However, under different assumptions-scenarios, economic and trade cooperation between China-Brazil/MERCOSUR has the best chance to be sustained and prosper. Global political, economic, cultural and technological factors are highly favourable to such outcome.

However, at the end of the day – as the current saying goes – it is up to each country to make difficult choices for grabbing up opportunities offered by globalization. The formula for success is quite well known but difficult to put together and be implemented. It requires a well-prepared political elite, sensible economic policies, highly educated-trained workforce and a political system that provides opportunity for the majority and not for a privileged minority. China seems to be in the right path of that formula. Latin America has a long way to go in finding the right combination of that winning prescription.

6. Postscript

Eight years have past since the first version of this paper was published. Statistical data and tables for this 2015 journal issue – wherever possible – were updated and adjusted to the text's content.

More importantly, basic research assumptions, conclusions and eventual policy recommendations are still relevant to understand current and future dynamics of China-Latin America relations in years to come. A brief assessment of the current state of affairs between China and Latin America since 2007 follows next.

6.1. What China Got To Do with Latin America?

To understand the context of China-LA relations we must go back to the 20th century. At that time, China was among a numerous contingent of developing countries, including Latin America, Africa and Asia except Japan – countries that have failed to achieve advanced socioeconomic status. Then, in the early 1980s the Chinese Communist Party (CCP)'s top leadership abandoned archaic Maoist dogmatic ideas of how to manage the economy and unleashed a post-Mao revolution.

The Chinese people's creativity and hard work combined with market forces created the most extraordinary economic event in history. A backward agrarian society has been turned into a modern advanced industrial nation in a few decades. Despite extraordinary socio-economic and technological achievements, China is still a developing country.

Despite economic superpower status, China continues to occupy the (uncomfortable) position among countries where the perception of corruption is high (see Table 1 above). Corruption is a clear and present danger to the Chinese Communist Party's long-term ruling. A huge exodus from rural to urban took place in the last forty years. Chinese metropolises are increasingly populated by a well educated young sophisticated middle class demanding efficiency and clean governance from the political system.

As far as China's insertion in the global economy is concerned, Chinese diplomacy has been quite successful in negotiating a hub-and-spoke type of integration in the Asia-Pacific area. The Chinese economy

will operate as a hub and regional economies as spoke/satellites, including Japan – an integration project similar to the Free Trade Area of the Americas (FTAA) linking the economies of US/Canada to Central America/Caribbean and South America, except Brazil, Argentina, Venezuela, Uruguay and Paraguay (full members of Mercado Comun del Sur (MERCOSUR)). The integration bloc faces a stark historical reality though. Not a single attempt of economic integration by medium-income countries has been successful so far. Even the eurozone, led by Germany, is in deep trouble due to the launching of a common currency area without prior negotiations for a fiscal and political integration.

6.2. Latin America: Ruling Elite Always on the Wrong Lane of History?

As China's modernization process accelerates, Latin America's ruling elite is haunted by an old ideological ghost of the past. Neo-populist parties-politicians – seeking to stay in power indefinitely – persist in making wrong choices in economic policy. Nonetheless, the region has made some progress in the areas of poverty alleviation and income distribution. The Economic Commission for Latin America and the Caribbean (CEPAL in Spanish) produced a revealing 2014 report on such achievements.¹⁶ The results are quite disparate among countries but progress has been made, including among low-income countries such as Bolivia.

The fundamental question is whether progress made in income distribution and poverty elimination can be sustained in the medium and longer term. The answer is no. Economic fundamentals remain weak throughout the region. Education of quality is the weakest link in all Latin American countries facing stiff Asian competition. International scholastic tests at secondary and university levels continue to show a huge gap between Asian and Latino students. Brazil is consistently ranked last in those international surveys. The region lags behind the international educational race to benefit from a knowledge-driven global economy.

6.3. MERCOSUR: Integration Acronym Seeking a Lost Mission?

To understand Latin America's reality today, the conundrum of poverty, income distribution, ideology and sound economic policy must be addressed. The Mercado Común del Sur (MERCOSUR) case study of Brazil, Argentina and Venezuela is emblematic. During the last ten years, those three countries were (initially) praised for progress made on poverty alleviation, closing down the income distribution gap and enforcing progressive social legislation. Mexico, the second largest economy in the region, is a special case to be addressed separately.

From early 2000s on, voters have elected populist/progressive parties and presidents in Argentina, Venezuela and Brazil – Lula da Silva/Dilma Rousseff (2002-2018) in Brazil, Nestor/Cristina Kirchner (2002-2015) in Argentina and Hugo Chavez/Nicolas Maduro (1992-2018) in Venezuela. Initial optimism has been replaced by failure and hopelessness among the population. Economic incompetence combined with ideology-driven populism have offset social progress.

Poverty alleviation and consolidation of a middle class have failed in Venezuela and Argentina. Brazil could follow suit if sound economic policies are not restored. Macroeconomic indicators of Argentina and Venezuela show financial chaos and balance of payment in emergency mode. Foreign currency reserves have been depleted, interrupting the flow of imported goods and services necessary to keep a modern economy going. The editor of the weekly *The Economist* – known for its dry British humor – says that Argentina is the only country in the world to have completed the cycle of underdevelopment successfully. The main reason for such (recurrent) state of affairs is a desire of every Latin American party and politician to stay in power indefinitely, similar to African presidents like Robert Mugabe in Zimbabwe.

6.4. Brazil's Ruling Elite: Still Appallingly Unprepared for the 21st Century¹⁷

The Brazilian case – the largest economy/country in Latin America – is quite revealing. The Partido dos Trabalhadores (PT) was the first grass-roots party in the country's politics to come to power via free elections.

During President Lula's first administration (2002-2010), economic policy was praised internationally for achieving two (apparently) irreconcilable goals. That is, to combine sound macro-micro economic policies with robust income distribution and poverty alleviation programs. Lula's successor Dilma Rousseff (2010-2018) suffered an ideological relapse and returned to failed import substitution ideology of the 1950s. A classical disaster-prone economic policy recipe was implemented.

Public spending and debt were increased beyond reasonable levels, industrial producers were shielded from overseas competition, Real was allowed to overvalue, interest rates were lowered by political pressure, credit formation was expanded by state banks and energy prices were repressed, particularly for electricity and fuels. To compound policy mistakes, the Partido dos Trabalhadores (PT) installed a billionaire scheme to steal money from state-owned companies – the backbone of the economy – particularly Petrobras. The gigantic oil company is responsible for 10 per cent of GDP capital formation.

President Dilma Rousseff started her second mandate in 2015 with the worst of two worlds. Flat economic growth + inflation on the rise = stagflation. The 50 million Brazilians lifted out of poverty into middle-class status – a number larger than Argentina's population – could be set back. Argentine and Venezuelan poor-middle class are in a worse predicament than their Brazilian counterpart.

6.5. Mexico: Integrated to the US Yet Far from Prosperity

Mexico is a special case not quite in line with Brazil, Argentina and Venezuela. The ruling Mexican white elite is quite conservative in policy making. The wealthy pay few taxes while the middle class and the poor carry the tax burden. The third wealthiest man in the world, according to Forbes magazine is Carlos Slim Helu, a Mexican citizen. The economy is integrated to the US/Canada since the 1990s by the North American Free Trade Agreement (NAFTA). Illegal immigration to the US is the only option to the majority poverty-stricken ethnic native population. To make matters worse, in 2006 the government of Felipe Calderon engulfed the population into a no-win war on illegal drugs. Over 90,000

innocent citizens have been killed since that time. A number far superior to US casualties in Vietnam and all wars that followed it. Leaving aside linguistic euphemism, the Mexican economy is doing fine in a failed state. Mexico's integration to powerful and wealthy USA did not guarantee peace, prosperity and better life for its people. Greece, in the eurozone, is another poor country finding out the price to be paid to belong to a rich man's club.¹⁸

6.6. Has China Replaced the USA?

In sum, the Latin American ruling elite continues to be in the wrong/opposite lane of successful global elites elsewhere. Policy mistakes are translated into opportunities for China – unintended consequence which favors Chinese national interests. For example, in this new commodity prices' downside cycle, the Chinese economy will be highly favored by lower commodity prices. At the same time, Chinese companies will be acquiring devalued national business assets while expanding their market share in fast-growing Latino consuming markets. Chinese natural resources, retail, consumer durable goods, high-tech, telecommunication and internet corporations will have most to gain.

By 2015 China has already replaced the United States as main economic partner of Latin America. The new status quo will remain in place for years to come. China is the only nation in the world with a muscular foreign currency reserve, trade and raw material and needs to achieve three strategic goals: (a) become Latin America's largest foreign direct investor; (b) be the main market for Latin American commodities, goods and services; and (c) be the lender of last resort to countries with unsustainable budget and balance of payment deficits.

Argentina and Venezuela are a sign of things to come to the region. Both countries have signed far-reaching programs of deeper integration with Beijing, particularly in the area of natural resources. The lack of access to international financial markets pushed both countries to seek financial support from China. The old multilateral financial structure set by America and led by the IMF/World Bank post-WWII is outdated. China is the "de facto" lender of last resort to many developing countries caught up in balance of payment problems. However, as the old saying

goes: He who has the GOLD makes the RULES. Or, as the old 1960s rock song of The Who says: Meet the new boss. Same as the old boss.

Notes

- ⁺ The views expressed in this paper are the author's sole responsibility and do not necessarily reflect those of IDB-INTAL. My deep appreciation to my beloved wife Helga Westphal-Nogueira for her critical review of earlier drafts. Without her support this final work would not be possible.
- ^{*} Dr Uziel Batista Nogueira holds a Master and PhD degree on Natural Resource Economics from Michigan State University, East Lansing, 1975-1980. Upon returning to Brazil he did a brief stint from 1981 to 1982 as adviser at the Ministry of Labor in Brasilia. There, he developed the first input-output matrix model to assess job creation of the first fuel ethanol program in the world. In 1982 he joined the Department of Socio-economic Studies at the Inter-American Development Bank (IDB) headquarters in Washington DC. From 1982 to 1996 he was involved in economic assessment studies covering energy, transportation, infrastructure, environment, macroeconomics and economic integration. Most of Central America, Caribbean and South American countries were covered. From 1996 to 2010 he worked as Deputy Director of the Institute for the Integration of Latin America and the Caribbean (INTAL), an IDB outfit specialized in economic integration, located in Buenos Aires, Argentina. Currently, Dr Nogueira is happily retired and living in Southern Brazil where he writes daily columns at *The New York Times* online debate fora. <Email: macielun@gmail.com>
- 1. See Nogueira (2004).
- 2. A good piece of analytical work on China-Mexico is done by Enrique Dussel Peters (<http://dusselpeters.com>): "The implications of China's entry into the WTO for Mexico" (2005).
- 3. *Oxford Analytica* in-depth analysis: "Latin America: Region is losing ground to competitors", November 17, 2006.
- 4. <http://www.iadb.org>
- 5. <http://www.iad.org>
- 6. Inter-American Dialogue – IAD: "China's relations with Latin America: Shared gains, asymmetric hopes", by Jorge I. Domínguez *et al.* (2006), Harvard University.

7. Inter-American Development Bank – IDB: *The emergence of China – Opportunities and challenges for Latin America and the Caribbean*, David Rockefeller Center for Latin American Studies, Harvard University Press for the Inter American Development Bank, Washington DC, 2006. At the bank's website http://www.iadb.org/int/1_English/2_Divisions/a_ITD.htm a series of update research papers on China-Latin America can be found.
8. Moreira (2006).
9. Section draws on Nogueira (2006).
10. The Institute for Integration of Latin America and the Caribbean (INTAL) provides the best collection of annual reports on MERCOSUR. See link http://www.iadb.org/intal/detalle_subtipo.asp?tid=6&idioma=esp&stid=5&cid=234
11. World Economic Forum (<http://www.weforum.org/>), *Global competitiveness report 2006-2007*.
12. See World Bank: *Towards a fairer world: Why is corruption still blocking the way? Goals, themes and outcomes*, by Pierre Landell-Mills (2006). World Bank's *Independent Evaluation Report* (2006) concludes that although the Bank's anti-corruption efforts have been successful in bringing legal and regulatory reform to many countries, the organization has frequently failed to follow up with the necessary enforcement. Rather than aiming for sweeping reforms, the report suggests that the Bank should focus on public spending. While corruption is acknowledged as a significant problem, little is known about the most effective means of fighting it.
13. For details and methodology used for QS World University Rankings® 2014/15, see link <http://www.topuniversities.com/university-rankings/world-university-rankings/2014#sorting=rank+region=213+country=+faculty=+stars=false+search=>
14. World Bank: "The inequality trap and its links to low growth in Mexico" (draft), by Isabel Guerrero, Luis Felipe López-Calva and Michael Walton (2006).
15. See *Oxford Analytica* in-depth analysis: "East Asia: Can the region survive a US slowdown?", November 28, 2006. The report says that East Asian economies are still highly dependent of the US market, particularly China with the highest dependence index. It goes saying that other emerging economies in the region have in effect substituted dependence on the US market for indirect dependence, via China. This rising export-orientation towards China reflects a regional division of labour in which the Chinese

economy operates as a central assembler and exporter of finished manufacture to global markets. The report concludes that while East Asia continues to enjoy rates of economic growth that are far superior to those in other regions, the structure and durability of the growth model has yet to be tested by any severe slowdown in US demand that is not compensated for by demand increases elsewhere.

16. See <http://www.cepal.org/en/publications/37626-social-panorama-latin-america-2014>
17. See <https://corredorbioceanico.wordpress.com/2011/02/28/brasil-%C2%BF%C2%BF-en-primera-o-en-ascenso/>
18. For a political reading of Mexico's current status go to http://internacional.elpais.com/internacional/2015/02/16/actualidad/1424115080_765093.html

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Sino-Pakistan Relations and the Challenges of Post-Cold War Era

Mutahir Ahmed*
University of Karachi

Abstract

China has emerged as the world's second largest economy, and the largest exporter of goods with 9.6 per cent of the global share. Moreover, the last two decades have seen China emerging as an international and regional power of the 21st century. Thus, in order to continue with the economic benefits, China wants peace and stability as well as to play an active role on international and regional fronts. On the other hand, Pakistan, the world's sixth most populous country, is a major power of South Asia. While having a developed infrastructure and vibrant political and security institutions, Pakistan is nevertheless currently facing many challenges on the economic front, including political instability and religious extremism. This paper is an attempt to analyze the challenges faced by both China and Pakistan in the post-Cold War era.

Keywords: *China, Pakistan, South Asia, religious extremism, terrorism, Xinjiang, Taliban, "war against terrorism", regional approach*

JEL classification: *F51, F52, F59, H12*

1. Introduction

Sino-Pakistan relations have a long history, which started from the 1950s till today. On the international front, both have supported each other in all regional and international fora. Domestically, in the areas such as the military and economy, China helped Pakistan a lot in developing extensive economic and military projects. On the other hand, during the Cold War era, especially after the 1962 Sino-Indian War, Pakistan outrightly supported China on crucial issues, such as China's claimed sovereignty over Taiwan and Tibet, and sensitive issues such as human rights. In the words of Shangli Lin, "The friendship between the Chinese and Pakistani people has a long history as early as 2000 years, as the Silk Road has linked the two sides together." (Lin, 2001: 13)

It is true that in the post-Cold War era, China has secured the status of a major player of international politics by identifying three areas of development. Firstly, focusing primarily on economic development, China acquires the largest foreign exchange reserves in the world more than the worth of four trillion dollars. Indeed, China has emerged as the world's second largest economy, and the largest exporter of goods with 9.6 per cent of the global share.¹ Secondly, in order to sustain its growth, China has to become an active player of international politics. A major proportion of oil and other natural resources and raw material that China needs to feed its growing economy are imported from Latin America, Africa and Central and Southwest Asia. These regions are the emerging markets for Chinese products, making them profoundly valuable. Finally, sustained economic growth within China depends on a stable security and peaceful environment in its neighborhood.

Truly speaking, after the 9/11 incident, the chemistry of international relations has been changed, with the emergence of new challenges and prospects. In the changing geo-political reality in the region, both Pakistan and China have been steadfastly supporting each other for their political and military interests. Against this background, this article analyzes Sino-Pakistan relations with reference to the emerging security challenges at the regional level in the post-Cold War era, particularly after the 9/11 incident.

2. China, Pakistan and South Asia

In the context of South Asia, one of the poorest yet strategically important regions of the world, India and Pakistan are two neighboring nuclear countries while China, though not geographically located in the region, is a very important player in South Asian politics. Thus, there is a triangle in South Asia, politically and strategically dominated by these three states. However, the United States of America (US) also has a great influence in the region. The South Asian region is confronted mainly with two problems. Firstly, the war against terrorism has been fought in the region. Secondly, extra-regional actors are directly involved in the region which has further radicalized the politics of the region. Moreover, India and the US have developed their relations in the field of nuclear technology. An agreement was signed between India and the US. According to it, the US will transfer civil nuclear defense technology to India. Pakistan and China have criticized this deal on the ground that it would disturb the balance of power in the region (India supported the National Missile Defense announced by the then president George Bush in May 2001) (Mutahir, 2002: 23). It shows the intentions of India and the US to counter the influence of China in the South Asian region.

Moreover, China also reacted sharply to the extension of the US military assistance to Taiwan. China has reason to be concerned over the deployment of the US National Missile Defense for its allies (*ibid.*). In this backdrop China sees the civil nuclear agreement with great concern. However, on the other hand, as far as the economic front is concerned, China follows the policy of engagement with India. Although a border dispute resulted in a war between the two countries in the past and clashes also took place between the two armies in Arunachal Pradesh and Chumar in Ladakh in September 2014, such conflicts were however resolved later on peacefully through dialogue.² In the same month, the president of China, Xi Jinping, visited India and signed billions of dollars of trade and investment agreements. In this regard, the Chinese president also announced that China would invest 20 billion dollars over the next five years in India's railways, industrial parks and nuclear power projects (Huma Yousuf, 2014).

Actually, the Chinese policy is to focus on regional harmony and at the same time not to permit India to enter disputed territory. In this context, China reacted sharply when the Indian prime minister, Narendra Modi, visited Arunachal Pradesh, which is a disputed territory. The Chinese ministry officials condemned Modi's visit.³ Arunachal Pradesh was established largely on the three areas of Tibet in China, Monyul Layul and Lower Tsayul. These three areas are located between the controversial McMahon Line, which China considers as illegally contrived by the colonial power in 1914.

On the other hand, Pak-China relations have strategic importance. China also uses Pakistan to contain India's geo-strategic ambitions. China invested 198 million dollars in Gwadar port in order to create a balance in the Indian Ocean. Moreover, China also seeks Pakistan's help in containing the East Turkestan Movement based in Xinjiang. For Pakistan, China is a major supplier of military hardware and nuclear reactors, and hence counter-leverage to the US. For this purpose, China adheres to a "military strategy of active defense". However, Beijing needs to boast its military capabilities to counter security threats and support its commitments to help ensure peace and stability.⁴

On the other hand, element of insecurity prevails in India because of China's close relations with Pakistan, its supplying of weapons to Sri Lanka and improving relations with Myanmar and Nepal. This leads to the Indian fear of strategic encirclement. Historically, border clashes between India and China in 1962 ended after China captured over 3,500 km borders of Arunachal Pradesh area from India which China still holds. This traditional distrust of India against China and Pakistan has led to an atmosphere of enmity and insecurity in the region. An intended function of China's support for Pakistan was the de facto confinement of India in strategic affairs in the sub-continent. Sensing such apprehensions, India was quick to exploit China's desire for a strategic dialogue, though it has been possible to resolve some of the longstanding disputes over territory and sovereignty. India now recognizes Chinese sovereignty over Tibet, and China recognizes Indian sovereignty over the former princely state of Sikkim. However, besides taking these measures both are suspicious of each other.⁵ By and large,

Chinese concerns about India's emergence as an American bulwark rationally exhibit a disinclination to be used in an instrumental manner by other powers. However, it seems that they will continue to regard each other with some caution.⁶

In order to reduce the border tensions, India and China held counter-terrorism exercises. The purpose of the joint operations was meant to open a channel of communication between soldiers of medium and low level as well as confidence building measures (CBMs) between the two countries. India sees the anti-terrorism collaboration with China as a way to highlight the threat, which both the countries have faced from Islamic militants.⁷ Actually, Chinese leadership has focused on the regional economic approach to engage its neighbors for mutual development and economic integration. In this regard, China wants to improve regional infrastructure for better connectivity. China offers help and collaboration in building better transport network including roads, motorways, railways and air-links. China is planning to develop four highways and maritime economic corridors including the Bangladesh-India-Myanmar-China economic corridor, and the one with Central Asia.

However, due to Pakistan's location, China is more enthusiastic about the China-Pakistan corridor and considers it an important part of the 21st-Century Silk Road. China regards Pakistan as a crucial partner in its own regional strategy. In this regard, China is keenly developing Pakistan's infrastructure in order to counter India especially after the 1962 Sino-Indian border war and later on India's nuclear testing in 1998 which according to Indian officials was directed towards China rather than Pakistan. As far as the economic interest of China is concerned, 60 Chinese companies are involved in 122 projects in Pakistan, and more than 10,000 Chinese engineers and technical experts are working in Pakistan (Symonds, 2009). Moreover, Pakistan is the largest purchaser of Chinese arms. According to a Pentagon report, 36 per cent of China's military exports went to Pakistan between 2003 and 2007. The Chinese technical assistance was critical to Pakistan's nuclear weapons and ballistic missile programs. In return, Pakistan has permitted China to build a major naval/commercial port facility at Gawadar, a coastal town in Baluchistan. The port is the linchpin of Beijing's "string of pearls"

strategy to establish access for its expanding navy to a series of ports along key sea routes across the Indian Ocean and at the same time to protect civil and gas supplies from the Middle East and Africa. The US which regards China as a rising economic and strategic rival is determined to maintain its military, including naval, predominance (*ibid.*).

However, the growing Sino-Pakistan relations is facing the major challenge of rising religious extremism and terrorism in the region.

3. The Challenge of Religious Extremism and Terrorism

It is true that the major mutual security challenge to both China and Pakistan is the rise of religious extremism and terrorism in the region. In the case of Pakistan, the major security challenge is emanating from its tribal areas of FATA (Federally Administered Tribal Areas) where major terrorist groups, such as the Tehrik Taliban Pakistan (TTP) and Al-Qaida, have their sanctuaries, despite the Pakistan military's launching of several security operations, including the on-going Operation Zarb-e-Azb. It is noted that the lawless FATA region also provides shelter to foreign terrorist groups, which unleash terrorism in their respective countries as well.

For China, the major security concern is of the presence in the Pakistan's FATA region of Uighurs, who carry out terrorist activities in its Xinjiang province, where violent riots took place in the decade of 1990s that caused ethnic tension and instability. It has been reported with concern that the activities of some two hundred activists of Pakistani religious parties were engaged in propagating their brand of religion in Xinjiang. The Chinese authorities describe this phenomenon as interference in its internal affairs (Mutahir, 1992: 80). Moreover, China also claimed that the Taliban had trained Islamic fundamentalists and provided them arms.⁸

Since the beginning of the 1990s availability of small arms and light weapons had been accessed through different routes and sources. Weapons began to move into China causing ethnic tensions and instability in Xinjiang. Violent clashes took place and left more than

eighty people dead and hundred injured (Moonis Ahmar, 1997). In this connection ethnic riots again broke out in 2009. On 5 July 2009, at least 197 people were killed and 1,600 were wounded in ethnic riots in Xinjiang. Hundreds of rioters had been arrested after the Uighurs took to the streets of the regional capital Urumqi, burning and smashing vehicles and confronting anti-riot police. According to Chinese authorities the unrest was the work of extremist forces abroad. They blamed the violence on the World Uighur Congress and other separatist groups to split Xinjiang from China. Highlighting the severity of the crisis, then Chinese president, Hu Jintao, cut short his trip to Italy for the G8 Summit – observers said it was an unprecedented move – to tackle one of China's worst flare-ups of ethnic tension in decades.⁹ But exiled Uighur groups adamantly rejected the Chinese government's claim of a plot. They said that the riots were an outcome of the policies of the Chinese government.

Xinjiang has long been a tightly controlled hotbed of ethnic tension, fostered by an economic gap between the Uighurs and the Han Chinese, and government controls on religion and cultural activities. Additionally, Han migrants are the majority in urban centers and control the markets. Strategically, Xinjiang, bordering Russia, Mongolia, Kazakhstan, Kyrgyzstan, Tajikistan, Afghanistan and Pakistan, has abundant oil reserves and is China's largest natural gas-producing region.¹⁰ Thus, it is natural that Chinese authorities would deal with the matter with an iron hand.

The background of this violent instability can be seen in the context of the Soviet presence in Afghanistan. The violent phase of Chinese Muslim unrest has a direct correlation with the US-China-Pakistan-Saudi Arabian axis to support the Mujahideen's Jihad and to bleed the Soviets in Afghanistan. Later on, when the Soviets withdrew from Afghanistan, Mujahideen infighting started in order to gain control of Afghanistan. However, the division among the Mujahideen and the spillover effect of their infighting could easily be visible in the neighboring countries including China's Xinjiang Autonomous Region.

The Xinjiang Uighur Autonomous Region occupies a pivotal position in the region with its borders touching Mongolia, Tajikistan,

Kyrgyzstan, Kazakhstan, Afghanistan and Kashmir. In Xinjiang, the Han Chinese constitute 37 per cent of the population and the Uighur Muslims 47 per cent. Increased trans-border trade and traffic between Xinjiang and the adjoining regions of Kazakhstan, Kyrgyzstan and Pakistan via the KaraKoram highway passing through Azad Kashmir have resulted in greater interaction between the Turkic speaking Uighurs and their ethnic counterparts and co-religionists in Central Asia, Pakistan, Turkey and Saudi Arabia (Warikoo, 1996). Furthermore, with the exposure which they had during the Afghan Jihad with the full support of the Chinese state and later on when Taliban took control, these Uighur Muslims tasted a new phenomenon of life which revolved around a particular brand of religion. Historically, the Uighur Muslims were the single largest community constituting about 7.2 million of China's 18 million Muslims and they were mainly concentrated in the Xinjiang Autonomous Region (Sawran Singh, 2002: 409).

Moreover, Xinjiang has become a primary source of energy for the Chinese economy. At Xinjiang's boundaries, there are three oil basins, the Turpan, Junggar and Tarim. The Tarim Basin is reportedly the largest unexplored oil basin in the world with some estimates of its potential reserves amounting to as high as 147 billion barrels (Chin, 1994: 1, cited in Mamdoub, 1995-96: 139).

As stated above, China encouraged Uighur Muslims to fight in Afghanistan against the Soviets. But when the Soviets decided to leave Afghanistan in 1989 these well-trained and well-equipped Uighurs were unable to return to China and had continued to fight for various Afghan factions including the Taliban (Stobodon, 1999).

3.1. Linkage between Taliban and Uighurs

During the Soviet presence in Afghanistan, Uighur Muslims along with other fellow Mujahideen from different Muslim countries built strong relations with the locals. Moreover, the Uighurs had also developed relations with other powerful groups called the Islamic Movement led by Tahir Yuldashev who came from Uzbekistan and based in Afghanistan (Gangadharan, 2000: 62). All these forces were closely associated with the Taliban.

The matter of fact is that the Uighurs had political, moral and material support from Afghanistan during the Afghan Jihad. The young generation of Uighurs are more militant, aggressively inspired by the international Islamic resistance Jihadist movement centered in Afghanistan during Taliban rule. This young generation of Uighurs represent ethno-religious nationalism and they corner the old generation who are secular nationalists. As a result, ideologically tough Uighurs inspired and fought the Afghan war and have brought violence inside China's Xinjiang Autonomous Region. However, China deliberately sent the Han ethnic group into Xinjiang Autonomous Region in order to create balance in the region, but this was not taken as a positive step. The Uighurs are of the opinion that the Han would create problems at two levels: firstly, identity crisis for the Uighurs, and secondly, economic competition. The Han control the job market and would create economic competition for the Uighur Muslims.

In order to consolidate the Chinese authority in Xinjiang, an attempt has been made by China to turn the region into its internal colony. Three reasons have been cited in this regard: firstly, to reduce the historic vulnerability of its borderland; secondly, to avoid emboldening the separatist movements in Tibet and Taiwan by agreeing to Uighur demands for greater autonomy; and thirdly, to monopolize Xinjiang's rich natural resources (Rudelson, 1997: 3). With this background, the Chinese authorities are sensitive because Uighur Muslims have co-religionists in Central Asia, Pakistan, Turkey and Saudi Arabia. The Chinese want to restrict foreign subversives from Afghanistan and Pakistan's Islamic groups in Xinjiang. According to diplomatic sources, China noted with concern of some 200 activities of various Pakistani groups engaged in propagating religious activities in Xinjiang. Moreover, China also claims that Taliban has trained Islamic radicals and provided them arms to assist their battle for independence.¹¹

However, the event of 9/11 has completely changed the political scenario. Pakistan, which is the front-line state in the "war against terrorism", has seriously worked out on this issue and tried to remove the misunderstanding of the Chinese authorities by taking strict action against Taliban and other radical groups. In this regard is the Lal Mosque

massacre that took place in 2007. In January 2007, Pakistani authorities took stern action against all those Mosques and Madaris which had illegally occupied land in Islamabad. During this action thirteen illegal Mosques were demolished. The management of Lal Mosque raised voice against this act of the government and demanded it to stop such an action against the Madaris and Mosques. But the government firmly stood its ground and paid no heed to the demand. Against this background, the female students of Hafza Madrasa, affiliated with Lal Mosque, kidnapped the Chinese women working in fitness centres. It was alleged that they were involved in the vulgar business. The Chinese diplomats in Islamabad took strong notice of this incident, and urged the government of Pakistan to take action against Lal Mosque. The government planned an operation in July 2007 and killed 100 terrorists. It is noted that Lal Mosque was the hub of recruitment and training center for Jihadi elements (Mutahir, 2014: 178).

According to Pakistan intelligence sources, the Uighur separatists hide mainly in the North Waziristan region, where Taliban are their host. The Turkestan Islamic Party (TIP), which China equates with the East Turkestan Islamic Movement (ETIM), keeps a low profile. The leader of the TIP, Abdullah Mansour, said that it was his duty to fight against China. In Afghanistan two security reports were sent to expatriates warning of attacks on a Chinese hotel, Chinese companies and other targets in Kabul. There has been no attack so far. According to Taliban sources, there are about 250 Uighur militants in Afghanistan's Nuristan and Kunar provinces.

China has stepped up security in Xinjiang after a vehicle crashed into a crowd in Beijing's Tiananmen Square on 28 October 2013 and burst into flames, killing all three people in the car and two tourists in the square and injuring the other thirty-eight. Later on, Mansour owned the killing and called it a "jihadi operation."¹²

In another deadly incident in which 43 people were killed (including 4 of the assailants) and more than 90 were injured, shoppers in Urumqi were attacked with a dozen explosives thrown from two SUVs on 22 May 2014.¹³ In response to these attacks, the Chinese authorities have launched various crackdowns.

3.2. Chinese Responses

Keeping all these developments in perspective, it can be observed that China wants to contain terrorism because of its own interests. On the other hand, Pakistan has taken drastic measures to eliminate terrorism particularly after 16 December 2014, when 140 students were killed by religious elements in Peshawar. Moreover, Pakistan's major regional ally China will also expect Pakistan to put extra efforts in dealing with terrorism. The kidnapping of a Chinese tourist from Baluchistan coincided with President Mamnoon Hussain's visit to China. Although the president condemned the incident, China is deeply concerned about the security of its own interests in Pakistan. However, Pakistan also cannot set aside the Chinese security concerns as China has emerged as a major economic development and trade partner of the country.¹⁴

Presently, China has adopted a two-pronged strategy. One is the developmental strategy, and the other is the policy of engagement. As far as the developmental strategy is concerned, China focuses on the regional approach in which economic infrastructure, trade and investment get top priority. On the policy of engagement, China offers good offices to have reconciliation with Taliban. China has proposed a forum to restart peace talks between Afghanistan and Taliban. China proposed a "peace and reconciliation forum", which would gather representatives from Afghanistan, Pakistan, China and the Taliban command.¹⁵ It is hoped that this proposal would get positive response from all the concerned players especially Pakistan, which enjoys very cordial relations with China.

In October 2014, the Afghan president, Ashraf Ghani, visited China. Both countries pledged a new long-term partnership. The Afghan president's visit to China demonstrated his intentions of utilizing Afghanistan's natural resources as a trade-off for infrastructure and industry to reverse the rapid decline in economic growth. Afghanistan has an estimated three trillion dollars' worth of natural resources including copper, iron ore, silver, gold, coal, gems and metals such as chromite. The lack of infrastructure, and war did not permit anyone to extract these resources. Presently, China is also active in oil production

in the north of Afghanistan. After committing a three billion dollars deal to develop a five million ton copper deposit at Mes Aynak, near Kabul, in Logar province, the Chinese state-run consortium, Metallurgical Corporation China (MCC), pulled out its workers after they came under Taliban attack. The 2007 contract has since been renegotiated and work has yet to resume. (Lynne O’ Donnell, 2014)

4. Conclusion

In a multi-polar world, international politics revolves around various power centers, which desperately try to control regional zones in order to fulfill their economic needs. In the South Asian region, the two neighbors Pakistan and India which are both nuclear powers have locked in power rivalry for the last six decades or so. Though China geographically is not placed in South Asia, politically and strategically it cannot be ignored. The Chinese interest is not to give India a free hand in the South Asian region – that is why Pakistan has a special place in Chinese foreign policy. In this context, South Asia has a triangle whose components are India, China and Pakistan. Moreover, after the 9/11 incident, international politics has shifted towards South Asia because of the US-led “war against terrorism”. The extra-regional powers are directly involved in the region which has aggravated the conflict between India and Pakistan.

Afghanistan has become the epicenter of the “war against terrorism”, whose spillover effects can be seen in Pakistan, India and China. Pakistan’s tribal areas, particularly the FATA region, and the Chinese province of Xinjiang, bordering Afghanistan, are the most affected regions. The exiled separatist leadership of Xinjiang took refuge in Afghanistan and the tribal area of Pakistan. China’s concern is to contain and eliminate these separatist elements.

In this regard, China, whose foreign policy revolves around five principles of peaceful co-existence, has brought about a change in its most important principle, i.e. non-interference in each other’s internal affairs. It is rare in its history that China is offering its good offices to negotiate with the leaderships of Taliban, Afghanistan and Pakistan. The

Taliban leadership visited China twice, the first time before the visit of President Ashraf Ghani to China and the second after his visit. Afghanistan's new leadership and Taliban's leadership have an element of mistrust vis-à-vis each other. On the other hand, both have their apprehensions against Pakistan. Thus, in this scenario, China is the only regional actor as well as the only honest broker which can play an active role with the trust of all the concerned players. Moreover, China has its own interests in Xinjiang and also its investments in Afghanistan in particular and the South Asian region in general. The matter of fact is that both China and Pakistan have a significant role to play in the South Asia region in the years to come.

Notes

- * Dr Mutahir Ahmed is Professor and Chairperson at the Department of International Relations, University of Karachi, Pakistan. Dr Mutahir was a Visiting Fellow at Henry L. Stimson Center, Washington, US, and Asia Fellow at the University of Malaya, Kuala Lumpur, Malaysia. His areas of research interest are religious extremism, State-society relations, arms control and disarmament in South, Central and West Asian regions. <Email: mutahir62@yahoo.com>
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Rural China in Transition: Changes and Transformations in China's Agriculture and Rural Sector⁺

John A. **Donaldson*** and Forrest **Zhang****
Singapore Management University

Abstract

Agribusiness companies operating in China are transacting in various forms with small agricultural producers, and in doing so, transforming the household-based agriculture in rural China. We argue that the presence of these distinct forms and the diverging relations between agribusiness and producers show the central importance of China's collective land rights. China's unique system of land rights – featuring collective ownership but individualized usage rights – has acted as a powerful force in shaping interactions between agribusiness and direct producers. It provides farmers a source of economic income as well as political bargaining power – albeit to various degrees – and restricts corporate actors from dispossessing farmers of their land. Because agribusinesses are able to work with small-scale producers in order to produce the high-scale production they need, we argue that Chinese leaders do not need to scale up land holdings in order to modernize agriculture. If China continues to provide land-use rights, China's small-scale producers can benefit from this modernization in unanticipated ways.

Keywords: *rural reform, agriculture, China*

JEL classification: *Q12, Q15, Q34, R52*

1. Introduction

What changes are currently occurring in the mode of production in China's agriculture? In what forms are agribusiness companies entering agriculture and interacting with farmers? How are land, labour and capital now controlled by corporate and individual actors, and then organized into agricultural production? How does such control and organization shape relationship among the actors? In this paper, we document various forms in which agribusiness companies are transacting with individual agricultural producers, and in doing so, transforming the household-based agriculture in rural China. We argue that the presence of these distinct forms and the diverging relations between agribusiness and producers show the central importance of China's collective land rights. China's unique system of land rights – featuring collective ownership but individualized usage rights – has acted as a powerful force in shaping interactions between agribusiness and direct producers. It provides farmers a source of economic income as well as political bargaining power – albeit to various degrees – and restricts corporate actors from dispossessing farmers of their land.

2. China's Agriculture: The Social and Political Impacts of Agribusiness

The Household Responsibility System (HRS) started by Deng Xiaoping in 1978 brought land use rights to rural households, providing more leeway for farmers to select crops and market surplus production (Kelliher, 1992; White, 1998; Zweig, 1997). This new institution is credited for bringing, nearly single-handedly, hundreds of millions of poor farmers out of poverty – the fastest rate of rural poverty reduction in world history. At the same time, this move also returned Chinese agriculture to household-based production of miniscule scale and low level of mechanization.¹ Although in the years immediately following the reform, production already began to exceed the strict boundaries of the household in some cases – with some families hiring outside labour and renting the land of others, for instance (Unger, 2002a) – the presence of large-scale production and the role of agribusiness in the process of

growing crops has been quite muted. To be sure, firms were involved in the processing and distribution of agricultural products, but by-and-large, in the vast majority of China, production was contained largely within small and scattered plots of land and carried out by members of rural households with severely constrained capital.

Subsequent stagnation in agricultural production led to widespread calls for new measures to further increase agricultural output. Proposed solutions include further developing and disseminating agricultural technology, securing farmers' land rights or even privatizing farm land to enhance farmers' incentives, and, more importantly and of the most interest to this study, scaling up production to achieve economy of scale and introducing large enterprises and modern technologies into agriculture. Other East Asian governments such as Japan, South Korea, and Taiwan, in order to reduce productivity loss caused by land reform, all resorted to some efforts to consolidate the overly parcelized land resulting from their policies of land reforms (Bramall, 2004).² Decades after the HRS reform, the Chinese government also found itself battling the negative legacies of that reform.

Clearly, some changes were in order for agriculture and rural China to transcend the limitations of the HRS reform. Interestingly, in the road map for China's rural development, the central leadership under Deng Xiaoping already identified the next step. In 1990, Deng articulated his vision as the following:

The reform and development of China's socialist agriculture, from the long- term perspective, requires two great leaps (*liangge feiyue* 两个飞跃). The first leap is dismantling peoples' communes and implementing the Household Responsibility reform. This is a great advance and should be kept in the long term. The second leap is meeting the needs of scientific agriculture and socialized production, properly developing scaled-up operation, and developing the collective economy.

(Deng, 1993: 355)

These "Two Leaps" have since become the guiding vision for the central government's agricultural policies. Deng further elaborated that,

“the rural economy eventually needs to become collectivized (*jitihua* 集体化) and coordinated (*jiyuehua* 集约化) ... agricultural modernization is impossible if each household works on its own.” (Deng, 2004: 1349-1350) Since Deng had completed the first leap, for Deng’s successors, the assignment was clear: the time has come to make the second leap.

The irony, however, is that the two leaps implied apparently contradictory directions: the first decollectivizes and sets agriculture back to household-based, small-holding operations, while the second tries to re-collectivize and scale up operation beyond the household boundaries. Thus, China’s central government had to walk a fine line in order to start the second leap without undoing the first. At the core of the first leap, the HRS, is the household-based land use rights system that restored farmers’ incentives and protected their interests. This would therefore remain a central institution in China’s agricultural modernization programme.

The policy shift from HRS to the second leap started in the mid-1990s. While Deng only vaguely mentioned “agricultural modernization” as a part of the long-term goals of Four Modernizations, the central leadership under Jiang Zemin started to articulate “agricultural modernization” in more concrete terms and propose policy measures through a series of policy statements, starting from the Ninth Five-Year Plan passed in 1996, to Jiang’s report to the 15th Party Congress in 1997, and culminating in the 1998 document of “Decisions by the Central Committee of the Chinese Communist Party on Several Key Issues in Rural and Agricultural Works.” The central leadership clearly stated the goal of agricultural modernization (*nongye xiandaihua* 农业现代化) as to make the transition from traditional agriculture to modern agriculture and from uncoordinated and low-scale operation (*cufangshi jingying* 粗放式经营) to coordinated and large-scale operation (*jiyueshi jingying* 集约式经营). The central government characterized a modernized agriculture as commercialized (*shangpinhua* 商品化), specialized (*zhuan yehua* 专业化), scaled up (*guimohua* 规模化), and furthermore, standardized (*biaozhunhua* 标准化) and internationalized (*guojihua* 国际化).

The central leadership also identified agricultural vertical integration (*chanyehua* 产业化) as the main venue to achieve agricultural modernization.³ Vertical integration here means two parallel processes: First, it means the scaling-up of production of a crop in a region, because without a large enough volume of harvest of a crop, further processing and marketing of it will not be economically viable.⁴ Second, it means integrating cultivation of a crop with the processing and marketing of it and its derivatives. The central government believes vertical integration helps to bring farmers into markets and bring modern technologies into farming. At the centre of the government's vertical integration campaign is to promote "dragon head" agribusiness companies (*longtou qiye* 龙头企业) as the main vehicle for vertical integration (Waldron, 2006; Waldron, Brown and Longworth, 2003). Central and local governments bestow "dragon head" status to agribusiness companies. The designated dragon head enterprises can receive some forms of government support, such as easier access to loans from state banks. But as the criteria of designating dragon head enterprises become more lenient down the administrative hierarchy, local dragon head enterprises often receive nothing more than just the title. As a result, agribusiness companies have proliferated in recent years.

The second leap has indeed started and China's agricultural development has entered a new phase – one could say the fourth revolution since 1949, if we trace back to the land reform, the collectivization, and the HRS. Yet, this major change in rural China has barely been discussed in English-language literature. As Waldron (2006) points out, the fast growth of agribusiness is "one of the most important but unreported developments in Chinese agriculture in recent years." (Waldron, 2006: 292) This paper intends to start the discussion on this new phase of rural development by first investigating a central force in this process of agricultural modernization through vertical integration: agribusiness. We should also point out that before the central government made it a policy priority, a spontaneous process of transforming the household-based agriculture already emerged through the rise of entrepreneurial farmers, who hired labour and rented land to

expand their specialized commercial farming beyond the household boundary. Here, however, we will focus on the growth of agribusiness, including the role of agribusiness in the rise of agrarian capitalism in China, the multiple pathways it takes, and the changes it brings to rural society. It is based primarily on fieldwork conducted in 2007 and 2009, as well as insights from previous fieldwork in other provinces and secondary sources.

With this typology (see Table 1), we find variations along two dimensions. First, the control over – and use of – labour and land changes. Across these forms, agribusiness firms have varying degrees of control over labour and land vis-à-vis direct producers. Second, with changes in the control over land and/or labour, social relationship between actors also change. Most notably, the power relationship between rural resident (whether acting as a contractor or a farm worker) and agricultural firm is strikingly different in these five forms. Because this shifting power relationship is based on the agribusiness's varying degrees of control over land and labour – but primarily land, the institution of land rights plays a crucial role in shaping such relationship. We argue that the collective land rights system in rural China allows rural residents to resist agribusiness from acquiring more control over farm land and greater domination over them. With this in mind, we sharply disagree with growing calls to eliminate this institution and privatize farm land in China.

Form 1: Commercial Farmers

One of the first types of expanded production, that of “commercial farmer”, emerged within a few years of reform (Unger, 2002b). While, as we noted earlier, commercial farming is not new in China (Huang, 1990), commercial farming by rural households was eliminated under collectivization. Its reemergence depended on the marketization of agricultural products, without which the commercial households could then neither sell their crops nor buy grain. Although many rural households participated in product market by selling their surplus grain or the economic crop they grow in addition to subsistence grain, their subsistence is not commercialized – they relied on their own land and

Table 1 Relationships between Agribusiness and Farmers in China:
A Typology

Form	Role for agribusiness	Role for direct producers	Harvest	Class relations
Commercial farmer	Purchase product, training	Work independently on allocated family land	All for commercial exchange	Direct producers can be dominated by purchasers through unfair terms of trade.
Contract farmer	Form purchasing contracts, provide technical support	Work on allocated family land to fulfill company contracts	Sold to contracting companies	Direct producers are dominated by the company, but retain some flexibility.
Semi-proletarian with Chinese characteristics	Form bases through leasing village farmland, hire villagers	Work on collective land rented to companies as company employees	Belongs to the company	Direct producers are dominated by the company but enjoy a degree of entitlement.
Semi-proletarian farm workers	Form bases through leasing wasteland, hire migrant labourers	Work on company land as company employees, but have allocated land at home	Belongs to the company	Direct producers are dominated by the company, but have family land as fall-back option.
Proletarian farm workers	Form bases through leasing wasteland, hire landless labourers	Landless, work on company land as employees	Belongs to the company	Complete domination by the company over direct producers.

grain for subsistence needs and used commercial farming to earn cash income which supplemented their livelihoods.

By commercial farmer here, we refer to rural households who grow crops (mostly non-staple, economic crops) predominantly for commercial exchange, and satisfy their basic needs through buying grain on markets instead of growing it. The commercialization of the satisfaction of subsistence brings important changes to the peasant households. While still relying on family labour and contracted family land, these households derive their subsistence from markets, which often link them directly with remote actors and social processes that lie beyond the local community. They may still be dominated by outside actors through unfair terms of trade, but they are usually not directly subjected to the domination of local actors, such as an extractive local state.

Mr Chen, a commercial farmer living in the rural areas of Simao Municipality, Yunnan province, is one of many examples. Mr Chen has shifted from growing corn on his farmland to exclusively growing coffee beans. He and his family's shift from growing corn to growing coffee beans occurred over a series of steps. At first, while Chen and his family tended the corn on their own plot, Chen himself worked in an ad hoc manner at Beigui, a local coffee producing TVE, where he earned essential cash to supplement subsistence farming, and also learned the skill of growing coffee. Soon afterwards, just as Nestle became active in the area as a buyer of coffee beans, Chen switched from working for Beigui to growing coffee beans on his family's land. Soon, the family, like most of its neighbours, switched completely out of growing corn, and now exclusively grows coffee beans on its 20 *mu* of land⁵. Then, as now, the family sells exclusively to Nestle, which has proven to be a dependable buyer, purchasing coffee beans at the international price (some computer savvy farmers even check the international price on the Internet).

By completely given up subsistence farming, Chen and his family have accepted numerous risks, many of which are out of the family's control, such as the price of coffee which is based on global markets. However, while the fluctuation of the price of coffee beans reportedly

has hurt the economic interests of other coffee farmers, Chen reports that such fluctuation does not hurt him much, since he makes at least some money each year – enough to purchase grain and other needs. Chen's family has now invested in preliminary processing equipment, with which they shell, clean, dry and split coffee beans before delivering them to Nestle. Cash from coffee sales allows the family to send their two children to boarding school in the municipal seat.

In order for them to shift out of grain production into an commercial crop, most rural families, like the Chens, require some type of outside impetus to help them learn how to grow new economic crops, provide needed capital and most of all secure a market that mitigates risk. In some cases, when roads (even humble dirt roads) link local areas to marketing towns and beyond, middlemen can come in to purchase such crops, inducing households to increase their production. Oftentimes, however, entrepreneurs and companies provide the needed access to skill, capital and market. Private enterprises, whether domestic companies or foreign ventures, represent channels through which subsistence peasants can shift into commercial farming. However, sometimes, especially for very poor farmers, the state is the only actor with the capability and resources to serve as an outside impetus shifting peasants to commercial farmers. With commercial farming, agricultural production, although still relying on the household as the unit of production, changes from self-reliance and subsistence-based production to market-oriented and commercialized agriculture. These commercial farmers also enter into new sets of relationships with individual, corporate, and state actors, who often mediate their interactions with markets. In such relations, agribusiness firms exert no control on land or labour that belongs to the direct producers. The commercial farmers are usually not under any direct domination or exploitation, other than the unfavourable terms of trade they may endure on the open market.

Form 2: Contract Farmers

In dealing with independent commercial farmers, agribusiness has to face the uncertainty of fluctuating supply caused by farmers' shifting in and out of a commercial crop – sometimes dramatically – when prices

for that crop change. One solution to that problem adopted by many companies is to formally establish contractual relationship with farmers, usually in a contiguous area. In this relationship, the company typically provides farmers with technology, training, service, and in many cases start-up capital. Although the farming households *retain control over their household land* and their own labour, in return for company support, they sign a contract, generally locking them into a selling price, with the promise to sell their entire harvest to the company. We call these the “contract farmers”.

One of the many examples that we discovered of this type of production is Xinchang Foods, the Shandong poultry meat processing company, whose story we relayed at the beginning. In addition to the poultry processing facilities, this company also has two plants for processing microwavable food, such as TV dinners. Established in 1988, the company now reportedly employs more than 8,000 people, and has revenue in excess of RMB 800 million yuan. As mentioned earlier, the company estimates that about 40 per cent of its production comes from such a base formed through contracts directly with the farmers.⁶ In doing so, the company contracts out with approximately 10,000 households in the surrounding areas. The company guarantees a minimum, or “protective” price (*baohu jia* 保护价), pays the farmers immediately upon delivery and has overall established a solid relationship with the farmers over the course of the previous decade.

Farmers who produce under contract with this company confirm much of the company’s point of view, agreeing that the company provides inputs such as animal feed and technical and safety training (in part to combat bird flu). For instance, Mr Zhao’s farmland contains three duck coops and more than 8,600 ducks which he husbands, selling the full-grown ducks (after 46 days, he notes) back to the company. Through his association with the company, Mr Zhao reported that he can earn RMB 1500 yuan on average each month. However, he argues that the company, because of its size and market position, holds the preponderance of the power, which it uses to hold down the purchasing price to RMB 1 yuan for each grown duck Mr Zhao and his family raise. Mr Zhao lives in an urbanizing area and his family land has shrunk from

1.7 *mu* per capita to about 0.3 *mu*, due to land expropriation by the state for urban expansion (which he has only been inadequately compensated for, he adds). Now, instead of growing grain as they had previously, Mr Zhao and his family dedicate most of their land to raising ducklings, retaining a small plot for growing melons and other self-consumed vegetables. In fact, given their limited land, animal husbandry might be one of a few viable options in the agriculture sector that the Zhao family has left. In his relationship with Xinchang Foods, although farmers like Mr Zhao still retain their entitlement to land use rights provided by the village collective and are not subjected to personal domination in the labouring process, they nevertheless have relegated much of the control over the production and its final products to the company, as the company now sets the parameters of production and has the monopsony over their products. The company also facilitated the specialization and scaling-up of agricultural production by organizing tens of thousands of formerly scattered and isolated farmer households into specialized, coordinated, and standardized production.

Like the commercial farmers who have departed from subsistence agriculture and now rely on production of commercial crops, these contract farmers usually grow economic crops exclusively for commercial exchange, transact with outside actors, and depend for their subsistence on the market. The two differ, however, on one key aspect: due to their lack of access to capital, market or skill, contract farmers have to enter into formal contractual relationship with a more powerful and resourceful corporate actor. By providing them with the needed capital, skill, and/or market access, the corporate actor is thus able to reduce contract farmers' negotiating power and profit margin. The farmer commits legally to selling his product only to the contracting company. In such a relationship, farmers only provide labour and land. In contrast, commercial farmers enjoy a market-set price for their products, instead of one dictated by the contracting company, and have the flexibility of selling to the highest bidder at harvest time. Theoretically, contract farmers do enjoy one advantage: they can shield themselves from market risks by obtaining from the company the protective price for their products.⁷ In our fieldwork, we routinely found

farmers, sometimes even the local governments, try to obtain protective prices from the contracting company, often to no avail.

Due to their domination by corporate actors, although contract farmers like Mr Zhao's are probably better off economically than they were under subsistence farming, they are typically not as well off as independent commercial farmers. Partly in response to their unfavourable position vis-à-vis the companies, contract farmers have often neglected the contract and sold their harvest to other purchasers who, without bearing production costs the contracting company incurred, offered higher prices. This has created a phenomenon known as the "middleman problem" – referring to itinerant middlemen who drive around and secretly purchase products from companies' production bases. In other cases, according to one report, contract farmers tried to deflate cost by cutting corners in the production process, resulting in product defects (Li, 2008). Due to these difficulties, we believe that contract farming as a form of agrarian capitalism is unstable and likely to be transient, changing to either commercial farming or to the form we discuss next.⁸

Form 3: Semi-proletarian Farm Workers with Chinese Characteristics

From a contracting company's perspective, a long-term solution to the middleman problem can only come from gaining greater control over the growing and harvesting process and changing farmers' incentive structure. In practice, agribusiness firms establish production bases by renting the land (use rights) from the collective owner, the village, and hiring village residents, who, as members of the collective, are entitled to land use rights, as company employees to work on the land. In some cases, rural households still work on the piece of household land allocated to them by the collective – although now rented to the company base – growing whatever the company asks them to grow. In other cases, land is consolidated and household boundaries erased, farmers simply work for the company on company land. Even when farmers continue to work on the allocated household land, a profound change has happened: they are now only providing labour in the production process, while the land use rights – and the right to dispose of

harvest from the land – are controlled by the company.

To this form, we add the appendage “with Chinese characteristics” because we argue that without the unique institution of collective land ownership and individualized land use rights in rural China, this form might not come to pass. The companies that are forming the base typically establish the contractual relationship with the village collective authorities, not with the individual farmer as is the case with the contract farmer. Because the collective land ownership restricts village authorities from disenfranchising rural residents from their land, it also restricts companies from denying rural residents jobs on company production bases. Without such a restriction, an enclosure movement led by these companies could easily have thrown many farmers off their land and into the army of reserve labour. In this way, farmers become semi-proletarian, in that they still have an entitlement to collective land (and in fact often receive rent for renting out this means of production to the company), yet at the same time, they have to sell their labour to the company for wages. In a sense, these farmers trade their land use rights for jobs. Their entitlement to collective land gives them entitlement to company jobs, and thus, in one sense, they “own” or have rights to their jobs in a way unlike proletarianized workers.

One of the examples of this form, Taiwan's Qianhui Flower Company, based in Chenggong County, Yunnan, rents 70 per cent of its land from collectives through contracts of at least seven years. It then pays members of the household a monthly wage to grow and harvest the flowers on their own land. This company currently has 10 such bases throughout Yunnan, giving it different environments in which to grow a wide variety of flowers. This company emphasized that once the household is contracted, the farmer cannot individually withdraw their land from the arrangement, because the land is contracted through the village committee to the base. Qianhui does not have a big problem with middlemen. Considering selling the product to outsiders to be a criminal issue, Qianhui works with local law enforcement to enforce their contracts with farmers.

Although these semi-proletarian farm workers with Chinese characteristics do benefit economically from this type of arrangement,

they clearly lose autonomy and the greater economic benefit that commercial or contract farmers have. Compared to contract farmers, semi-proletarian farm workers not only have relinquished use rights over their collective land (although they often receive rent for that), they are also subjected to tighter company control in the production process. As a result of both, unlike contract farmers, they totally lose control over the harvest. While the company pays wages to farm workers, it also takes profits from the surplus that would otherwise belong to the farmers. Farmers are also largely deprived of the opportunities to undercut company's domination by selling to middlemen for higher margins. Despite these shortcomings, when rural residents lack capital and know-how, and will often benefit financially by making this sort of arrangement with agribusiness. From the company's point of view, this form is a relatively painless way to obtain control over farm land and overcome the middleman problem. However, companies have also found other ways to obtain even greater control over their employees, the production process and the harvest.

Form 4: Semi-proletarian Farm Workers

Under this form the company owns or otherwise controls the land of its production bases, and hires rural workers. The farm worker, who migrated to the company's production base, still possesses use rights over his or her own land, but their land is elsewhere – and has usually been rented out to relatives, neighbours or entrepreneurs. Hence, the labourer is classified as “Semi-proletarian Farm Workers”: they sell labour for wages, yet still retain access to some means of production, although not directly used.

The Dahongpo Coffee Plantation in western Yunnan province controls a base of some 7,000 *mu*, of which 4,500 *mu* is currently cultivated with coffee plants. The company leases land that was previously classified as wasteland – mostly on mountain slopes – for its base with long-term leases that expire in 2030. The company got capital support from the Bank of Agriculture and an ear-marked World Bank loan to invest in infrastructure building. The local government was also involved in the early years in attracting poor peasants to come and grow

coffee on the base. The entire process of growing and harvesting is tightly controlled by the company. Like most others of its kind, this company provides land, training, fertilizer, pesticides, seeds and other inputs. The company has a hierarchical organizational structure in place to supervise farm workers. The company passes down orders through this hierarchy to farm workers on every production procedure, ranging from when to apply fertilizer and pesticide to when to start harvesting. Materials such as seeds, fertilizers, and pesticides are also distributed from the company, through the teams and down to each worker family. The company does not charge rent from the workers, but establishes a production quota for each *mu* of land. The company and farm worker split the within-quota harvest on a 6:4 ratio, and 100 per cent of the sales from above-quota harvest belongs to the farm worker. Company representatives acknowledge that the harvest belongs to the company, but argue that the company chooses to give workers a share in the harvest – in lieu of wage – in order to attract workers. The company's control of land and close monitoring of the entire production process means that farm workers here have much less flexibility in comparison to the contract farmer, who work on their own land. Farm workers not only have great difficulties in “stealing” the harvest and sell it to middlemen for higher prices, as the company can relatively easily determine the output from each household's plot, they also face dire consequences if caught doing so – the company considers such selling to outsiders theft of company assets and will kick the workers off the farm as punishment.

This company leaves the impression of a benevolent employer. Not only it gives farm workers a generous cut in the proceeds from the harvest, it has also provided land for migrant farm workers to build their own housing (this is also out of necessity, so that workers can live in the field and tend the crops more closely). The easy availability of “undeveloped land” in the area and the relative tight labour supply (the area has a large minority population, who are less receptive of the idea of becoming hired employees) means that the company has to offer better terms to attract migrant labourers, whose access to entitled collective land at home also serves to strengthen their bargaining power.

Many companies that operate production bases in this form are constrained in a similar way: the large area of land they can gain control of is rarely prime farm land, but reclaimed wasteland of various sorts, located in remote areas, another legacy of China's collective land system. During interviews, company representatives repeatedly stressed that had they had access to better farm land that is not burdened with a population of entitled villagers, they would not have bothered with the wasteland they currently used. When facing the choice of renting collectively owned land and then hiring villagers versus opening up wasteland and hiring migrant labourers, many companies eschewed the former for the complex relations it creates between companies, village authorities, and villagers. From the farm worker's point of view, however, while the company provides job opportunities that would not otherwise exist, their power base is quite constrained, resting in the form of escape clause – the land back home that the worker retains.

Form 5: Proletarian Farm Workers

The final form discussed here that has emerged in China is similar to the previous type, except that the farm workers are landless labourers without major viable alternative livelihoods. The Beigui Coffee Company started off in the 1980s as a TVE under the prefecture Supply and Sales Cooperative (SSC, *gongxiao she* 供销社) in Yunnan's Simao Prefecture (now Pu'er Municipality), and reformed to a stock-holding company in 1998, with the SSC holding the majority stake, and workers each holding shares. Of the 10,000 *mu* base that the company controls, half is rented from farmers and half was previously classified wasteland that the company leased long-term (50 years) from the village collective. The operation involves 2,000 farmers, most of whom are stable farm workers who move their entire families from poor areas, primarily Zhaotong Municipality in northeastern Yunnan, one of China's poorest regions.⁹ However, unlike the previous forms, the company encourages peasants to give up their land rights in their home villages and to obtain a local permanent resident permit, which, however, does not grant them any entitlement to collective land. These relocated migrant workers thus become second-class citizens in their adopted villages – they are

members of the villages, their children can go to local schools, they have most of the political rights of any other villager, but do not have access to collectively-owned land.

This arrangement makes the farm workers closely dependent on the company. Workers can earn income from three sources: first, for each *mu* of coffee shrubs under their cultivation, they earn a labour wage of RMB 15 yuan; second, as a bonus to give workers more incentive, the company also pays a weight-based purchasing fee for the coffee beans workers yield; and third, workers can also earn a picking fee during peak harvesting season if they are hired to do picking for the company. Like Dahongpo, at Beigui, the company also takes total control over the production process. Given the larger size of Beigui (2000 workers in 600 households, compared to 600 workers in 168 households at Dahongpo), the company organizes their production in a three-tiered hierarchy: company – farms – teams. While team leaders are selected from farm workers, managerial staff at the farm level is full-time employees of the company. Overall, the company is supervised with more than 30 salaried staff, managing the production process in a top-down manner.

The company argues that the farmers as a result are far better off than they were. Given that these farmers are from one of China's poorest areas, and that they do migrate to Baoshan voluntarily, that is likely to be true. The company estimates farm workers earn between RMB 20,000-30,000 yuan per household, which is far higher than the net rural income of any county in Zhaotong prefecture. While these poor farm workers likely benefit financially to some degree and even emerge from poverty, in terms of political and social power, they are the weakest among the forms that we have highlighted here. Since land acts as a type of insurance policy on which poor farmers can often fall back as they migrate or take other risks in order to improve their livelihoods, the fact that Beigui asks farmers to switch their household registrations, in effect giving up their rights to land, makes them unusually dependent on the company and base. On the other hand, the company's need to attract farmers to work on the base limits the extent to which they can exploit this dependence.

More interestingly, these migrant farm workers are relocated in villages where farmers have their own land usage rights. Therefore, in that same village, we find two classes of farmers live right next to each other, yet in contrasting conditions. Most of the relocated landless farm workers live at the centre of the village in houses built by Beigui, with some living sparsely in the field – also in company built housing. Other residents, on the other hand, who have become wealthy growing vegetables and other commercial crops, live in self-built houses on their own land, surround by coffee groves. Although these two groups of villagers do socialize with each other, a sense of distinction between the two is palpable through our conversations with both.

3. Agribusiness, Scaling-up and the Modernization of China's Agriculture

In some rural areas in today's China, the central government's vision of a "second leap" into a modern agriculture has become a reality. The household-based, small-holding agricultural production reinstated by the HRS has been transformed into specialized, commercialized, vertically integrated, and larger-scale agriculture that is competitive on export market. Shouguang County in Shandong province, for example, boasts the largest vegetable production base and vegetable trading market in the country, with hundreds of long-haul trucks departing daily to ship vegetables to all corners of the country. The entire county's farmland is fully covered by greenhouses for growing vegetables. Chenggong County in Yunnan, where agriculture has shifted entirely to commercial flower and vegetable production, now houses the largest flower trading and auction market in Asia, ships fresh cut flowers to markets in neighbouring Asian countries as well as the United States, and is projected to become in 10 to 15 years the biggest flower producer and exporter in Asia, if not in the world (Bradsher, 2006).

The diverse ways agribusiness enter agriculture and interact with direct producers, as we documented above, show how distinctive characteristics of China's rural institutions create unique patterns in China's path toward agrarian capitalism. The relationship between

agribusiness – representing capital from local, urban, or even international origins – and direct producers will become the most important relationship in the new scaled-up, vertically integrated, modern agricultural sector and the relationship that shapes China's rural society in coming years. Our research underscores how this relationship is shaped by the system of collective land ownership and individualized land use rights of rural China. This system has proven to be not only adaptable, but in fact, conducive to development of rural markets and agricultural modernization. The separation of individualized land use rights from collective ownership has allowed land rental markets to develop rapidly. Land rental markets then facilitate the circulation of land and consolidation of parcelized land into larger operations, paving the road for scaled-up production needed by agribusiness.

On the other hand, the collective ownership protects agricultural producers – to various degrees – against the domination, exploitation and dispossession by outside capital. Nearly all of the companies that we interviewed expressed a desire to expand their production bases. While China's paradoxical lack of skilled and educated labour constrains to a certain extent the ability of companies to achieve this, the primary barrier to expanding bases is the lack of land – or, put in another way, the difficulty in wresting control over collective land from rural households. In fact, many companies and entrepreneurs that have formed bases have to do so on previously unproductive land that they themselves have opened up. For many companies however, the lack of undeveloped space means that they must expand through using land that is currently farmed by small rural households. In many other countries, in such battles pitting powerful corporations against unorganized small farmers, the rise of agrarian capitalism proceeded in a *Grapes of Wrath* fashion, with capital owners consolidating land through dispossessing smallholding farmers. In China, farmers' protected land rights under the collective ownership provide them nearly the only piece of political power over the companies. As a result, agricultural modernization in rural China so far has progressed in the more equitable ways as we described above and has not created an expanding army of landless vagabonds.

To be sure, there were cases of companies throwing around their political weight. For instance, village collectives can commit farmers to renting out their land to company bases, one pathway (Form 3) to the creation of semi- proletarian farm workers. One entrepreneur used his pull with local authorities to have forested land reclassified as wasteland, allowing him to purchase it from the village and create a privately owned and operated commercial orchard. He then used help from his brother-in-law, who was the village head, to form the base on favourable terms. Despite the use of company power, however, in no case did we encounter land grabs in order to form production bases, even though this would solve the shortage of farmland, a major constraint for companies and entrepreneurs, who would doubtlessly benefit from it. Some companies in Yunnan, unhappy with the restrictions they faced under China's collective land system, have in fact ventured into Laos, Vietnam and Myanmar to acquire land and expand their production.

Over thirty years ago, the Household Responsibility reform established the institution of household-based land use rights under collective ownership, giving Chinese farmers an economically inalienable entitlement to land – a crucial resource that is denied farmers of most other countries. Indeed, this institution was so important and effective in restoring farmers' incentives that within a few short years after the reform started, poverty rates plummeted. Today, even as many farmers turn to – and even prosper from – off-farm jobs, most manoeuvre to maintain their land rights back home, for these rights provide a type of insurance policy that diversifies income and protects against misfortune. However, critics worried that Deng Xiaoping's reforms would permanently condemn China and her farmers to inefficient, low-tech, small-scale, traditional agricultural production. Indeed, these shortcomings of the household responsibility system, together with policy changes unfavourable to the agricultural sector, have resulted in rural stagnation in the 1900s. As a result, the government seeks ways of expanding production through vertical integration and other forms of modernization. At their base, these plans and approaches require an increase in scale of production. In this process, China's central government faced a crucial dilemma: the

productive potential of these small plots of land have apparently been reached, but how to modernize agriculture without taking away farmers' household-based land use rights? This paper has revealed one of China's solutions to this dilemma, one that allows agricultural production to expand and modernize without eliminating the crucial institution that benefited hundreds of millions of farmers. The collective land ownership has proven to be a flexible system that allows agribusiness and scale production to grow through a variety of forms, while maintaining a modicum of rights and material benefits for China's farmers.

Notes

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- ^{*} Dr John A. Donaldson (杜强), Associate Professor of Political Science at the School of Social Sciences, Singapore Management University, studies local rural poverty reduction policies in China, the transformation of China's agrarian system, and central-provincial relations. His research has been published in such journals as *Politics and Society*, *World Development*, *International Studies Quarterly*, *The China Journal* and *The China Quarterly*. His book, *Small works: Poverty and development in southwest China*, came out from Cornell University Press in 2011. John graduated in 2005 from George Washington University in Washington DC with a PhD in political science, focusing on comparative politics and international relations. <Email: jdonaldson@smu.edu.sg>
- ^{**} Dr Qian Forrest Zhang (张谦) is Associate Professor of Sociology at the School of Social Sciences, Singapore Management University. He received his undergraduate training at Fudan University in Shanghai and obtained his PhD in sociology from Yale University in 2004. He has been teaching at Singapore Management University's School of Social Sciences since 2005. His current research focuses on two themes: the fate of petty

commodity production (especially self-employment and family farming) in China's transition to capitalism and the role of family in shaping people's mobility processes. His work on rural China, which documents the rise of agrarian capitalism and analyzes its impact on family farming and the rural social structure, has appeared in the *Journal of Agrarian Change, Politics & Society*, and *The China Journal*. His work on the role of the family in the social mobility processes has been published in the *Journal of Marriage and Family, World Development*, and *Sociology*. <Email: forrestzhang@smu.edu.sg>

1. There are numerous areas in China, especially in wheat growing areas, where mechanized farming still prevails.
2. It is, however, a debatable issue as to whether land consolidation really leads to productivity gains. If farm size increases, but not to the extent of allowing mechanization and not associated with increased labour input, land productivity may actually decline due to reduced per unit labour input and a lower intensity of land-use. Land consolidation has to be carried out in certain specific ways – e.g., moving land to more efficient users – to increase productivity. See Q. Forrest Zhang, “Retreat from equality or advance toward efficiency? Land markets and inequality in rural Zhejiang”, *China Quarterly*, Vol. 195, 2008, pp. 535-557, for a discussion.
3. Throughout this chapter, we use “agricultural modernization”, or “modern agriculture”, to refer to the mode of agricultural production as described by the set of policy goals stated in the above, including specialization, vertical integration, corporatization, commercialization, and large scale. We, however, refrain from making claims about whether this modernized agriculture is necessarily more efficient, which is an empirical question that needs to be answered with data.
4. The scaling up here, however, does not necessarily mean production needs to be done at a supra-household level. It could simply mean more households in a region shift to growing a certain crop, so the scale of production for that crop increases in a region.
5. 1 *mu* 畝 = 0.0667 hectares.
6. A further 40-50 per cent of their production comes from a more formal contract with village governments, Form 3 in our typology. Thus, this case, as with many others, produces through multiple forms.
7. In their survey, Guo, Jolly, and Zhu (2007) found that only 27.3 per cent of contracts in their survey featured a price floor, with 23 per cent based on a fixed price. The remaining 44 per cent of these contracts were based on the market price, offering farmers little protection.

8. This is consistent with a survey conducted by China's Ministry of Agriculture that reveals among the different types of relationships between farmer and firm, the proportion of contract farming relationships dropped from 70.8 per cent to 49.0 per cent. See Niu (2002), also reported in Guo, Jolly, and Zhu (2007).
9. Mr Chen, described above, is an exception, having worked for years for Beigui as a temporary worker.

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Chinese Transformation Policies for 2015 and Beyond: *Quo Vadis?*

Im-Soo Yoo*
Ewha Womans University

Abstract

The year 1949 witnessed the founding of modern China under the leadership of Mao Zedong and the Communists. The nation was unified after a century of humiliation at the hands of the Western powers and after being divided amongst warlords, Communists and Nationalists. Mao began to develop a Chinese version of Communism while implementing key tenets of Marxist theory. These actions included the nationalization of land and property in order to impose collectivization. These policies failed and towards the end of Mao's reign private property was being allowed in small amounts. Deng Xiaoping was the successor to Mao. He pursued a more pragmatic policy in regard to the economy. Special economic zones were created in order to attract foreign investment. When they proved a success, they were extended to the whole country. Profits were allowed in order to motivate people by serving as an incentive for hard work. The country enjoyed success in reforming and opening itself under Deng. The economy was not entirely market-driven but was still planned in order to limit instability in the economic cycle. This hybrid system was the foundation to which China owes its economic success. By 2010, China was home to over 20 per cent of the world's industrial production. The nation had successfully become a strong trading and manufacturing nation and is now striving to become a leading banking nation. Politically, China has a state-managed

political system by which the Communist Party holds power. This authoritarianism was beneficial in facilitating the development of the nation but it also had some drawbacks. These drawbacks include widespread corruption, nepotism, and the concentration of wealth widening the gaps between the haves and have-nots. Societal unrest is always a fear of Chinese leaders and in recent years there has been an upsurge in the number of protests. The vast majority of people have no way of expressing themselves in the current system meaning that protests are there only means of expressing their dissatisfaction. The pro-democracy movement of 1989 was crushed by the army and the next two leaders of China pursued economic growth while keeping the status quo in the political system. The current president of China, Xi Jinping, has established a ten-year plan for China which will continue to develop the nation, while setting a new direction and fighting corruption. Xi, being new blood in the system, is believed by many to have the potential to successfully carry out reforms in China and consolidate its position as a leader in the world.

Keywords: *modern China, Mao Zedong, Deng Xiaoping, Jiang Zemin, Xi Jinping, socialist-market system*

JEL classification: *F59, H11, N35, O11*

1. Introduction

Traditionally, China has been the leading nation of East Asia due to its size, technological innovations and cultural influence vis-à-vis the surrounding areas. Tributary states were established along the borders of China, ideally voluntarily, but military means were sometimes used. This system worked for thousands of years until the 1840s and the Opium Wars. The Opium Wars saw the British projecting their power across the globe to the coastal waters of China. China suffered a series of defeats and was forced into a series of unequal treaties. European powers began to jostle to establish their own enclaves in China in order to preclude any one nation from dominating China. This served as a shock to China as

the nations of Europe had been viewed as nothing more than another group of far-off barbarians.

The “Century of Humiliation” that followed did not end until 1949 when Mao Zedong 毛泽东 reunified China, save for Taiwan, under the leadership of the Communist Party. The number-one priority became to rebuild China to a preeminent status in East Asia. To this end, he set off the Great Leap Forward and the Cultural Revolution which actually served to retard or even reverse China’s development. Following the death of Mao, a series of more pragmatic leaders came to power. The first such leader was Deng Xiaoping 邓小平. Under him, the Chinese economy was opened up to foreign investors and state controls were loosened. This set China on a course which has transformed the nation in 30 years from an economic backwater into a country possessing the second largest economy in the world. His successors stayed the course of pursuing economic growth over other considerations. The transition of leadership from generation to generation has also become a smoother process as factional fighting has been kept to a minimum. This is in contrast to the struggles following the death of Mao in which the Gang of Four came to power, only to be removed by the more pragmatic leaders in the Chinese Communist Party (CCP).

This paper has four subjects which will be explored in order to better understand where China has been and where it is likely to be heading to. First, it is aimed at reviewing the historical background of China and the current events in China. Next, the political leadership since 1945 and their policies will be reviewed. Furthermore, China’s role in East Asia and the globe will be looked at because as a G2 power, the clout of China in these areas is important to take into consideration. Lastly, the obstacles faced by China as well as its potential to achieve its goals will be examined.

The question on many people’s minds is whether the hybrid system of the economy can be maintained; or if, as many in the West suspect, economic gains will lead to an increasing movement towards democracy.

2. Brief Summary of Chinese Political Leadership since 1945

Geo-politically China is an enormous nation with a wide range of climates and terrains. It has traditionally dominated neighboring nations and forced them into subservient relationships. This, when coupled with the fact that it has one of the longest recorded histories in the world, gave rise to the view within China as it being the center of the world. The Han 漢 Chinese are a proud people and their history is too long to summarize here. Instead, we will briefly look at Chinese leadership since 1945.

The year 1945 witnessed the defeat of Japan and the resumption of the Chinese Civil War. Communist forces quickly gained the upper hand and forced the Nationalists under Chiang Kai-shek 蔣介石 to retreat to Taiwan. Mao, the leader of the Communist Party, inherited a China which was desolated after years of instability, foreign invasions and Civil War. Mao quickly turned to the Union of Soviet Socialist Republics (USSR) for support as he had no choice since the Soviet Union was the preeminent Communist power and China was in desperate need of financial aid and diplomatic support. Despite the Soviet wish for uniformity, Mao changed Communist doctrine by giving it some unique Chinese characteristics.

Under Mao, China underwent a series of trial-and-error projects from 1949 to the 1960s as the nation sought to develop itself. Power was supposedly diffused through individuals and governmental bodies but in reality it was concentrated in the hands of a few key individuals. The economy followed traditional Communist doctrine of being centrally planned while private property was abolished. The result was a primitive social life with a plethora of hungry people and some were even dying from starvation. Despite the situation, Chinese rhetoric mirrored that of the Soviet Union and claimed that China would soon surpass the United States.¹

By the later part of the 1950s and early 1960s, public discontent was beginning to build and directed at Mao due to the failure of his policies. In order to reestablish his position as the preeminent leader of China, he launched the Cultural Revolution in 1966, claiming that revolution was not yet finished and was in danger due to the actions of counter-

revolutionaries. He called upon the youth of the nation to finish the job he had started and to ferret out counter-revolutionaries, capitalists, traditionalists and other enemies of the state. Supposedly classes had been abolished but they were once again coming into being which threatened the revolution. His political opponents were mostly either purged from power or forced to flee abroad. One leader who was purged was Deng Xiaoping. To his supporters, such as Zhou Enlai 周恩来, Mao gave favor, political power and riches. Hua Guofeng 华国锋, a diehard Mao loyalist, was designated as Mao's eventual successor. He helped to remove the Gang of Four from power and initiated some reforms although he maintained Maoist leanings. Hua was later forced aside by Deng Xiaoping who initiated a wider range of reforms than he was willing to implement. One positive outcome of Hua's time as leader was that the losers in power struggles would be stripped of political power but would not be subjected to imprisonment, harassment or torture.

Deng Xiaoping was a close associate of Mao but criticized some aspects of Mao's agenda. This led to his political exile while Mao remained alive. Deng believed that the political leadership should follow Communism but that the economy and social aspects of society should be pursued in a pragmatic fashion. His philosophy was that it mattered not if the cat was white or black as long as it did its job of catching mice. Upon returning from political exile, he pursued a policy of opening up the economy and looking to the West for development, technology, markets and investments. Internally, he promoted anti-corruption while pushing for advancement in healthcare and technology. Lastly, he strove to achieve a balance between the urban and rural forces of the Chinese society. In his eyes, reform was necessary for economic growth which would in turn ensure social stability. The Cultural Revolution had nearly ripped China apart and he had no desire to see a repeat of this. The first step towards a strong China was for it to undergo industrialization.²

China has traditionally viewed itself as the center of the world. The Yellow River was one area in which civilization began with the advent of the domestication of crops. The nation has a long and proud history which prevented it from recognizing its backwardness in the 1800s. The 19th century saw China exploited by Western nations and later saw large

parts of its lands turned into concession zones. In the aftermath of the Second World War and the conclusion of the Civil War, China underwent a period of rebirth. This rebirth was limited in the sense that all of China was not reunified as the forces of Chiang Kai-shek fled to Taiwan and remain a renegade province in the eyes of Communist-led Beijing. Eventually, mainland China came to represent China in international organizations while moving towards the dream that Mao had for China, making the nation a leader in world affairs.

The Great Leap Forward was the initial domestic program launched by Mao. Its aim was to increase the economic output of China but it failed miserably. People were left poor and starving and industrial production in key industries like steel actually decreased. Birds were not allowed to rest and were harassed by the population as they were accused of eating grains which caused starvation in the land. Small steel furnaces were encouraged to be established in the countryside so peasants could manufacture steel but the end product was of very poor quality. The laurels sung by Mao did not correlate with the results of his policy and people began to turn against his leadership.³

In response to this challenge to his leadership, Mao mobilized the young to carry out the Cultural Revolution. The revolution he claimed was in danger, as reactionaries, capitalists and anti-revolutionaries were re-creating classes within society that he had fought to destroy. Some opponents fled, while others like Deng Xiaoping were exiled into the political wilderness. The father of the current president, Xi, was one such victim. Friends and allies of Mao were benefited by being enriched and gaining power.

In 1964, with the aid of the French and the Soviet Union, China detonated its first atomic bomb which highlighted China's military prowess. This was in part done because China was isolated diplomatically in the world. Its rhetoric continually bashed the USA while a split with the Soviet Union had occurred previously. This isolation was eventually ended when the United States and China began a diplomatic rapprochement as they both feared the USSR. The news that these two former enemies had come together was a diplomatic earthquake.⁴

Deng Xiaopeng had become a political outcast during the years of Mao's rule for his criticisms of the leader. He had not wanted Mao's wife to be accumulating power or be active politically. Deng was a supporter of more liberal-minded CCP members, Hu Yaobang 胡耀邦 and Zhao Ziyang 赵紫阳. The death of Hu helped to spark the Tiananmen Square demonstrations as he was remembered in a positive light by many Chinese citizens although he had been stripped of power because of his pro-democracy views shortly before his death. Zhao Ziyang was promoted to General Secretary following Hu's dismissal. He was against the decision to send the army against the Tiananmen Square demonstrators and was prepared to make concessions to the protesters. He felt the nation had advanced enough economically for it to be able to handle the transition to democracy. However, Deng, still the paramount holder of power, caved in to conservative pressures. He felt it was too early for democratic reforms and sent in the army to disperse the protesters. His erstwhile protégés were removed and forced to retire from politics. Despite being removed from history books and wiped out from memories in China, they have not been forgotten as many people in mainland China and the people of Taiwan and Hong Kong still remember them fondly for their pro-democracy views.⁵

Deng believed that continued economic growth was necessary before an experiment with democracy could begin. He viewed democracy as a threat to the progress Chinese society had achieved as it could unleash the forces of chaos. In pursuit of his pragmatic policy, he established special economic zones in the south of China where foreign investors could operate and establish modern factories. These initial zones proved a success and from there they spread to encompass the entire country. As Mao was revered as the father of the country, Deng came to be revered as the father of China's economic miracle.

In 1989, Jiang Zemin 江泽民 became the leader of China. Under his guidance, relations were established with South Korea. South Korea was by then a leading economic power with a modern industrial base which would serve to boost and modernize the Chinese economy. South Korea was attracted to China because of its vast market and in order to gain access, it severed ties with Taiwan with whom it had previously viewed

as the genuine representative of China. Relations with South Korea were viewed by China as being productive and mutually beneficial as compared to relations with North Korea which were seen as parasitic. However, the North did serve a useful purpose as a buffer zone between the American-aligned South Korea and China proper. One of his most successful acts during his time in power were the successful negotiations with Portugal and the United Kingdom over the issue of the eventual return of Macao and Hong Kong to China.⁶

Jiang was largely viewed as a status quo ruler. He lacked big ideas of Deng or Mao but would rather carried out the course of economic development as laid out by Deng. To this end, he sought to maintain close relations with the USA as a means of gaining access to newer technology. Stability was maintained to the best of his abilities in order to encourage economic growth. Problems which did flare up, such as the US bombing of the Chinese embassy in Belgrade, he handled by playing a hard-line to domestic audiences while diplomatically doing very little.⁷

Following his retirement from power, authority passed on to Hu Jintao 胡锦涛 and Wen Jiabao 温家宝. These two men were the leaders of China from 2002-2012. Both men were conservatives and did not wish to chart new courses but rather believed that China should bide its time, increase its power and then throw its weight around when participating in world affairs. An example of throwing its weight around could be seen in China's decision to curtail the exports of rare earth metals which were needed by Japan for the manufacturing process in advanced electronic goods and automobile parts. Under their leadership, the 12th economic plan for China was unveiled. It also placed an emphasis on stability. The Beijing Olympics went off without a hitch on their watch which served as a sort of coming-out party for China to let the world know that China was a key player. Abroad, they supported developing nations as a way to increase China's influence around the world through financial aid. The 2008 Financial Crisis was largely avoided by China and served to upgrade the reputation of China in the world. China emerged unscathed while the Western style of capitalism came to the point of near collapse. Foreign currency reserves were greatly increased during their reign. Territorial issues flared up with

many of China's neighbors over the issue of Chinese claims for sole dominion over large swathes of the South China Sea. The dispute with Japan over the issue of the Senkaku Islands (尖閣諸島), which the Chinese call Diaoyutai (釣魚台列嶼), was particularly intense as China demanded Japan to return the islands. The issue remains contentious but recently diplomatic efforts were made to freeze the situation until a later date.⁸

In 2013, a transfer in power occurred in China as Xi Jinping 习近平 became the new president with his first term to end in 2018. As his predecessors have served two terms before retiring, it is likely that he will do the same and remain in power until 2023. His initial two years in power saw him pursuing an anti-corruption campaign which many saw as a means of purging opponents and consolidating his rule by replacing dismissed opponents with his own supporters. The first two years following President Xi's ascension to power were devoted to anti-corruption efforts. He is now entering the 3rd year of his initial 5-year term and his goal will be to realize his "China Dream".

To this end, he has a series of smaller projects which will help realize this objective. First, those officials who were removed from power for corruption were replaced with his own supporters. Next, a 10-year development plan for China was developed during his first two years in office which will begin to be implemented this year. This plan calls for the transition from extensive to intensive growth which will be in a large part driven by R&D. Domestic consumption will be encouraged instead of simply exporting goods abroad. State-owned companies will be privatized and encouraged to bring in foreign expertise to increase their efficiency. During the period of 10% growth per annum, the income gap in China exploded. As the growth rate slows to a more modest 5-6%, then the income gap will be addressed by the establishment of a social safety net and increasing governmental participation in education, healthcare whereby each citizen will be guaranteed a certain standard of living.⁹

If his domestic policy goals are successful in stabilizing the Chinese economy, then China will be in a position to play a larger role in world affairs. China has had a permanent seat on the UN Security Council

since the organization's inception. Now China is in a position to be active and influential in world affairs because of its economic clout. The paramount position of the United States is not sustainable as China and other nations in the world continue their path of economic development. It will be necessary for the 5 permanent members of the Security Council, and other leading nations, to work together to address global issues in a constructive manner rather than always being on opposite sides of the fence. As China has benefitted greatly in the last few decades, it is necessary for the nation to extend aid forth to other developing nations of the world and help fund aid programs. Developing nations should not be viewed as markets for their products to be dumped in or as simply sources of raw materials. As the largest nation in East Asia, China has a responsibility to resolve its numerous territorial disputes through arbitration and dialogue. Lastly, China should begin to respect human rights and democracy. As a strong rich nation, it is an appropriate time to begin transforming its political system.¹⁰

3. Internal Policies

The years 2012-2013 witnessed the changing of political leadership in China as the reins of power were handed over to President Xi and Prime Minister Li Keqiang 李克强 from the former leaders, President Hu and Prime Minister Wen. Of central importance in this transitioning of power was the peaceful nature of the process. It stood in stark contrast to the fight for power that occurred after the death of Mao. Mao's widow and her associates, the so called "Gang of Four", attempted to hold onto power. However, shortly after the death of Mao they were ousted from power and thrown into jail.

Under the leadership of President Hu (2002-2012), the economy thrived. He pursued a policy of economic openness in order to attract foreign capital. Their policies were a success in that they maintained a high rate of economic growth, despite the 2008 Global Financial Crisis, but their policies did have some negative side effects. For one, the benefits of economic growth were largely skewed against those at the bottom rungs of Chinese society. Furthermore, those in the hierarchy of

Chinese businesses and the CCP were largely viewed as abusing their privileged positions to enrich themselves via corruption. The number of citizens who were unhappy over a plethora of issues increased. These issues ranged from the price of housing, pollution, schools, high inflation, and more. The end result was an increased amount of unrest and anti-government protests. For these reasons, the 12th five-year economic plan enjoyed mixed results, though still allowed Hu and Wen to hand over power to their successors with no major issues.¹¹

Xi and Li were handed power in March 2013. The two held their own vision for the future of China and began to implement it upon their consolidation of power. Their vision looks forward far into the future to a Great China which will remain under the enlightened leadership of the Communist Party. Despite some who call for democracy, the CCP maintains that democracy in the Western style is unneeded as it would lead to social upheaval. In lieu of democracy, the CCP will continue to exercise control over China for the betterment of all. Diplomatically, China should pursue a course of being friendly with nations all over the world while forgoing the use of the different aspects of its power in relations with smaller nations. To increase its soft power in the world, China will continue to establish Confucian Institutes all over the world. The hope is to spread knowledge of the Chinese language, culture and art. Whether these goals are realized or not depends upon the leadership of China in the coming years. The potential to reach these goals is higher now than 10 years ago. China has reached the position of being number two in the world economically; its military has increased in scope and power while the government has absorbed lessons from the various crises that have rocked the world.¹²

A continuing stumbling block in the realization of the stated goals in the next 10 years is the threat of corruption. Corruption is a major issue in many Asian countries. Due to the size of China, corruption continues to be a prevailing source of discourse within the country. It is serving as a drag on the Chinese economy which until vanquished will serve to prevent the Chinese economy from reaching its full potential. Corruption has become prevalent at every level of the Chinese society, from the lowest levels of local government all the way to the highest echelons,

affecting newly made CCP members as well as the so called “princelings” – children of important CCP members. Xi and Li have promised to tackle the issue without regard of a person’s connections or the scale in which they engaged in corruption. The so-called flies and tigers and everything in between will be pursued in the efforts to stamp out corruption. Many observers, both those within China and those abroad, take these proclaimed efforts with a little bit of doubt. Corruption has become so ingrained within Chinese society that many view this as just an attack on the surface while the underlying root of the problem will be ignored. Only time will tell if the Chinese leadership is genuine in its efforts to stamp out corruption.¹³

Chinese government officials believe that the Chinese economy cannot survive unless the government and people act in unison in pursuing growth while also pursuing the stamping out of corruption. President Xi has enjoyed a wide level of support within Chinese society due to his anti-corruption efforts. He has been true to his word in that he has pursued corruption at all levels of society and around 300 high ranking officials have been sentenced to imprisonment for corruption. Some cynics maintain that the pursuit of corruption charges against high ranking officials is nothing but a self-serving ploy. They maintain that it serves to increase President Xi’s popularity amongst the masses while removing political rivals from the scene and cowing others into subservience due to their fear of facing similar charges.¹⁴

The political leadership understands that today, China faces a different domestic and international environment than a decade previously. The Chinese people believe themselves entitled to the lifestyles of a middle-income country but the country finds itself facing the so-called middle-income trap. Chinese companies, being mainly state-run, find themselves having to evolve in order to be competitive in the world economy. One of the most crucial challenges will be adapting to a lower level of growth which will become the new normal. A decade ago, growth rates of 10% were expected while now a yearly growth rate amounting to 6-7% is anticipated. As an economy grows and develops, the pace of growth will naturally decrease. After three decades of phenomenal growth, the Chinese economy can no longer maintain such

levels. The current 6-7% growth rate will drop further in the coming years. It should be noted that the actual Chinese growth rates have been in dispute as many do not trust figures issued by the government.

The 13th five-year economic plan will commence in 2015 and will end in 2020. The targeted growth rate during this time is between a much more modest 5-6% than has been aimed for in previous plans. According to the plan, increasing efficiency will be a priority along with establishing harmony between the economic and social aspects of society. Furthermore, the economy will continue to be pushed further towards embracing the free market and the creation of a social welfare state. To this end, it is imperative for China to increase its tax rate in order to pay for these programs while ensuring that people are in compliance with tax laws. The Chinese leadership has committed itself to focus on quality growth which will be achieved through the restructuring of the economy. This decision is paving the way for the future growth of the economy to be driven by consumer spending rather than by foreign investments.¹⁵

One burden China is facing comes in regards to its military. As China has become the world's second largest economy, it has become necessary for it to invest and upgrade its military capabilities to safeguard its interests. One of its primary concerns is ensuring the flow of oil to it through the Straits of Malacca. To do so requires a hefty investment in its maritime forces and the expansion of its bases. However, this pursuit of military power has resulted in the neighbors of China becoming weary. In turn, they have begun to invest more to upgrade their own capabilities while also beginning to turn towards America due to their fear of China. This in turn has led to the beginning of an arms race which could ultimately be a drag on the potential growth of the Chinese economy as resources are diverted away from more productive undertakings, although a certain level of military spending can be beneficial as it will create jobs and a strong military will give China certain economic benefits.

The new government leaders are hoping that their anti-corruption policy will succeed over the coming years. Once corruption has been curtailed, further economic reforms can be implemented allowing China

to further advance itself to the levels of America and Western Europe. Corruption has served as hindrance to reaching this level. The “China Dream” can only be achieved if the nation is successful in tackling corruption from the highest levels of government and the military down to the lowest levels of local government. It will be hard to overcome corruption within the whole of society. If China deals with its corruption issue during the 13th five-year economic plan, it will be reborn as a strong nation. The fight against corruption is aided by the slowing down of economic growth. Times of high economic growth serves as a breeding ground for corruption but the stage of 10%+ economic growth is coming to an end. This will be the starting point for sweeping reforms across Chinese society.

If this comes to fruition, JP Morgan analysts have predicted that each 1% decrease in the Chinese growth rate will result in a 0.5% lower growth rate in the global economy. China’s exports account for nearly 20% of worldwide exports meaning that China has a great influence on the world economy. China is in the position to increasingly influence the stock and sets the bond markets. Also, China’s impact on nations around the world is increasing as its people are traveling abroad as tourists with money to spend in ever-growing numbers.

Generally, the new Chinese government has the support of the citizens in its anti-corruption efforts. The people are satisfied with the direction Xi is leading the country and his performance in carrying out his plans. This year the government will conclude and examine its 12th five-year economic plan which ran from 2011 to 2015 while drawing lessons from it for the next 13th five-year economic plan which will run from 2016 to 2020. In this paper we will examine the attempts to change the industrial sector and the financial and capital markets along with taxation, and lastly the social sector.¹⁶

In socialist countries with planned economies such as formerly China, the land, companies, buildings, etc. are all owned by the state. Food products and agricultural goods production are determined by the government. This is true except for small private plots of land which belong to the farmer who is able to determine what he will produce and what to do with whatever is grown. In times of good weather, Chinese

farmers are able to produce enough to supply the whole nation. With the money obtained from their agricultural goods, the farmers turn around and purchase manufactured goods from the cities and from abroad. To central planners this is an ideal situation as the agricultural and industrial sectors are complimenting each other in the nation's efforts to enrich itself. However, the reality is different and history has shown that it is not a viable option in the long term. The weather is beyond human control and oftentimes floods, droughts or extreme temperatures destroy crops before they have matured. Also, before the Chinese economy pursued the reforms of Deng Xiaoping, the agricultural sector lagged far behind more advanced countries. Years of Japanese invasion, civil war and a lack of investment in modern techniques ensured that yields were low compared to the nations that employed modern techniques and machinery. To rectify this situation, the Chinese government urged individual farmers to take steps to increase crop yields. China is home to many so-called home-based agricultural companies. These are farmers who have pooled their resources in order to finance the establishment of small-scale food processing plants. The government encouraged this process with tax breaks, land grants and other incentives. In this way, farmers have become more familiar with businesses and their daily operation.

Industry has been emphasized in China as it is a stronger driver of economic growth than an agriculture-based economy. In socialist countries, heavy industries were initially pushed for in lieu of light industries. These countries felt themselves to be under siege from the capitalist countries. Heavy industry would provide them with the means of manufacturing weapons and having an army capable of deterring foreign attacks. However, this precluded the development of light industries and the accompanying consumer goods. This impacts the living standards for the average person in such countries which were much lower than would otherwise be the case. Also, the system would be unsustainable as the people would not be satisfied due to the lack of consumer goods. To overcome this problem, China introduced foreign capital, technology and management techniques to promote the development of Chinese industries. Foreign companies were attracted to

the vast market represented by China and the accompanying low wages. The creation of jointly owned companies saw the rapid growth of business know-how, the establishment of light industries which had previously been neglected and increased efficiency of heavy industries.

It is my position that Chinese companies that are in state hands should be restructured along the lines of foreign companies in order to remain competitive. By doing so, the companies will learn while also paying taxes and keeping the unemployment rate low. This is crucial for the maintenance of social stability. The final result of foreign investment is that ownership is transferred from state hands to private hands in a gradual process. In this process, the banking, insurance and capital markets are slowly transformed through mergers and acquisitions as they are transferred to private hands but the ultimate power continues to be in state hands.

The industrial development of China began at the lower rung of textiles and footwear. From there it branched upwards to radios, televisions, telephones and more. It has reached the point where China is manufacturing cars, steel, ships, iron, satellites and other advanced products. Now, China is world-renowned for its manufacturing process of everything from computers to satellites, from rifles to missiles. The speed at which China jumped from manufacturing textiles to missiles was a truly stunning achievement. This achievement was in a large part due to industrial espionage abroad and amongst companies that established facilities within China. The new government in China is trying to develop information communication technologies which are applicable to every industry across the spectrum. China's dream is to reach such a level of development that other countries will not be able to follow in its footsteps. Therefore, China is focusing many of its resources and personnel on achieving the goals laid down in the 13th economic plan. China needs its people to reach their full potential for it to have a shot.¹⁷

The initial basis for economic growth is agricultural. Once agriculture is established and operating efficiently, it becomes necessary to tax it in order to finance industrialization. China has done this but part of its agricultural system remains in state hands. The state should

continue to devolve the land and decision-making powers to farmers who can run the lands as they see fit. In such a way, farmers will modernize their agricultural techniques as they will have a monetary incentive to do so.¹⁸

Large industries and banks within China are in the hands of the state. Such industries owned by the state include automobiles, steel, energy and more. The state provides labor and materials and in turn the company runs the production. Tycoons affiliated with the Communist Party run these companies and in turn enrich themselves via the company. Usually, there are no profits but rather deficits which the government must cover. Individuals have no incentive to work hard or make the company profitable as they know the government will bail them out. Whatever profits made are seized by the government as a form of tax leaving such companies little incentive to be productive. Medium-sized companies are also partly owned by the state. Deficits like for banks and large companies are covered by the local banks which in turn borrow from the Central Bank. In this way, banks and companies have no way of improving themselves or ever being competitive in the world market.¹⁹

The banking sector is likewise a mixture of private and state ownership. There is no efficiency in the decision-making process and banks are reliant upon the government in times of need. Loans are provided to people with *guanxi* 关系 or connections rather than on a needs and merit basis. Rich people and companies are colluding with bank workers in an effort to make money. This is being done through the charging of higher interest rates to average people. Those companies or individuals who take large amounts of loans on a regular basis are able to secure a more favorable interest rate at the expense of the casual loan user. Due to the inability of many regular people to obtain loans from banks, they must turn to private individuals. Such individuals charge exorbitant rates of interest making it difficult for these people to come out of debt. The people find themselves in such a cycle of poverty that they give up the will to work as they work hard but have nothing to show for it. In turn, they turn anti-government and demand the government to reform the banking system in order to protect themselves

and people in similar situations. The government has so far begun to reform the banking sector. The goal is to ease the process by which regular people can use the banking system instead of turning to illegal money lenders. Interest rates should be able to be lowered as corruption and the inefficiency that causes high rates will have been tackled. Financial technologies should also be introduced which will further increase efficiency and lower costs for all. President Xi should clamp down on these illegitimate banking practices.²⁰

The government needs to exit from the banking industry by gradually lowering its percentages of ownership in banks. Once banks are more in private hands, the greater the chance they will have for turning a profit as loans will be provided on a merit and needs basis rather than on connections. When banks are profitable, they will be able to contribute to Chinese state coffers instead of being a drain. The economy will benefit when banks and businesses operate according to market principles and react to the market. When they are operating smoothly, foreign investors will be attracted who will bring along the most up-to-date technologies and modern management techniques. As companies grow and expand, they will in turn require more workers who will receive pay. This pay will be taxed, spent and invested in companies via stock which is a boon for all.

Banks and industries that have partnered with Western firms have seen a significant development. They pay taxes instead of receiving subsidies which allows the government to pay off the national debt. Management should be open-minded to adopting foreign management techniques while encouraging their workers to be creative in how they approach problems. The Chinese people are innovative and with privatization, their creativity can be released. When all this is done, the Chinese people can enhance their banking and other industries as a key source of government income. Central and local governments will plan the next year's budgets and projects based on this year's revenues. The development and strengthening of the state is dependent upon many things, namely the military, improved education, the creation of a social safety net, economic development and more. The cost to cover these should be obtained from taxes on the newly privatized banks, companies

and farmers. Expenditures and income should be balanced as reforms take hold. The future development of China is contingent upon this.²¹

The monetary policy of China is directed by the Central Bank. It also creates and enforces rules and regulations that apply to the banking system at large. The Central Bank also has control over the money supply which flows to the five major state-owned banks. These five banks include trade, agriculture, construction, industry and people's banks. These banks in turns loan money out to the smaller commercial banks that focus on the similar field. In general, the Chinese government is supporting all efforts to modernize, increase efficiency and allow its citizens greater access to banking services. Ultimately, the goal is to drive out business loan sharks by making banking services easily accessible. When the Chinese banking system is modernized, it will attract foreigners who will encourage partnerships with foreign banks while also giving the Chinese people lower interest rates.

Once the banking system is functioning more smoothly domestically, it is natural for the Chinese renminbi 人民币 (RMB) to stabilize in relation to other currencies. In the early days of its modernization, China fixed its currency to the US dollar. With the explosion of Chinese exports and the influx of dollars into China, it became no longer viable to peg the RMB to the dollar. The RMB became the world's 5th largest trade currency. This, when coupled with American pressures to let the RMB float freely, saw the Chinese allowing the RMB more room to float against the dollar according to what the markets dictate. The more China obtains money from exports and foreign investments, it will result in the appreciation of the RMB. Ten years ago, RMB 8.1 yuan 元 was equivalent to USD 1 while now it is RMB 6.1 yuan to the dollar. However, it is doubtful whether the RMB will ever float freely as an artificially low RMB ensures China a favorable trade surplus.²²

China has run a large trade surplus for many years which is in a large part due to the artificially low rate it has kept the RMB. These surpluses have been used by China in a number of ways. For one, China has invested in high-tech manufacturing in order to move towards the top tier of manufacturing while leaving the lower end to the other

developing countries. Western nations have demanded that China allow the RMB to rise in value against their currencies as they believe the RMB to have been kept valued at an artificially low rate. In 2001, China joined the World Trade Organization (WTO) and was no longer in a position to completely ignore demands for its currency to appreciate. The RMB remains pegged to the dollar and it is underappreciated in value. As a token gesture, the RMB has been given small amounts of room to appreciate against the dollar. However, at the end of the day the RMB remains artificially low and still pegged to the dollar. As long as China continues to buy US Treasury Bonds, the RMB will remain low.

In 2005, China began to gradually allow some fluctuation in the exchange system. Central to this effort was the so called multi-currency basket system. In this system, the major trading partners of China had their currencies in RMB. Foreign currencies were allowed to fluctuate at rates between 1 to 2% against the RMB providing China with a more stable currency and placating its critics. In May of 2007, a greater range in the area of 0.3-0.5% was given to the RMB to float against foreign currencies. April 2012 saw this further increased with another 0.5-1.0% bump.²³

Despite these increases in value, China still runs a large trade surplus along with its accumulated foreign reserves. In 2012, it ran a trade surplus of over one trillion dollars. To use these funds, China began to lend money to developing nations that were running trade deficits. By doing so, China increased its influence in these countries while also keeping the RMB from rising too high too fast. Also, it has sought to increase its stake in international organizations like the International Monetary Fund (IMF) and the Asian Development Bank (ABD). Once it has higher stakes in the said organizations, it will have a larger influence in world affairs. The USA and other Western nations have opposed China in these endeavors. Western nations continue to demand that the market be allowed to play the determining role in identifying the RMB's value against their own currencies. The gradual rise favored by China will only placate its critics for only so long.²⁴

President Xi introduced the 13th five-year economic plan for China shortly after coming to office. He has deemed reform necessary to

establish China as a strong financial nation, comparable to that of the United States. If the plan fails, the Chinese economy will slow and be accompanied by high inflation. The CCP would fear this situation as it could become the new normal which would threaten the social stability that the CCP values so much. A transformation of the economy in China is dependent upon its political leaders and any hope for a Hong Kong-style democracy in the future is reliant upon this successful transition. The international economic environment is looking conducive to China's economic plan as the US economy appears to be gaining steam while the worst of the EU debt crisis appears to have been left behind. If and when China succeeds in this 13th economic plan of modernizing its financial sector and implementing economic reforms, it will set the way for the effective future development of the Chinese economy to the next level.

When the Chinese foreign exchange market is functioning smoothly, the Chinese capital market will have a strong foundation on which to develop. The capital market is the combination of the banking and financial institutions coupled with the foreign exchange and stock market. When more companies issue stocks and the government issues more bonds, investors will have a chance to earn money through the buying and selling of stocks and bonds. The volume of the Chinese capital market will increase in this manner. This will provide a better chance for investors and for companies to obtain funding. The Chinese government has supported the Chinese market as it has expanded and linked to other world markets. The capital market cannot develop unless the money and foreign exchange markets are working together in tandem in a mutually supporting fashion. Traditionally money markets are simple but they have become increasingly complex in recent times due to the advent of the financial technology systems. These systems were pioneered in advanced nations but the rest of the world is following behind and imitating these advances.²⁵

4. Foreign Policy

China is one of the largest countries in the world with a multitude of different peoples, religions and languages. China is dominated by the Han majority who account for over 90% of the population. There are many minorities within China but the two notable ones are the Uighurs – a Muslim Turkic people inhabiting the far western province of Xinjiang – and the Tibetan people who are Buddhists. The French President G. Pompidou visited Mao during the 1970s. During the course of the visit, the French leader lamented that it was difficult to lead France as there were more than 200 different types of local cheeses. Mao replied that it was much more difficult to govern China with its population approaching one billion people. However, despite the difficulties, the Chinese leadership believed that they would succeed as they were responsive to the wishes of the Chinese people. Mao saw his role as building up within China a common system of values – a premise of governing which became known as Maoism.²⁶

The minority groups within China inhabit poorer regions and have not benefited as much from China's explosive economic growth. The government has attempted to buy the loyalty, or at least acquiescence of minority groups by being very generous with financial aid. Furthermore, these remote areas inhabited by minorities have been flooded with Han Chinese in an attempt by the government to put a very loyal people into zones of questionable loyalty. As China succeeded in making the Mongol people a minority in Inner Mongolia, so now it is trying in Xinjiang and Tibet respectively. One assimilation technique being used in Xinjiang is the providing of financial incentives to encourage intermarriage between Uighurs and Han Chinese.

Another special case in current Chinese affairs is the issue of Taiwan. Taiwan did not become a part of China until the Ch'ing (Qing) 清 Dynasty in the late 1600s before it was seized by Japan in the 1890s. It remained a part of Japan until the end of the Second World War at which point it became a refuge for the retreating armies of Chiang Kai-shek and the Nationalists. Following this, the US positioned its 7th Fleet to prevent the invasion of Taiwan by mainland China. Ever since, the issue has served as a hindrance to relations between China and the USA.

The USA insists that there is one China but two different systems. It holds that the issue between Taiwan and mainland China should be settled through dialogue and not force. If mainland China were to use force to incorporate Taiwan, then the USA would oppose such a move militarily. In the following paragraph, we will look at the parts of China that were recently returned after being seized during colonial times, namely Macau and Hong Kong.²⁷

During the 1990s Macau and Hong Kong were returned to China after being ruled by Portugal and the United Kingdom respectively. The United Kingdom returned Hong Kong to China with certain strings attached (and the return of Macau followed more or less the same formula). For one, Beijing must give Hong Kong a 50-year period of autonomy. The people of Hong Kong would have the right to have free elections where they could choose their own leaders. However, the Chinese leaders in Beijing fear this and have begun to infringe upon these elections. Candidates for the leadership position in Hong Kong must be pre-approved by the Beijing government because it is Chinese territory and they have no wish to see the idea of full-fledged democracy operating within China for fear it might gain attraction throughout the country.²⁸

4.1. China, Russia and the SCO

After the death of Mao and the overthrow of the Gang of Four, Deng Xiaoping came to power. He had a vision for China that consisted of two principles. Firstly, China should focus on building up its strength and becoming rich. Secondly, China would be in a position to play a more significant role in world affairs, once the first goal was achieved through a gradual process. With its strong economic base being the second largest economy in the world, China is now strengthening its military.

China and Russia, two continent-sized countries, are working together again as in the 1950s before they had a falling out. Together, they created the Shanghai Cooperation Organization (SCO), after the fall of the Soviet Union, which includes the former Soviet Central Asian states as members. Besides China and Russia, two of the most significant states related to this are Iran and India although they are not

full members but rather observers. The organization serves as a counterweight to the Western power which increased greatly after the fall of the Soviet Union. The organization cooperates on a large number of issues, such as resources, infrastructure, and technological, military and civil issues etc.²⁹

China, Russia and many of the former Soviet states in Central Asia formed this SCO in 1996. After the dissolution of the Soviet Union, 15 smaller nations emerged from the rubble. While some nations joined the European Union (EU) and the North Atlantic Treaty Organization (NATO), some others joined with Russia and China in creating the SCO which was opposed to Western preponderance. The SCO aimed to build up the strength of member nations while encouraging cooperation in terms of defense, energy, etc.³⁰

4.2. China-ASEAN Relations

After the Second World War, America found itself in a dominant position in Southeast Asia. It sought to limit Communist influence in the area and became involved militarily, politically and economically by doing so. Due to the growth of the Chinese economy, China now finds itself in a position to play a bigger role throughout surrounding regions. Now we turn to examine the relationship between China and the members of the Association of Southeast Asian Nations (ASEAN). Historically, these nations were under the shadow of the Chinese empire while they have also been host to sizeable communities of overseas Chinese. ASEAN was originally founded by 6 nations in the early 1960s. Later, four nations joined giving us the 10 ASEAN members we know today. When originally the members of ASEAN were limited to six, the organization had an anti-Communist streak. Then, following the end of the Vietnam War, this stance was dropped and Vietnam along with Cambodia, Laos and Burma were allowed to enter ASEAN. These latecomers were mostly rather underdeveloped as compared to the founding members. Despite the differences in development, the commitment amongst the nations to cooperation remains strong and this commitment is evident in the large number of diverse issues the nations have agreed on to jointly act upon. In 2005, the members of ASEAN agreed to build up the Asian

Economic Community by 2015. The plan called for the elimination of tariffs, increased trade, joint infrastructural development and more. This year ASEAN will come to be under the leadership of Prime Minister Najib of Malaysia who will examine the results of the past decade and create a new plan for the following decade. The next decade will see the widening and deepening of cooperation that has already been established.³¹

The model provided by the integration of the EU is unattractive for these Southeast Asian nations which instead have preferred to follow their own unique path, the ASEAN way. The group will forge its own path as it steps into the future. The primary concern amongst the members is that of sovereignty. There is a fear that one nation might come to dominate ASEAN so each nation is keen on keeping its own currency, flag and the right to make important decisions on its own. The ideal situation would be one where the group maintains strong bonds and links with each other while retaining their unique separate identities.³²

The 1997 Financial Crisis had a great impact within the nations of ASEAN and nearby areas. To prevent or curtail the effects of another crisis in the future, the members of ASEAN increased cooperation in regard to monetary issues with the nations of Northeast Asia: Japan, South Korea and China. These three nations now attend ASEAN meetings and observe while participating albeit not as full members. One product of this increased cooperation was the establishment of currency swap agreements. These agreements see the rich nations of Northeast Asia cover the deficits of ASEAN members when they are in need of foreign currency. Another area of cooperation between ASEAN and the nations of Northeast Asia is trade. ASEAN as a whole has successfully negotiated symbolic free trade agreements with Japan, China and South Korea as a show of unity. However, for practical purposes, it is necessary for the members of ASEAN to negotiate bilaterally with the nations of Northeast Asia to establish free trade agreements. Trade volume has been increasing steadily and investments have been flowing from Northeast Asia to the members of ASEAN.³³

The Asia-Pacific area is the most dynamic economic zone on the planet due to its size, resources and population. Its wealth is attractive to

both the United States and China. The two nations find themselves battling for influence within the region via competing free trade zones, investments along with capital and technological movement. The Chinese free trade zone is named the Regional Comprehensive Economic Partnership (RCEP) and currently consists of 16 members. The US initiative is named the Trans-Pacific Partnership or TPP for short and has 4 current members and six more nations are in negotiations to join. To be eligible for membership, a country must respect human rights while this is not the case for the RCEP to which China is a member. In principal, Japan has agreed to join the TPP but there are roadblocks in the negotiating process. Japan does not wish to see itself forced to accept American agricultural products while it is also against South Korean membership in the pact. Japan views South Korea as an economic rival and would rather be the manufacturing supplier for the rest of the TPP members instead of competing for business against South Korea. Despite Japanese opposition, America has encouraged the aspirations of South Korea to join the TPP. Negotiations with both countries are ongoing and a final decision has yet to be reached.³⁴

China is a large country and wishes to keep the South China Sea as its exclusive zone regardless of other nations bordering the sea and their competing claims. For example, Japan claims the Senkaku (Diaoyutai) Islands which are located between China and Japan. In the south, China finds itself in disputes with Vietnam, the Philippines and other countries. These disputes were initiated by China as it grew more assertive and sought the establishment of military bases in the region. The idea being that these bases would allow China to break the American encirclement, the so-called first and second island chains.

Before China can take a leading role in world affairs, it must attend to matters in its immediate surroundings. This is why its focus is on Southeast Asia and the members of ASEAN. Many ASEAN countries are host to large Chinese minorities who have lived there for quite some time. These Chinese minorities are usually key players in the economies making these nations an attractive investment zone for China. China has launched an influence campaign aimed at building up the railway system in the Greater Mekong Sub-region. The goal is to send out railway lines

that will connect neighboring nations to China, making it the center of the region as it was in older times. To finance these projects, the Asian Infrastructure Investment Bank is in the process of being founded by China and associated states in the region.³⁵ On the other hand, during 2005 ASEAN decided to build the Asian Economic Community and this dream will be realized this year.³⁶

4.3. Sino-Korean Relations

China and Korea have historically had a long and varied relation. China has had a great influence on Korea due to their close proximity and historical ties. Traditionally, Korea has served as the invasion route of Japan to China and vice versa. With the end of the Cold War, South Korea and China established diplomatic relations for the first time in 1992. During the Cold War, China had acted as benefactor, protector and big brother to North Korea. However, in the post-Cold War era, the dynamic South Korean economy became attractive to China who saw a way to further modernize and develop its economy. Despite these improved relations, China was still weary of the American presence in South Korea and was eager to keep North Korea as a buffer zone.³⁷

The key issue now in Korean relations is the prospect of reunification. It is generally accepted to be only a matter of time before reunification occurs. To have a smooth process, it is necessary for South Korea to gain the acquiescence if not support of the principal parties who would be affected. These nations would be Japan and the USA who are pro-South Korea while Russia and China have traditionally been pro-North Korea. China has provided oil and gas to the North but has recently been cutting back the supplies delivered. Relations between North Korea and China have been strained ever since the ascension of Kim Jong-un 김정은/金正恩 to power. This has caused North Korea to increasingly look towards Russia for support to replace the lack of supplies and political support from China. North Korea is in fear of China for a number of reasons. The Chinese economy has grown hugely in the past decade while that of North Korea has largely been stagnant. The supplies provided by China come at a price and this price is the usage of North Korean ports along the Pacific Ocean which many fear

might become permanent. Also, there is a fear that borderlands between the two will be brought under the control of China.³⁸

While Chinese relations with North Korea have deteriorated, they have improved with South Korea due to economic ties. Furthermore, the South Korean president Park Geun-hye 박근혜/朴槿惠 has sought Chinese permission for the eventual reunification of the two Koreas which will be primarily handled by the Koreans themselves. The US presence in South Korea, which was established permanently after the Korean War would remain in place but would not advance northwards in the event of Korean reunification. President Park has been pressuring China to further curtail its aid shipments to North Korea in order to pressure the North to halt its nuclear program and other provocations. The cost of reunifying the Korean Peninsula would be a staggering sum. The cost would be even greater than that of German reunification as the income discrepancies between North and South Korea are much greater than those between East and West Germany. The North Korean economy should undergo a period of growth in order to narrow the income gap between the two nations which will serve to lessen the burden of reunification in the future.³⁹

South and North Korean relations have been frozen the last few years over the impasse over the sinking of a South Korea naval vessel. The South contends that no dialogue can take place until the North apologizes while the North holds that the sinking had nothing to do with them. North Korea halted the family meetings of those families that have been separated due to the Korean War while the South has suspended economic aid. Tensions have been further raised by the yearly South Korea-US military drills which the North sees as aggressive behavior directed towards them. In retaliation, the North has maintained its military-first policy while flirting with the idea of testing a fourth nuclear bomb with which it threatens to bomb the USA and South Korea.

The South Korean government has proclaimed its intentions to hold dialogue sessions with the North over potential reunification problems. China and neighboring countries know that the eventual reunification of Korea will be a benefit and not a threat. China would gain a dynamic

economy to its south which would be an economic boon instead of an economic drain that China currently faces with North Korea. Bordering regions of China would benefit economically due to their proximity to a newly reunified Korea. When China drops its opposition, South Korea can begin work on reunification in a peaceful environment. A unified Korea would have a much greater economic potential which would be a boom for East Asia and would be amplified throughout the world as East Asia is the leading economic zone of the world. Granted, in the initial period of reunification the nation would actually lose some of its economic power but in the long term the benefits of reunification would become evident. A 21st-Century Silk Road could feasibly be established linking South Korea with Europe. The current environment and its threat of war prevent many companies from investing in North Korea and the region for fear that war would see their investments destroyed. Stability, peace and a construction boom in Northeast Asia is a viable option in the near future in lieu of the current tensions that predominate.⁴⁰

4.4. Sino-Japanese Relations

Japan and China share a long history that has resulted in China having a great influence on Japan culturally. The two nations have alternated between attempts at domination via force to periods of self-imposed isolation. The 1800s saw both nations come into contact with the more advanced nations of the West. Japan opened itself up and began imitating the West which resulted in Japan becoming the preeminent economic and military power in East Asia. On the other hand, China went the opposite route and found solace in its ancient traditions and culture. Japan began a series of wars as it sought domination over East Asia. In 1895 it beat China in a war and seized Taiwan while weakening the Chinese hold on the Korean Peninsula. Into this vacuum moved Russia in the northern part and Japan in the southern part of the peninsula. The Russians rejected a deal offered by Japan to essentially divide the peninsula between the two. The result was the Russo-Japanese War of 1904-1905 which began with a surprise attack by Japan on the Russian fleet in port and an ultimate Japanese victory.⁴¹

The late 1920s saw the Japanese government fall into the hands of militant extremists who began the process of expanding into China. China at the time was in a state of civil war as the Nationalists, Communists and warlords all fought each other. Atrocities were committed regularly by Japanese soldiers against Chinese soldiers and civilians alike. Perhaps the most well-known atrocity was the Rape of Nanking in 1937 where hundreds of thousands of mainly civilians were killed. Such atrocities in China continued until the Japanese were defeated in 1945 at which point the Chinese Civil War resumed in earnest. The Communists won and the Nationalists were forced to flee to Taiwan. At that time Japan recognized the Nationalists in Taiwan due to their new relationship with the United States while refusing to recognize the mainland Communists as the rightful leaders of China. Ever since, relations between the two have been strained. As 2015 marks the 70th anniversary of this war, it is an appropriate time for Japan to apologize again for its past misdeeds. By making a sincere apology, other issues of contention between Japan and China will become easier to solve.⁴²

In a surprise move, President Richard Nixon of the United States established contacts with Mao's China in 1972 although US-China relations were not normalized until 1979. President Nixon's visit to China in February 1972 came as a shock to the Japanese who were upset at not being consulted. Quick to seize the opportunity that was presented, Japan began creating factories and investing in China to take advantage of the low wages and large domestic market. This served to provide Japanese investors with sizable profits. Japanese leaders believed that such a move would not be harmful to their long-term interests as they believed China would be unable to successfully develop itself. This was in part due to the biased view of Japan that the Chinese were lazy and the country was corrupt.

Deng Xiaoping came to power in China in 1978 and instituted a series of changes in the nation. China opened itself up, restructured its economy and began to reform itself in order to help transform the nation into a major power. Money was still the primary interest of Japan so Japan continued to aid in the development of China.⁴³

Hu Jintao became the leader of China in 2007 and his term in office ended in 2012. Hu sought to build up the Chinese economy and military so the nation would be in a strong position to defend itself in any future disputes. He believed China needed to be careful in regard to Japan because of an attack on China's territorial integrity. The event in question was the decision by the Japanese government to purchase the Senkaku Islands. These islands were held by private Japanese citizens but in danger of being bought by the rabidly nationalist mayor of Tokyo. In retaliation to the move, Chinese citizens boycotted Japanese goods while rioters destroyed Japanese products and property. The Chinese government also retaliated by cutting the export to Japan of rare earth metals which were needed by Japanese factories for manufacturing auto parts, lithium ion batteries and other advanced goods. The then Japanese government under Prime Minister Ryūtarō Hashimoto 橋本龍太郎 witnessed relations with China deteriorate and in the latest elections, a nationalist government under Shinzō Abe 安倍晋三 was elected. His focus was the revival of the Japanese economy which would serve to underpin an expanded Japanese military. The new military would be potentially able to conduct missions that were not strictly defensive. The pacifist clause in the Japanese constitution is under attack and might be removed which would free the Japanese military to be more active. Japan's neighbors find such a move alarming as they feel Japan never adequately addressed its behavior during the Second World War.

The 70th anniversary of the Second World War is now approaching. Japan wants to create a new constitution because the current one was forced upon Japan by the occupying military forces of America. It views the constitution as treating Japan as a second-class nation as no other country has pacifist clauses in their constitutions. The history leading up to the Second World War and of the war itself is also being revised by Japanese leaders who are attempting to portray Japan as a hapless victim rather than an aggressor. If the policies of Prime Minister Abe succeed, the Japanese military will become more robust and be able to project power away from the Japanese home islands. In part, this expansion of the Japanese military is due to rising tensions in the area and the continually high military expenditures of China. In response to the

extensive American involvement in the Middle East during the Bush Administration, China began to flex its muscles in East Asia at the expense of its neighbors. The Obama Administration has pivoted USA to Asia and sought to work with the different nations in the region to ensure the status quo.⁴⁴

4.5. Sino-American Relations

America did not begin to have serious relations with China until the 1930s with the onset of Japanese aggression. Previously, its policy had been the so-called Open Door Policy which called for China to be open to business for all powers and that it should not come under the domination of a single colonial power. However, in the 1930s, America began to supply arms to the Nationalist forces as they fought against the Japanese Army and the Communists. The US also began to oppose Japanese military actions diplomatically and economically. With the winding down of the Second World War, President Roosevelt envisioned a larger role for China in world affairs. He believed that China should act as one of the so-called “four policemen” to ensure a peaceful and stable world. However, the ravages of the Japanese conquest and occupation when coupled with the ongoing civil war meant that China was in no position to play such a role. Furthermore, the Communists won the civil war which led to a freezing of relations between America and mainland China as America continued to recognize Kuomintang 國民黨 (Nationalist) government in Taiwan as the rightful ruler of China.

Relations between the two remained tense until the early 1970s when President Nixon traveled to China and established relations. The reason for the sudden warming up of relations was the mutual fear both parties had of the Soviet Union. Relations further expanded and took on new significance with the advent of China as an economic power with the economic reforms which have led the country to become the second largest economy in the world. Relations between the two are of the utmost importance in the world. It is necessary for the two nations to work in tandem to tackle global issues and issues concerning the East Asian region. Ideally, issues of conflict between the two will subside as satisfactory resolutions to disputes are found leading the way for global

issues to be tackled. However, the world is far from perfect and issues between the two will always be present. The goal of the two should be to minimize areas of contention while maximizing areas of cooperation.

The working relationship between the two should be based on respect and as equal partners. Ever since the establishment of relations, China has seen rapid progress in developing itself. As long as the relationship is between equals, a prosperous and peaceful future can be built while smaller issues can be addressed as they arise. There are several large issues which remain between the two. These issues include Chinese claims to the South China Sea and who will lead development in the Third World. One issue of minimal contention but strong positive possibilities is the strengthening of the Asian-Pacific Economic Community (APEC). This will increase economic interdependence while all parties involved will benefit economically. This will help ease the tensions arising from other disputes. ASEAN wants to play the role of mediator between the two nations as the large free trade zone it represents provides a promising economic field of economic cooperation for the largest two economies in the world.⁴⁵

Elsewhere, Cuba represents the last bastion of Communism in the Western Hemisphere. It has long had disputes and issues with the United States. Recently, relations began to thaw during the second term of the Obama Administration with the restoration of economic relations beginning in 2014. Burma, formerly ruled by a military junta aligned with China, has begun the process of opening itself economically and diplomatically to the rest of the world. This has served to lessen its dependence upon China and provide it with alternatives to turn for politically and economically. What should be drawn from these events is that although the ideology of various governments may change, relationships should remain and continue without problems.

4.6. Sino-Latin American Relations

In the 1920s and 1930s, Latin America was a semi-industrialized area. Brazil, Argentina and Chile were all doing quite well. Many immigrants from Europe were attracted to these nations due to their attractiveness and the abundance of resources. The area was exporting raw materials

and agricultural goods while importing finished goods in return. In the 1930s, this region was largely leftist in its leanings. The area has traditionally been seen as the backyard of the USA but the 1960s saw Communist-sponsored guerilla movements which made America redouble in its efforts to dominate the region. Not only were there Communist movements that America was against, but also social movements inspired by the Liberation Theology of left-leaning individuals of the Catholic Church who sought social justice for the poor. The region also became anti-US aid as it was seen as being a tool to promote US domination. This view was supported by the widening gap between Latin America and the USA despite the aid provided by the latter. Likewise, much of Asia was not even semi-industrialized and had been ravaged by war but managed to leapfrog past Latin America by pursuing an export-oriented policy in regard to the United States.⁴⁶

China witnessed its economy booming in the 1980s and this growth gave China a voracious appetite for raw materials. Latin America had an abundance of raw materials, oil, beef, timber, metals and more which China imported for consumption in return for finished goods. China financed the construction of railroads and ports, as well as invested in other projects. The relationship between China and Latin America does not seem to be so different from that between the USA and Latin America. Finished goods are shipped there in return for raw materials and agricultural goods. The Chinese dream is to build up an economic presence in South America based in Cuba and Brazil.⁴⁷

4.7. Sino-African Relations

Africa has long been known to the Chinese, at least since the great exploration voyages of Admiral Cheng Ho/Zheng He 鄭和 in the early 1400s. However, there is evidence that trade relations had been established well before that. Currently, relations between Africa and China are undergoing a drastic change as China's economic clout grows in the 21st century.

Both Africa and China suffered at the hands of Western imperialism. China endured its so-called "century of humiliation" (*bainian guochi* 百年國恥) while almost the entirety of Africa was carved up into colonies

ruled by Europeans. The borders in Africa do not necessarily reflect linguistic or ethnic borders but were rather made out of the convenience for the colonial powers. African colonies and inhabitants were viewed as being in need of White rule as the only way to bring “civilization” to the continent. This negative view of Africans led them to being mistreated while their resources were exploited for the gain of the colonial masters. Little industrial development took place in Africa other than the infrastructure needed to facilitate the transport of resources to the industrial centers of Europe. Decolonization swept through Africa after the Second World War and the high tide was reached in the 1960s.⁴⁸

During the 1950s and 1960s when the Japanese economy was beginning to rebound, it viewed Africa as a source of raw materials. However, China, having similarly suffered at the hands of the West, took a different approach. China supported the nations of Africa diplomatically and with weapons in their struggle to gain independence. China was eager to show its solidarity with the emerging nations of the world. China helped finance the construction of ports and railroads in East Africa under the slogan “South-South Cooperation” during the 1960s despite the fact that China was in desperate need of development itself. This aid was given with no expectation of repayment and was a gesture of goodwill.⁴⁹

This gesture by China forced Western nations to respond with increased aid. They could no longer take for granted that Africa remained in their economic sphere and it became necessary for them to push for the development of social overhead capital. In 1980, China made another grand gesture to the African continent by helping to finance the construction the headquarters of the African Union in Ethiopia. This symbolic effort showed that China was eager for Africa to be in control of its own destiny and that China supported the creation of a more integrated Africa. Through unity Africa would be able to make its voice louder in the world.⁵⁰

Despite decades of Western aid, large parts of Africa remain economically backward and in further need of aid. One leading critic of Western aid is Dambisa Moyo, an economist from Zambia. Her criticism of the aid is that it is misappropriated and misused due to corruption.

Ruling regimes or political parties view western aid as a cash cow to be exploited and distributed to supporters, specific tribes or ethnic groups, in order to buy continued support. The aid represents a cash flow that can help perpetuate the rulers' hold on power while disenfranchising other groups. This disenfranchisement leads to resentment and civil war. Moyo has taken a favorable view of Chinese investment in Africa. She sees Chinese aid as a positive transformation and a godsend for Africa. Airports, roads, stadiums, other buildings and infrastructure have been built by the Chinese and these things represent tangible and visible signs when compared to the largely monetary form of Western aid which can so easily be misused.

Despite this positive outlook of one author, there remain critiques of Chinese aid. The infrastructure China develops serves to promote the export of resources to Chinese factories so the Chinese actions do have self-serving purposes. Furthermore, these construction projects are for the most part carried out by Chinese companies that employ Chinese workers in most positions of authority. African labor is largely relegated to menial labor. African workers are not able to develop skills or move up to supervisory roles. Chinese companies are also able to undercut the prices when bidding on contracts because the Chinese government will subsidize these companies. The Chinese government is eager to send Chinese overseas due to the sheer magnitude of people living within China. Infrastructure serves a purpose but the Chinese keep their workers to maintain it. If the Chinese ever leaves, the infrastructure will fall into disrepair as the local labor force will not have been trained in its maintenance. China has been criticized for constructing buildings that look magnificent but serve little practical purpose. Sports stadiums are a good example of looking grand but doing little to address the underlying problems within society.

Many African nations and citizens are weary of China but still receptive of its aid. Many see China as pursuing a 21st-Century policy of economic imperialism which is simply replacing the former direct imperialism of Europe. China should be aware of this and should combat this perception. Having suffered like Africa at the hands of the West, China should be in a position to better understand these feelings of

exploitation while offering effective aid. Time will tell whether Africa is simply being exploited again or if a genuinely mutually beneficial partnership is being established.⁵¹

5. Building Blocks and Obstacles

The first 30 years following the end of the Civil War were a tumultuous time for China. The Great Leap Forward and the Cultural Revolution served to retard rather than promote China's development. After Mao's death and the overthrow of the Gang of Four, Deng Xiaoping began the pursuit of economic development through pragmatic policies from 1978 onwards. This led to a renewed faith amongst the Chinese people that anything could be achieved and once again China would be a strong nation.

From 1945 to the present, China has been ruled in an authoritarian manner. Now, the country is moving towards the creation of an orderly society reliant upon law and order rather than the coercive power of the government. The new government is adopting an economic plan to transform and improve society. It could well be a gradual move to political democratization as economic development continues. The ideal of a strong and stable society seems within reach but without needed reforms, China will begin to stagnate. The development gaps that have arisen in China need to be addressed as the divides between the rich and poor, elite CCP members and regular people and urban and rural people threaten to destabilize the social order.⁵²

The coming 13th economic development plan aims to further restructure the economy to make it more efficient. Old and inefficient industries remain the majority of industries within China but they should steadily be done away with while new high-tech industries will be nurtured via R&D to replace them. State-owned companies will be reduced in number or eliminated while banks will undergo the same reform. Companies and banks will be liberalized and forced to operate in a market system. No longer will companies be able to operate at a loss and have the government cover these losses. Likewise, profits that would have traditionally been taken by the government will now be kept by the

newly privatized companies. Privatization will mean the issuing of stocks which will be bought up by investors. Companies will have to be responsive to them and efficiency will be encouraged. No longer will high-ranking employees be able to embezzle money. The fact is that if the existing state of affairs was maintained, the embedded inefficiency would present a threat to Chinese economic growth and potential.⁵³

Large companies which are monopolies or near monopolies should be regulated so that they could not squash emerging competition. Smaller companies should be encouraged and protected by the state to create a competitive environment in different businesses which will improve services and products. Such a policy will allow small and medium-sized enterprises (SMEs) to grow and become larger. These expansions will result in the need for more workers who will have been let go by state-owned companies undergoing privatization. As SMEs grow and prosper, profits accumulated will be deposited in banks which will make capital available to those in need of capital. The influx of deposits will force banks to become more efficient and larger. Bank regulators, appointed by the government, should ensure that banks are using deposited money wisely so that in the case of emergency, there will be no run on the banks as people have faith in them. As companies and banks grow, some will offer IPOs as they become publicly traded companies which will in turn help the stock market in China to grow.

The Chinese government now has a strong leader at its helm which will allow it to implement reforms to boost the economy. The number-one goal of such reforms is to keep the masses of its citizens employed and contented so as to preclude social unrest. Furthermore, a steady source of taxation will allow it to provide a social safety net, the establishment of a national healthcare plan and increased educational opportunities. Such measures will provide a solid foundation for the future development of China and today's workers will know that their children will have the possibility of a bright future. The process will be far from easy and is by no means guaranteed to succeed. Such a safety net must be built from the ground up and it goes against the Chinese social tradition. The traditional Chinese mentality has been for a person's family to take care of oneself in old age. Looking to the state

for support when one is infirm is a new concept and it is debatable whether it will take hold.

Over the last 40 years, successive governments of China have claimed that they would end corruption and reform society. People have grown critical of the government for such promises which have yet to be thoroughly carried through. The government of Xi should follow through on its lofty words and take concrete actions to restore the faith of the people in the government. Chinese leaders have ten years in power to build China to their vision. The first two years were a time for Xi to consolidate his power and create his decade-long plan for China. People will be able to observe if the government follows through on its plans this time and achieve the dream of future. The strengthening of the Chinese socioeconomic development will allow his successors a strong basis on which to launch their own plans.

However, there will be obstacles. The regular announcement of reforms every decade serves to confuse the citizens of China. With each new idealistic proclamation, the people become more fatigued. They become numb to the words because there are no concrete actions that follow or last. Planners should communicate directly with the people and investors in clear and concise terms about their plan and what actions will follow. If this is not done, the people will remain disillusioned and indifferent to it. In the most extreme cases of corruption, imposing most severe punishments would serve to show the seriousness of the government.

When Prime Minister Li participated in the World Economic Forum in Davos, Switzerland, in 2015, he presented his plan for China's future to the gathered world and business leaders. His economic policy was based on three parts. These include: stopping the artificial support the Chinese government has provided to the economy, the reduction of national debt, and lastly, structural reforms. These reforms are needed as the economy, having started from such a low point, has experienced rapid economic growth for decades. This high rate of growth is not sustainable in the long run and the economy must be prepared to cope with a rate of growth in the 5-7% range as opposed to the 10%+ of previous decades. If these reforms fail, the economy will be in a shaky

situation which could threaten to release the discontent of 1.3 billion people.⁵⁴

The government has two policies to guide the economic strategy of China in the coming decade. The economy should become content with a lower rate of growth and at the same time transition away from low-end manufactured goods. Instead, higher technological manufacturing processes should be encouraged to produce higher-quality goods that provide a greater value. Secondly, the government's stake in the economy will be decreased as it moves closer to a free market system. Regulations should be created to ensure consumer safety.

The prime minister appealed to attendees at Davos to invest in China as it has a friendly business climate. There is still a desire in China to attract foreign investments and current technologies which will allow China to leapfrog past certain levels of development. Western banks are also being courted with their modern banking techniques and technologies. Insurance and investment companies are similarly being pursued. If attracted, they will help China build a strong capital market which will in turn help China reach its dream of competing with the United States for global leadership. China has the ability to surpass the United States economically but money does not automatically equate to leadership.⁵⁵

When the transition to a market economy is completed, China will be in a position to move towards the levels previously reached by South Korea and Japan. Many Western experts and I myself believe that China can only achieve the development status of Western Europe and the USA if it adopts democracy. The adoption of "democracy with Chinese characteristics" is contingent upon a successful economic reform and the creation of a vibrant financial sector. All of these things have the potential to happen but will not necessarily occur. If any of these reforms or goals fail, China will find itself stumbling and unable to realize its dream.

6. Conclusion

We have summarized the positive and negative aspects of China in its current state. One of the pressing issues for the nation is to ensure that the ethnic minorities can live in harmony with the Han majority. Furthermore, it is necessary for China to close the gap that has arisen between the interior and coastal regions along with the growing divide between urban and rural citizens.

Left unanswered, these problems could serve to derail the train of economic growth in China. However, if all segments of the Chinese society work together, there will be no obstacle that could prevent China from becoming the preeminent economic power in the world.

During his initial two years in office, President Xi has had some positive developments in his reform policies. The successes have allowed him to present himself as a strong reform leader because the average citizen has a positive view of him and his policies. His reforms are concerned with three main priorities. Firstly, party leaders at the provincial level along with the accompanying bureaucracy have been targeted in an effort to reduce and stamp out corruption. Secondly, a similar effort was directed at state banks and other state-owned companies. High ranking bankers, company leaders and the accompanying workers within these companies have also been the targets of anti-corruption efforts. Lastly, the rich have been targeted. Tax evasion is being clamped down on while punishments for bribery are being enforced.

The Chinese government has attempted to restructure the banking, financial markets and industrial sector by transitioning state-owned companies into private hands. When President Xi has achieved success in these endeavors, this will allow China to transition to a democratic society more aligned with world norms concerning human rights and democracy. The year 2021 will be the 100th anniversary of the establishment of the CCP. President Xi hopes that during his reign, the transformation of China will be completed and he can preside over a strong China. In any case, strong leadership will be needed to continue to lead China forward. This leadership should minimize arguments amongst themselves in order to not derail the great progress China has

already made to improve the quality of life for its citizens.

China is a unique case worthy of investigatory research. We have discussed China's model of economic development and political orientation, but discussion on the future direction of China certainly still remains difficult. While there is a lesson from the failure of the USSR model and the new Russia, we have limited understanding on China's sustainability. At most times, it seems that China is capable to resolve its own obstacles and prove its resilience. China hardly falls from external shock and pressure from international watchdogs. In the Cold War time, there were no complicated external shocks yet from the multilateral angle, unlike today's China which faces more obstacles than ever. If in the old days China was safe under the protection of the socialist bloc led by the USSR, now in this era of globalization, this kind of protection no longer exists and it is left in direct confrontation with US power.

China is now in many fields running parallel with US. It is now underway in catching up with the US pace of advancement in technology, capital and human resource and military defense. China should be ready to handle the pressure of criticism on its aggressiveness and assertiveness in world agenda when its impact of advancement is observable and felt by the competing nations around the world.

To conclude this discussion, I think that there is no ideal model for ruling a country and the question remains that which system is better. It depends on the people and the nation as such. In the past, the world was not as integrated as today. In today's world, however, globalization has resulted in a closer relation among nations with increased interdependencies. Anyhow, it is hard to predict what role will today's world superpowers play in the future.

Finally, the progress of China would certainly be dragged by its Communist Party ruling system and practice, and unless more liberalization is granted, China will not be able to achieve the same level as in Western countries in all aspects. If it would be impossible for China to relax its political ideology of Communist one-party rule in the foreseeable future, a certain level of political as well as social freedom must be provided, regardless of the political system.

Notes

- * Dr Im-Soo Yoo 유임수/ 劉壬洙 is Professor Emeritus at the Department of Economics, Ewha Womans University (이화여자대학교/ 梨花女子大學校), Seoul, Republic of Korea. He obtained his Bachelor of Arts and Master in Business Administration from Yonsei University (연세대학교/ 延世大學校), Seoul, Republic of Korea, and holds a PhD in Economics from University of Cologne, Germany. Dr Yoo has been Visiting Professor at various universities throughout Europe and Asia including University of Munich, University of Potsdam and University of Paris III. He has served as Visiting Professor at the Faculty of Economics and Administration, University of Malaya, Kuala Lumpur, Malaysia, and Senior Research Fellow at the Institute of China Studies, University of Malaya. He has also taught at the Asia-Pacific Center for UN Peace Studies, and was Visiting Professor at the National Economic University, Hanoi, Vietnam. Dr Yoo was Advisor to the Board of Audit and Inspection of Korea and also several other government and corporate organizations. He is the President of the Asia-Europe Perspective Forum and formerly the President of the Korean Association for Contemporary European Studies. His current research interests include international economics, trade, economic development and global finance especially for economic integration between European Union and East Asian community. <Email: isyoo@ewha.ac.kr; imsooyoo@gmail.com>
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Book Review

Book Review

Biwu Zhang, *Chinese Perceptions of the U.S.: An Exploration of China's Foreign Policy Motivations*, Lanham, Maryland: Lexington Books, 2012, 266 pp. + xvi

The relations between the world's remaining sole superpower today, the United States of America (US), since the collapse and disintegration of the Union of Soviet Socialist Republics, and the candidate most widely tipped to be the world's next superpower, the People's Republic of China with her miraculous economic growth and concomitant pyramiding in her clout in international politics and business after more than three decades of astounding economic reforms, has long been a favourite subject of study by researchers in the field of international relations (IR). Copious volumes of books and myriad journal articles have been written on Sino-American strategic relations. Nevertheless, a book on this topic written in English by a prominent Chinese academic in China is rare.

This book has its origin in the Ohio State University Ph.D. dissertation of the author Biwu Zhang (張苾蕪) who is currently the deputy director of the Institute of Asia-Pacific Studies at Xiamen University's Faculty of International Relations, China. The book consists of eight chapters, the core of which being the third, fourth, fifth, sixth and seventh that deal respectively with China's perception of threat from the US, opportunity from the US, American power, American economy and American politics. The first two among these addresses the research question of this book: whether China is a status quo or a revisionist country, which according to the author represents a fundamental question essential in addressing a puzzle the characterizes post-Cold War US-China relations, i.e. China's accommodation rather than balancing

policy towards the US and US's mainly engagement rather than containment policy towards China. The book has thus begun its exploration of Sino-American relations in a clear and fascinating manner which serves to maintain the reader's interest through the subsequent chapters' well-paced coverage of various crucial subthemes.

Setting the stage for the academic expedition is Chapter 2 which illustrates the "image approach" in the exploration of a country's foreign policy motivation – "to see what the source country's image of the target country is". On who the perceivers should be in such national image studies, the author adopted the approach of treating a state as a unitary actor from among the five possibilities offered by the existing literature as he listed – the others being the perceiver as the predominant leader, as the decision-making elites, as the influential elites, and as the general public. Methodologically this leads the book's approach to regard a head of state or other top official's statements, government documents and the editorials and other articles of government-owned newspapers as the representation of the perception of a state as a unitary actor. More specifically, the author used the popular approach of content analysis of published academic literature in China – articles in Chinese-language academic journal affiliated with China's top foreign policy research institutes –with a mix of the quotation collection and literature survey approaches. His results were presented in the book's subsequent chapters which focus respectively on Chinese perceptions of threat from the US, of opportunity from the US, and of US's power (the subject matters of Chapters 3, 4 and 5 which explore China's national interest involved in the formulation of her policy towards the US) and the US economy and politics which represent the two major characteristics of America as the target state of China. National interest and these major characteristics are what is taken into consideration when a state (China) formulates her policy towards her target state (US).

What the book's Chapters 3, 4 and 5 reveal is the Chinese scholars' general acceptance of US's superiority over China in almost every major dimension of national power (economy, science and technology, military equipments, and even "soft power"), and such superiority was perceived as having been used at times to harm China's national interest. These

chapters also highlight Chinese scholars' (as reflected in their works published in the journals used for the content analysis) resentment of US's intervention in China's internal affairs (including that related to Taiwan, US's allies around China, China's human rights records). Interestingly, the findings presented in these chapters point to appeasement, rather than strong responses, as in general the Chinese approach to US's intervention. One would be likely to deduce from Zhang's observations: could it be the Chinese awareness of the country's own weakness that has led to appeasement being on the whole one of predominant Chinese policy towards the US as revealed in these chapters?

Nevertheless, there is another side to this story – perception of opportunity. Findings in the chapter also reveal that Chinese scholars were appreciative of US's role in promoting China's national interest through the former's commitment to peace, engagement policy that ensured the latter's peaceful environment, her market for the latter's labour-intensive products, investment in China and occasional technology transfer. The US's image in China seems to be constantly improving, from the eighties to the nineties – and as the subsequent Chapters 6 and 7 further show, there has been increasing acceptance of the American economic and political model among Chinese scholars as something worthy of emulation, though regarding American-style democracy as the direction of China's political reform, they in general would prefer gradualism for the sake of political stability.

In short, Zhang's book – which has its origin as the author's doctoral thesis at the Department of Political Science of the Ohio State University – represents an interesting academic study of Chinese elite's perception of the US whether as threat or opportunity, as foe or friend. His findings are mixed, but gives an overall impression of optimism. As The Mershon Center's director Richard K. Herrmann says in his foreword to the book, Zhang has succeeded in combining his "native familiarity with China with a set of analytic tools used more often in international relations and political psychology to produce a picture of Chinese perceptions" of the US that is both original and interesting. Occasionally we come across books in our particular fields which are so

engrossing that it is physically impossible to stop reading them. Zhang's book is definitely one of such fascinating, unputdownable must-reads for IR scholars, students and the informed public who are craving for a better understanding of the intricate, sometimes love-hate relationship between the world's sole superpower today in the Western Hemisphere and the promising, upcoming, possibly next superpower in East Asia.

Dr Emile Kok-Kheng Yeoh

Associate Professor

Department of Administrative Studies and Politics

Faculty of Economics and Administration

University of Malaya

Malaysia

Dr Emile Kok-Kheng Yeoh 楊國慶 is an Associate Professor at the Department of Administrative Studies and Politics, Faculty of Economics and Administration, University of Malaya, Kuala Lumpur, Malaysia. He holds a Ph.D. on ethnopolitics in socioeconomic development from the University of Bradford, West Yorkshire, England (1998), was the director of the Institute of China Studies, University of Malaya, from 13th March 2008 to 1st January 2014, the founder and editor of the institute's top-tier Scopus-indexed journal, the *International Journal of China Studies* (2010-2014), and is currently a member of the international editorial committee of several journals in Asia and Latin America. His latest publications include "Nationalism, historical consciousness and regional stability: Rising China as a regional power and its new assertiveness in the South China Sea" (book chapter, Palgrave Macmillan, 2014), "中國—東南亞關係：中國能源安全政策的區域安全戰略分析" [China-ASEAN relations: analysis on regional security strategy of China's energy security policy] (book chapter, Wu-Nan, 2014), "Literacy and education in contemporary China: Daunting challenges amidst rapid economic development" (article, *The*

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