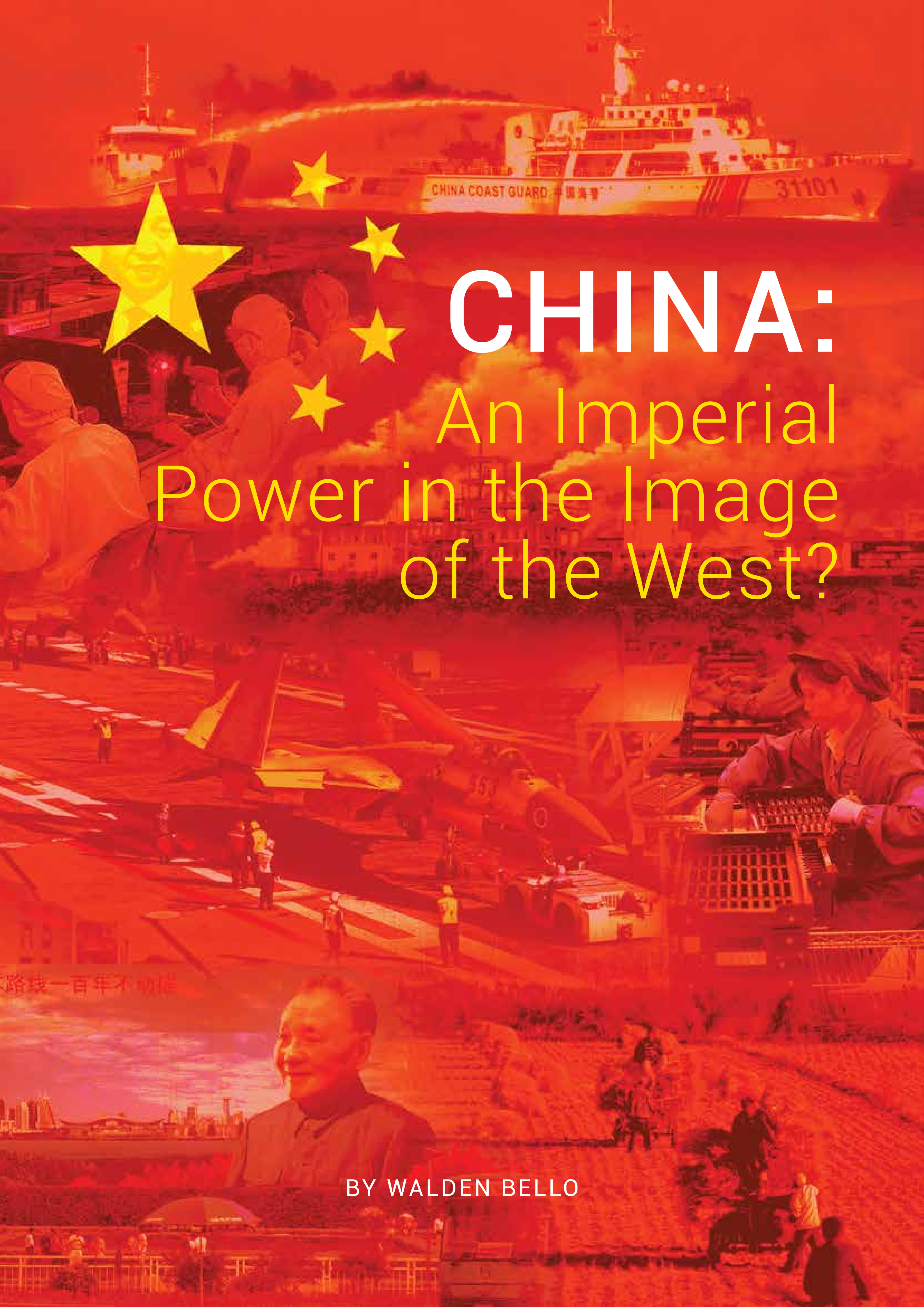

CHINA:
An Imperial Power in the Image of the West?

BY WALDEN BELLO

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EXECUTIVE SUMMARY

This study seeks to answer the question: Is China an imperial power in the image of the West in its relationship with the global South? The answer it arrives at is that from the available evidence, the People's Republic of China is not. So far, that is. The study's central argument is that the emergence of China as a capitalist power was marked by comparatively little violence and force in the process of primitive capital accumulation, and neither has its global economic expansion over the last 25 years. This is in great contrast to the evolution of relations between the traditional western capitalist powers and the South.

China is seeking what it considers its rightful place in the world, but this is not the same as striving for global hegemony. The Belt and Road Initiative does not appear to be a grand strategy for hegemony and is more likely an effort to solve China's industrial overcapacity crisis. Under different circumstances, however, this may change.

Currently, Beijing's military posture is not offensively oriented but is one of strategic defense, with the government's energies focused on the strategic dilemma of how to nullify the massive US forces right at its doorstep in the South China Sea.

However, over the last 15 years, there have been increasing accusations of Chinese state enterprises and private companies being involved in unfair labor practices, environmentally damaging projects, land-grabbing, locking borrowing countries into debt, and indirectly providing support for dictatorships. Many of these accusations parallel similar criticisms of the behavior of state-owned enterprises (SOEs), private capitalists, and local authorities within China itself. China has also drawn criticism for its unilateral moves in seizing disputed maritime formations and violating the territorial and economic rights of its neighbors in the South China Sea.

Many of these criticisms are valid, and unless China addresses them in a positive fashion soon, these questionable behaviors and practices could congeal into structures of domination similar to those that have marked the relationship of the West with the global South. Perhaps, equally worrisome is that China's expansion has its own complex of worrisome characteristics that are not reducible solely to reproducing western patterns but can also lead, if unchecked, to hegemonic behavior. Foremost among these is a technocratic top-down approach to development with a cross-ideological appeal that is resistant to democratic control and insensitive to environmental considerations that is fully on display in Beijing's Belt and Road Initiative (BRI).

International civil society has an important role to play in bringing about a more healthy relationship between China and the global South. Civil society actors can best help China by criticizing the Chinese government and corporate actors whenever they reproduce the practices of western actors and offering strategies for good behavior that are not simply failed proposals for "corporate social responsibility." Also important would be a debate and dialogue with Chinese agencies and corporations on their anachronistic 20th century technocratic approach to development that threatens a massive ecological impact as Beijing pursues the BRI.

INTRODUCTION: WILL CHINA GO THE WAY OF THE WEST?

The question that triggered this was: Has China turned into an imperial actor in the global stage in the manner of the United States, Great Britain, and other western powers?

When we refer to these powers as "imperial," we call attention to two fundamental processes that marked their rise as capitalist societies: one, capital accumulation was accompanied and made possible by the violent dispossession and exploitation of the lower classes by capitalist elites; and, two, their global expansion and rise as hegemonic powers was accomplished by violent state action deployed against non-capitalist societies. Through violence and force, western capitalist states created formal colonies and later what came to be known as "neocolonies," or formally independent states that were subject to coercive control by the western powers via threats, destabilization, and covert action.

Our answer is that while the People's Republic of China (PRC) has in many cases exhibited behavior characteristic of the West, it cannot be said that this has congealed into the structures of domination that have marked the relations of the earlier capitalist powers with the rest of the world. At least, not yet.

The PRC's rise as a global capitalist power over the last 40 years is distinctive in that it has not been marked by the massive violence and large-scale plunder that accompanied the rise of the western powers over the last 500 years. Its military posture during this period has been one of strategic defense, with its armed conflicts with other societies confined to border disputes, one punitive expedition, and one large-scale defensive campaign at the request of an adjoining country.

Currently, under the leadership of President Xi Jinping, the People's Republic of China is, perhaps more forcefully than in the past, seeking what it regards as its rightful place in the international system, but it is unlikely that it is engaged in a pursuit of global hegemony. Also, the vaunted Belt and Road Initiative is not so much a grand strategy as a desperate effort to externalize China's surplus industrial capacity that is weighing down the economy. Moreover, despite greatly increased defense spending, Beijing continues to adhere to a posture of strategic defense, with much of its energy devoted to finding ways to overcome its dilemma in the South China Sea, where its forces are bottled up by vastly superior US military might.

As China has "gone out to the world" over the last 25 years, its banks, state enterprises, and citizens have been the targets of complaints by many communities in host societies—criticisms that parallel accusations against the behavior of the same actors within China itself. To some extent, these are mistakes and lapses that are inevitably experienced when one is on a steep learning curve. Concern about its strategic dilemma in the face of US power in the South China Sea has also led China to very questionable unilateral moves, like the seizure of disputed maritime formations, that have alarmed its neighbors.

As China becomes a more and more powerful player on the international scene, there is a danger that these negative patterns of behavior may congeal or harden into imperial or hegemonic structures. But in terms of its impact on the global South, what should perhaps be of as much concern as its following the West's imperial path is China's approach to development. Over the last 40 years, in its rush to development, China has deployed a top-down technocratic approach resistant to democratic control and insensitive to environmental considerations that is reminiscent of the modernist mentality that guided the massive infrastructure building in the Soviet Union during the Stalin era, the Hoover Dam in the US, the Narmada Dam in India, the Three Gorges Dam in China itself, and the World Bank-funded Nam Theun 2 in Laos. This anachronistic 20th century approach, which has drawn support from governments and official agencies across the ideological spectrum, has been named "gigantism" by the Indian author Arundhati Roy and "neodevelopmentalism" and "extractivism" by others. A trademark of China's infrastructure-heavy development assistance in many developing countries, it is now being deployed over the vast Eurasian land mass in the form of Beijing's Belt and Road Initiative in an effort to alleviate Chinese industry's massive problem of surplus capacity, with potentially vast negative consequences.

China is not predetermined to become an imperial power, but it is at a critical crossroads today. It may traverse the path of the West or take a technocratic developmentalist road that can be just as destructive, or it may strike out on a different route in its relationship with the

AS CHINA BECOMES A MORE AND MORE POWERFUL PLAYER ON THE INTERNATIONAL SCENE, THERE IS A DANGER THAT THESE NEGATIVE PATTERNS OF BEHAVIOR MAY CONGEAL OR HARDEN INTO IMPERIAL OR HEGEMONIC STRUCTURES.

global South. International civil society can play an important role in this process by engaging China with constructive criticism of the behavior of its state agencies, state enterprises, and private corporations and the technocratic and authoritarian predilections of its leadership.

We come to this conclusion after a comprehensive investigation that begins with an exploration of key aspects of the historical development of capitalism in China; moves on to an examination of the key features and vulnerabilities of the Chinese economy; discusses the expansion of China's economic relations with the rest of the world, taking a close look, in particular, at Beijing's much vaunted Belt and Road Initiative; analyzes China's strategic posture and its dilemmas; and draws out the implications of Beijing's behavior in one of its most controversial current problems: how to relate to its smaller neighbors as it manages its strategic dilemma in the South China Sea.

We embarked on this endeavor with no special expertise on China. Our methodology is probably best described as being much like that articulated by Karl Polanyi in the introduction to his classic work *The Great Transformation:*

> Ours is not a historical work; what we are searching for is not a convincing sequence of outstanding events, but an explanation of their trend in terms of human institutions. We shall feel free to dwell on scenes of the past with the sole object of throwing light on matters of the present; we shall make detailed analyses of critical periods and almost completely disregard the connecting stretches of time; we shall encroach upon the field of several disciplines in the pursuit of a single aim.[1]

That single aim in our case was to answer the question posed by Focus on the Global South, the organization that commissioned this study: Is China an imperial power in the image of the West?

II

CONTRASTING EXPERIENCES IN PRIMITIVE ACCUMULATION

An investigation into the development of capitalism in China is critical to understanding the way that it currently relates to the world. There is one dimension, in particular, that is critical, and that is the centrality of force and violence in capitalist development in the West and their relatively much less salient role in China.

In his fascinating book *Adam Smith in Beijing,* the great historical sociologist Giovanni Arrighi posed the question why, when both Europe and China had developed market economies prior to the 18th century, there occurred a "Great Divergence," whereby China spiraled into decline while Europe went on to dominate the world.

Violence and Capitalist Transformation in Europe

Taking his cue from Adam Smith, Arrighi said that in the two or three centuries before the Industrial Revolution, market relations in both China and Europe led to a division of labor that steadily resulted in productivity gains. Arrighi and others termed this development, as it unfolded in China, the "Industrious Revolution." It was not a process that could go on indefinitely without hitting the spatial and institutional limits of the existing market economies, resulting in a "high level equilibrium trap" where productivity gains could no longer be achieved in the "natural" fashion. China hit these limits. However, these limits were not purely economic in character. The Chinese imperial regime's overriding concern with maintaining political stability also acted as a barrier against rapid and massive capital accumulation by any incipient capitalist class that could breach the limits of the market.

Europe, in contrast, broke through the economic and social barriers to capital accumulation, setting it on the dynamic "European path" of capitalist development.[2] Two factors were central here, which resulted in a process of accumulation that was distinctively capitalist and not simply mercantile in terms of its dynamics. The first was class violence deployed internally by capitalist elites. The second was state violence directed externally, against non-European societies, by European capitalist states.

Internal class violence and state violence were central to European capitalist development, and there were two high points in their deployment: the enclosure movement in England from the 1490's to the 1640's and the Industrial Revolution in the 18th and 19th centuries. Perhaps, the best description of the violence of the enclosures, when peasants were driven from their lands so that these could be converted into grazing lands for sheep raising, was provided by Polanyi:

> Enclosures have appropriately been called a revolution of the rich against the poor. The lords and nobles were upsetting the social order, breaking down ancient law and custom, sometimes by means of violence, often by pressure and intimidation. They were literally robbing the poor of their share in the common, tearing down the houses which, by the hitherto unbreakable force of custom, the poor had long regarded as theirs and their heirs'. The fabric of society was being disrupted; desolate villages and the ruins of human dwellings testified to the fierceness with which the revolution raged, endangering the defences of the country, wasting its towns, decimating its population, turning its overburdened soil into dust, harassing its people and turning them from decent husbandmen into a mob of beggars and thieves. Though this happened only in patches, the black spots threatened to melt into a uniform catastrophe.[3]

There were many peasant revolts, which resulted in thousands of peasants being slaughtered by the forces of the nascent agricultural capitalist class, even as efforts by the paternalistic state of the late feudal era to moderate the exactions of this rising elite were largely unsuccessful.

The next high point was the Industrial Revolution and here the violent social transformation wrought by capitalism was just as vicious. What he also called a social cataclysm was described thus by Polanyi:

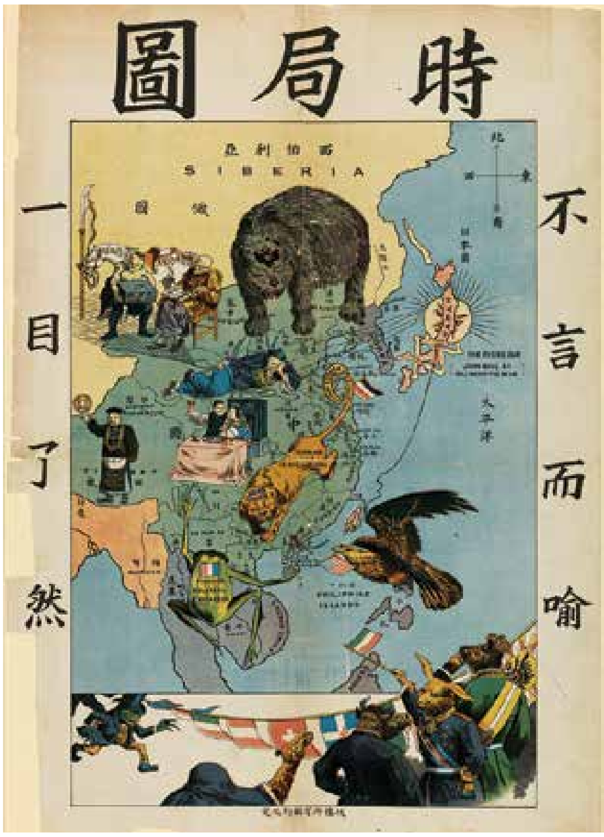
> Before the process had advanced very far, the laboring people had been crowded together in new places of desolation, the so-called industrial towns of England; the country folk had been dehumanized into slum dwellers; the family was on the road to perdition; and large parts of the country were rapidly disappearing under the slack and scrap heaps vomited forth from the "satanic mills." Writers of all views and parties, conservatives and liberals, capitalists and socialists, invariably referred to social conditions under the Industrial Revolution as a veritable abyss of human degradation.[4]

Whereas the late feudal state tried to protect the peasants, by the time of the industrial revolution, a thoroughly capitalist state had become the agent of physical and social violence against the lower classes and engaged in the massive repression of the lower classes, this time of workers.

Turning to the ability of European states to subjugate other societies and thus make capitalism a global force, a central explanation proposed by Arrighi is that the frequent inter-state wars in a Europe where market relations were simultaneously spreading rapidly led to the development of an arms industry that was the "primary source of the endless stream of innovations that continually created new spatial configurations of trade and production of increasing scale and scope and destroyed preexisting ones."[5] The spread of industrialization, in turn, made possible the creation of military-industrial complexes that not only intensified competition among European states but also enabled them to achieve the overwhelming military superiority with which they battered down non-European polities and triggered the so-called "primitive accumulation of capital" through plunder.

Putting more flesh onto Arrighi's insight, Ho-Fung Hung writes that whereas in imperial China, a truly entrepreneurial class could not emerge owing to spatial and institutional limits to the further development of market relations under one all-encompassing imperial polity, Europe's "unusual interstate system…which was plagued by frequent military conflict, urged state makers to compete for internationally mobile capital to finance their war efforts, thus forging a state-capital alliance unseen anywhere else." Under such an alliance, "capitalists supported state expansion by purchasing government bonds and paying taxes, and the state offered military and political protection crucial to capitalists' accruing and securing of resource bases and trade routes."[6]

This marriage of war-making and profit-making was solidified by what has been termed a "revolution in military affairs" that took off between the 14th and the 16th centuries, roughly the same period that Europe's global expansion began. Despite some exaggeration on the role of advances in military technology, there is a great deal of truth in the position of those military analysts who claim that "gunpowder technology changed not just the face of battle but also host societies, through intense centralization of armed power and finance."[7]



A cartoon (ca 1900) showing foreign powers conspiring to dismember China. *Courtesy of Wikimedia Commons/National Archives*

> The military revolution…created war states, elevating and sustaining more powerful monarchies whose legitimacy and efficacy relied above all on the ability to make war. Bastioned artillery fortresses reached impressive new dimensions that imposed new costs, adding to the burden of sustaining large armies and world-girdling navies. Some advocates argue that it was the [revolution in military affairs] that subsequently elevated Europe to global dominance, as unique broadside artillery platforms arrived off foreign shores in the form of ships of "fighting sail," and bastioned fortresses were built to protect coastal enclaves before armies and political influence penetrated inland. Military domination is thus said to explain European political and trade domination, after the defeat of local galley or junk navies and more traditional armies even in territories that already

had guns, such as India and China. In sum, the [revolution in military affairs] is credited by some with having driven the whole trajectory of modern world history, starting with the ascendance of small fiscal-military states ruled by European kings in the 15th-16th centuries, spreading European military power and then cultural and political influence globally after that.[8]

After this first round of primitive capital accumulation, which was accompanied by coercion and violence that concentrated scattered economic resources into capitalists' hands domestically and globally,capital accumulation was "self-sustaining."[9]

In short, in Europe, state violence was not simply a handmaiden of capitalist accumulation and expansion. To revise Marx and Engels' image in the Communist Manifesto, it was not only the "heavy artillery" of cheap commodities that battered down "Chinese Walls;" it was literally the heavy artillery of the western powers that made primitive accumulation and expansion possible, and it was central to creating the social and political conditions that enabled the self-reinforcing reproduction of capitalism on a global scale.

China's Relatively Peaceful Primitive Accumulation

Being one of the victims—though not the most hapless—of Europe's primitive accumulation, modern China's emergence as a full-fledged industrial capitalist economy was delayed and only came about with the country's scrapping of its socialist experiment during the Mao period and its economic opening to the West in the late 1970's to the 1990's under the leadership of Deng Xiaoping. State capacity that had been built up under Mao was hitched to the project of rapid capitalist industrialization under Deng.

Harvest time in rural China. Chinese farmers were the main beneficiaries of the first stage of economic reform in the late seventies and eighties, but urban dwellers were prioritized in the next phase of export-led industrialization. *Courtesy of Steve Evans via Wikimedia Commons.*

What made the process of primitive accumulation in China distinctive compared to that in the West was that it did not involve great state or class violence deployed internally, like the enclosure movement in England, and none at all externally in the form of aggression, plunder, or colonization.

China's route to industrial capitalism involved a marriage of cheap labor and foreign investment in an era of globalization. Labor was provided mainly by migrant labor from the countryside, of which the country had an almost inexhaustible supply in the first two decades of rapid industrialization, which meant that it was largely market forces that kept the price of labor down, not state violence, though there was indirect coercion in the form of controls like the ban on independent unions and the *hukou* residential system that prevented rural migrants from obtaining housing and social welfare benefits in the urban areas where factories were located.

This does not mean that there was no state violence or direct coercion at all. While the absence of state violence was clear when it came to China's global trade and investment push beginning in the 1990's, this was not the case domestically. There was the relocation of thousands of peasant families to clear the way for the Three Gorges Dam in the Yangtze River[10] as well as legally sanctioned takeovers of peasant properties by revenue-short local authorities for urban development.[11] Still, the overall approach in the first decade of the reform was to encourage peasant prosperity as the engine of growth,[12] while today the rural areas benefit from reforms such as free compulsory education for the first nine

Roadside billboard honors Deng Xiaoping, father of China's economic liberalization, at the entrance of the Lychee Park in Shenzhen. *Courtesy of Brücke-Osteuropa via Wikimedia Commons.*

years, provision of basic health insurance, and a minimum income guarantee.[13] There was none of the massive violence employed across the board against peasants and workers during Europe's period of capitalist transformation.

There was, of course, the Tiananmen Square massacre of 1989, but while the dynamics of capital accumulation did contribute to popular discontent, it was largely the demand for greater political democracy that triggered the protests that met a violent, inexcusable state response.

Turning to foreign investment, while investment directed at production for local consumption accounted for the bulk of total investment, investment from abroad for export was a decisive element in China's capital accumulation. Foreign direct investment (FDI) played a much larger role in the capitalist industrialization of China not only with respect to Europe and the United States but also to its East Asian neighbors. From 1985 to 2005, annual foreign direct investment in China is reported to have averaged nearly three per cent of GDP, a fairly large figure, whereas during their high-growth eras, Taiwan and Korea had FDI inflows of only about 0.5 per cent of GDP and Japan less than 0.1 per cent of GDP.[14] Whereas almost all exports from Korea, Taiwan, and Japan were accounted for by domestic firms, in the case of China, since the early 1990's, foreign firms have accounted for a third or more of exports.[15] When it comes to high-tech products, the situation is even more lopsided, with foreign firms accounting for around three quarters of exports.[16]

The centrality of foreign investment in China's primitive and immediate post-primitive capital accumulation relative to that of its neighbors is traced to political reasons by one analyst, that is, as "affiliates of the US military alliance structure, Japan, South Korea, and Taiwan were tacitly allowed to run mercantilist economies, shutting out foreign economies from their markets even as their own companies enjoyed easy access to the US market." China, in contrast, "was never going to get that deal; as the price of admission to the US-dominated world trading system, China would need to give foreign companies substantial market access."[17]

Europe and the United States used force to open and retain markets for resources and markets for goods in their period of ascent. China, on the other hand, did not have to do this. Japan, South Korea, Taiwan, and the so-called Southeast Asian "tiger cubs" had already pioneered the strategy of export-oriented industrialization via the penetration of the relatively low-tariff economy of the United States from the late 1950's to the early 1990's. And owing to the low prices of its products because of cheap labor, China was able to outcompete these rival Asian economies in labor intensive production.

But Beijing was not just replicating the export-led path. It was, as Hung points out, following the strategy of Japan and the East and Southeast Asian economies of peacefully accessing the US market that was made possible by the broader political alliance with the hegemon. China was a communist state but it entered into an informal political alliance with the US against the Soviet Union in the 1970s. The rationale of this alliance ended with the collapse of the Soviet Union, but inertia, and the commercial and financial benefits that this alliance offered to both the Chinese and US elites kept it going well into the first decade of the 21st century.[18]

When China joined the World Trade Organization in 2001, China enjoyed the fruits of the global liberalization of trade promoted by the agency. In so far as coercion, formal or informal, was used to liberalize global trade via the WTO, it was the United States and the European Union that deployed it,[19] while China simply sat back, as it were, to enjoy the benefits.

Another unique condition enjoyed by China was that its industrialization came at a time when neoliberal policies in the United States and Europe resulted in the tearing up of the Keynesian social contract between capital and labor and allowed transnational corporations to roam the world in search of low-priced labor, and here the so-called "China price" was simply unbeatable.

China was, in fact, the biggest beneficiary of globalization. This came, however, at a price for other economies. Not only did its cheap goods outcompete those of other developing countries like Mexico and Brazil in their own markets, but its receptivity to foreign investment and cheap labor proved to be a winning combination that proved to be destabilizing to the main promoter of corporate-driven globalization and trade liberalization, the United States. Contrary to neoliberal claims, a landmark study concluded that in the US, "adjustment in local labor markets is remarkably slow, with wages and labor-force participation rates remaining depressed and unemployment rates remaining elevated for at least a full decade after the China trade shock commences. Exposed workers experience greater job churning and reduced lifetime income. At the national level, employment has fallen in U.S. industries more exposed to import competition, as expected, but offsetting employment gains in other industries have yet to materialize."[20]

The "China Shock" is estimated to have led to the loss of 2.4 million American jobs.[21] This, in turn, has been one of the triggers of the "Trump Shock"—President Donald Trump's declaration of economic war on Beijing.

Conclusion

Force and violence employed by the state was a central feature of the expansion of market relations that enabled the transition to industrial capitalism in Europe. In contrast, the further development of market relations in China, the world's most prosperous society, up till the end of the 18th century, hit a "high level equilibrium trap" that prevented its "industrious revolution" from making the transition, an outcome to which the imperial regime's overriding concern with social stability also contributed.

WHEN CHINA JOINED THE WORLD TRADE ORGANIZATION IN 2001, CHINA ENJOYED THE FRUITS OF THE GLOBAL LIBERALIZATION OF TRADE PROMOTED BY THE AGENCY.

What was mainly responsible for this "Great Divergence" was the unique interstate system in Europe that was plagued by constant military conflict. This led to the development of arms industries whose innovations impacted on the broader process of capitalist industrialization. The social and political correlate of this technological synergy was a state-capital alliance. State violence employed in the service of the emergent capitalist class to dispossess the peasantry at home and plunder non-capitalist societies abroad was key to the primitive accumulation that preceded, then enabled the self-sustaining accumulation of capital in the West.

China was spared this major deployment of state force and violence owing to its status as a late capitalist industrializer after its opening to the West in beginning in the late 1970's. Though there were instances of state violence, forced relocations, and forced land acquisitions, the Chinese route to capitalist transformation, compared to Europe's primitive accumulation, was a relatively peaceful process that saw the marriage of cheap labor from the countryside and capital from abroad that took place in the urban industrial complexes of Southeastern China, the aim of which was to produce cheap manufactured commodities for global markets. The entry of foreign capital was the quid pro quo for market openings in the West. China did not have to fight to open foreign markets since its period of rapid industrialization coincided with the process of corporate-driven globalization and global trade liberalization promoted by the United State and spearheaded by the World Trade Organization. While there was a great deal of intimidation to open up developing country markets, it was mainly the United States and the European Union that engaged in this while China simply sat back to enjoy the benefits of market openings in both the global North and the global South. China was also the beneficiary of the neoliberal tearing up of the social contract between capital and labor, which set transnational corporations free to roam the world in search of cheap labor.

China has been the biggest beneficiary of globalization. Its economic rise has, however, proven detrimental to manufacturing industries both in many industrially advanced developing countries as well as in the United States, which had expected its interests to be served by globalization and trade liberalization. Chinese leaders in the last three decades have described China's trajectory as a "peaceful ascent" within the global system. What is ironic is that this peaceful ascent has proven to be so destabilizing to countries that had long preceded it in the capitalist transformation of their economies.

III

KEY FEATURES OF THE CHINESE ECONOMY

Similar to an understanding of the conditions surrounding the development of capitalism in China, an acquaintance with the key characteristics and vulnerabilities of China's contemporary economy will enable us to get a sense of the dynamics and direction of China's economic relationships with the global South. For instance, it is easy to mistake the Belt and Road Initiative (BRI) as a grand plan for China's global hegemony, as many have, if one does not take into consideration China's massive overcapacity problem, for which the BRI has been devised as a solution. And one cannot understand the overcapacity problem without referring, in turn, to one of the central features of China's economy, which is the decentralization of economic decision-making, which has led to a great number of competing projects, much waste, and tremendous surplus capacity.

China's economy is a capitalist economy, though one that is uniquely Chinese. It might be called "capitalism with Chinese characteristics," to give a different spin to Deng's description of his project as "socialism with Chinese characteristics." The Chinese leadership at first hesitated to claim that its model was transferable or endorse what came to be known as the "Beijing Consensus" that some foreign economists claimed was the Chinese response to the neoliberal "Washington Consensus." It is only recently, as its geoeconomic competition with the United States has intensified, that one encounters this claim by Chinese officials.

China's contemporary political economy has four key features: 1) It is largely liberalized or market driven; 2) it is largely privatized but with state intervention in areas considered strategic; 3) its cutting edge is export-oriented production sustained by "financial repression"; and 4) it is decentralized, with a great deal of autonomy for local decision-making while central authorities focus on broad national-level macroeconomic strategies and policies.

Liberalization

Liberalization, or the removal of state controls on production, distribution, and consumption, took place in three stages over the 1980's and 1990's. A succinct description of this process is provided by Hung: "The market reform started with decollectivization and restoration of a peasant economy in the countryside in the early 1980's, followed by urban state-enterprise reform and price reform in the late 1980s. In the 1990s, SOE [state-owned enterprise] reform accelerated, and the transformation of these enterprises into profit-oriented capitalist corporations emerged as the core agenda of reform." Throughout these phases, the main thrust of the reform was "to decentralize the authority of economic planning and regulation and to open up the economy, first to Chinese diasporic capital in Asia and then to transnational capital from all over the world."[22]

Privatization cum Strategic State Intervention

While market signals stemming from local consumer demand and global demand became the dominant determinant of resource allocation, the visible hand of the state did not disappear. While departing from central planning, the Chinese state did not follow the Northeast Asian developmental state model that restricted foreign investment and favored domestic enterprises across the board.

In contrast to the developmental state, non-strategic sectors of the economy were opened up to competition among private enterprises, while those areas considered strategic from the point of view of national security, national interest, and overall "national competitiveness" were subject to significant state regulation, with much production controlled by state-owned enterprises (SOEs) that were in competition with one another. In her pioneering work, Rosalyn Hsueh characterizes the Chinese state as having pursued a "liberalization two-step":

> It has shifted from universal controls on FDI [foreign direct investment] at the aggregate level across all industries to selective controls at the sectoral level. It employs a *bifurcated strategy* to meet its twin goals of complying with WTO commitments and retaining some control. In strategic sectors—those important to national security and the promotion of economic and technological development—the government centralizes control of industry and strictly manages the level and direction of FDI. In less strategic sectors, the Chinese government relinquishes control over industry, decentralizes decision-making to local authorities, and encourages private investment and FDI.[23]

In other words, China permits large-scale foreign direct investment "to structure foreign competition in ways that allow it to transfer foreign technology, increase the national technology base, encourage indigenous technology and production capacity, and promote domestic business. By exercising this bifurcated strategy, China manages to retain political control and regulatory capacity and to modernize, industrialize, and transform its economic system in the context of international integration."[24]

Given the massive pullback of the state from large swathes of the economy, there is justification in describing China's political economy as "neoliberal with Chinese characteristics," as David Harvey does.[25] But perhaps, it is better characterized as a market economy with strategic islands of

A small vegetable farm in rural Hainan Province. Agriculture was once the backbone of China's economy. Now it makes up only 9 per cent of GDP but accounts for more than 1/3 of the work force—about 300 million people—engaged in agricultural pursuits. *Courtesy of Anna Frodesiak via Wikimedia Commons.*

state-controlled production and with broad macroeconomic surveillance exercised by the central state.

Export Oriented Production cum Financial Repression and a Managed Currency

While the greater part of domestic production was directed at the local market, the strategic thrust of the Chinese economy post-liberalization was rapid industrialization via production for export, a feature captured in the saying that China became "the manufacturer of the world."

Exports at their peak in the first decade of this century came to a whopping 35 per cent of GDP, a figure that was triple that of Japan.[26] China became the "hub for a global production network that begins with design studios in the United States and Europe; proceeds through producers of specialized components and raw materials in East and Southeast Asia; and ends up in China, where designs, materials, and components are brought together in finished products that are then sent all around the world."[27]

The focus on export oriented production meant restraining the growth of domestic consumption, a feature that was underlined by the policy of financial repression, that is, the interest rate on savings from consumers was deliberately kept low in order to keep the interest rate of loans to state-owned enterprises and private enterprises engaged in production for export low. From 2004 to 2013, the average real deposit rate was 0.3 per cent.[28]

A third key ingredient of export-oriented manufacturing was a policy of keeping the value of the renminbi low relative to the dollar. From 1979 to 1994, the renminbi steadily depreciated against the dollar, from 1.5 to 8.7, as China moved away from its old Mao era import substitution model towards an export-oriented model that required an undervalued renminbi to make China's exports competitive on global markets. Then in 1994, the renminbi was devalued 33 per cent relative to the dollar, followed by a peg of 8.3 renminbi to the dollar over the next nine years, greatly boosting the competitiveness of Chinese goods in global markets.

But the fourth ingredient in the export-led model, its "indispensable fuel'" according to Hung, was the "protracted low-wage labor released from the countryside since the mid-1990's." While there was a "demographic windfall" in the form of large rural surplus labor force that allowed China to take advantage of low-wage labor longer than other Asian economies, the latter was also a result of government policies that "intentionally or unintentionally bankrupted the countryside and generated a continuous exodus of the rural population in the 1990's."[29]

Be that as it may, the combination of favorable financial policies for the export sector, an undervalued currency, and low wage labor was a formula that unleashed a flood of cheap Chinese goods on the world that proved to be deeply destabilizing not only for the industrial sectors of economies in the global North but also in the global South like Mexico and Brazil.

Decentralized Authoritarianism

Contrary to the popular image of China's development being the product of centralized direction, a decentralized character has, in fact, been one of its key features. Decentralization has been one of the key ingredients of China's growth formula, dating to the 1990's. Beijing "started evaluating local officials by how quickly the economy grew under their watch," and they, in turn, "competed with each other to woo firms, offering them cheap land, tax breaks, and low cost labor."[30] Described as essentially like turning the bureaucracy into a "large start up business,"[31] decentralization sought to decisively break the command economy as well as force local authorities to "own" the reform process both by giving them the responsibility for coming up with the resources for investment and allowing them reap the rewards of successful capital accumulation.

Provincial and local authorities have thus had a great deal of power in interpreting and implementing general strategic directives from Beijing. The economic authority of the central government has been deliberately weakened, its role being transformed into that of an "indirect player" focused on devising the macroeconomic backdrop such as interest rates, exchange rates, and preferential policy toward certain regions and sectors.[32] Indeed, China has been described as the "most decentralized country on earth, with local governments' share of revenue more than twice that common in developed countries and even much bigger than that typical of developing countries."[33]

It is important to note, however, that strong local authority and command of resources in the capital accumulation and development process covered mainly the nonstrategic sectors of the economy. Important agents of central control across provinces were some key state owned enterprises (SOEs) in the designated strategic sectors, such as energy, heavy industries, railways, and telecommunications that were directly controlled by Beijing though they themselves enjoyed a great deal of autonomy. Here it must be qualified though that the majority of the country's 150,000 SOEs and two thirds of all SOE assets were controlled by provincial and local governments.[34]

The relationship between the local and the center has oscillated between decentralization and recentralization over the years, with the latest phase of recentralization, albeit limited, taking place under the current leadership of Xi Jinping. In most other countries, the extent of decentralization would probably have led to a permanent weakening of the center. China, however, has an advantage over other countries that makes the system work and not fly apart, and that is the Communist Party structure that parallels the government structure at all levels and across all regions. While allowing factional conflicts to a significant degree, the party structure and its attendant discipline are what makes possible the paradox of "decentralized authoritarianism," a term coined by Hung.

Conclusion

Market forces dominate China's economy, with the state retreating to a stance of broadly regulating the economy but directly intervening or directly engaging in production in industries considered to be "strategic." Private enterprises, local or foreign, are given free rein in most sectors and industries, but state-owned enterprises dominate the strategic sectors. SOEs are expected to make a profit, though in practice, many operate with a "soft budget constraint." Export-oriented industrialization has been the central dynamic of the economy, a thrust that has been promoted by restraints on the growth of domestic consumption, financial repression, keeping the value of the renmimbi low relative to the dollar, and, of course, low wages. Finally,

CHINA HAS BEEN DESCRIBED AS THE "MOST DECENTRALIZED COUNTRY ON EARTH, WITH LOCAL GOVERNMENTS' SHARE OF REVENUE MORE THAN TWICE THAT COMMON IN DEVELOPED COUNTRIES AND EVEN MUCH BIGGER THAN THAT TYPICAL OF DEVELOPING COUNTRIES."

economic decision-making in China is marked by a great deal of autonomy for provincial and local authorities, with central authorities focusing on formulating and broadly supervising the implementation of nationwide fiscal, monetary, tax, foreign investment, and foreign economic policies. Nevertheless, through some 160 SOEs, central authorities have some control on the strategic industries, though a number of these sometimes operate as virtual fiefdoms. But the key factor ensuring that the economy does not degenerate into anarchy is the nationwide structure of the Communist Party which parallels the state structure at all levels, cuts across regions, and exercises a discipline unmatched by state agencies. "Decentralized authoritarianism," is probably the most apt description of this system.

Workers and supervisor at an electronics factory in Shenzhen. Labor-intensive assembly of components for electronic exports was the cutting edge of China's export success. With labor costs rising, electronics assembly and garments firms are moving to areas with cheaper labor, like Vietnam. *Courtesy of Steve Jurvetson via Wikimedia Commons.*

IV

VULNERABILITIES OF THE ECONOMY

There are a number of contradictions, fissures, or weak points in the economy. These are regional inequalities, overcapacity or overproduction, financial vulnerabilities, and social inequalities.

Regional Disparities

Regional inequalities in China derive from the decision of the Communist Party leadership to devote attention and resources to certain parts of China in the first decades of the opening of the economy to global trade. It was natural that these would be the coastal regions, especially southeastern China, where the first experiments in setting up Special Economic Zones (SEZs) to attract foreign investors were made. According to the Asian Development Bank, "during the 1980's, regional disparity was declining, but with export-led industrialization getting into high gear in the 1990's there was a significant widening of the gap among the four regions. This was mainly due to the extraordinarily high economic growth rate of the eastern region compared to the other regions."[35] In the 2000's, regional disparities continued to grow, but at a slower pace. With the onset of the global financial crisis, however, the government put together a massive $585 billion stimulus package, a significant part of which was earmarked to infrastructure and other development projects in western and northeastern China, though the actual impact of this in reducing regional disparities was limited.

Overcapacity

China is currently burdened with an overcapacity problem, especially in heavy industry and many medium industries. There has been significant overcapacity in the steel, iron, aluminum, and automobile industries, leading to practically flat prices and causing some analysts to saythat China is now suffering from "industrial deflation."[36] Since China accounts for a great part of global production and trade in heavy goods, its surpluses in these goods have brought down global prices, contributing to global deflationary pressures.

Overcapacity is a symptom of overproduction and overaccumulation, and it is a product of the Chinese way of capitalism. Specifically, it is due to repression of domestic consumption and excessive investment. Repression of consumption was a policy dictated by the need to channel people's savings to the industrial export sector. Excessive investment stemmed from the decentralized economic strategy where local areas were given a great deal of autonomy in investment decisions. Many local authorities, says Hung, perhaps the leading expert in China's overproduction, act "developmentally," that is, they pick industrial "winners" and act proactively to set these up at the local level. The totality of these efforts, however, "creates anarchic competition among localities, resulting in uncoordinated construction of redundant production capacity and infrastructure. Foreign investors, with the expectation that the domestic and world market for Chinese products will grow incessantly, also race with one another to expand their industrial capacity in China."[37]

Overcapacity is not a recent problem that has just surfaced recently. As early as the 2000's, in fact, more than 75 per cent of the country's industries were suffering from overcapacity and fixed asset investment in industries already experiencing overinvestment accounted for 40 to 50 per cent of China's GDP growth.[38] The situation, however, has worsened since then, as one analyst points out:

> Since 2014, China has produced more than half of all the steel in the world. However, of the 1.1 billion tons of steel Chinese factories were capable of making in 2015, only 70 per cent was actually produced. That year, more than half of China's steel companies posted a loss, and prices were driven so low that steel was cheaper than cabbage, as was the popular observation at the time. That sort of excess has played out again and again across Chinese industry. Consider that China produces thirteen times as much aluminum as the United States, and about half of the global supply. At its peak, China was producing more than 40 per cent of the world's ships. According to state media, twenty-one industries suffer from "serious" overcapacity, a list that includes cement, aluminum, shipbuilding, steel, power generation, solar panels, wind turbines, construction machinery, chemicals, textiles, paper, glass, shipping, oil refining, and…heavy engineering.[39]

To solve the overcapacity problem, China has tried to shut down the less efficient enterprises and "rationalize" the remainder. This is, however, easier said than done, because officials are scared to death of provoking worker unrest since the ability to maintain social stability is one of the key justifications used by the Communist

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SINCE CHINA ACCOUNTS FOR A GREAT PART OF GLOBAL PRODUCTION AND TRADE IN HEAVY GOODS, ITS SURPLUSES IN THESE GOODS HAVE BROUGHT DOWN GLOBAL PRICES, CONTRIBUTING TO GLOBAL DEFLATIONARY PRESSURES.

Party for its continued political dominance. Moreover, shutting down enterprises may be demanded from the center but it is the local authorities that have to deal with the consequences, and so the natural response of the latter is to resist. Over time, alliances of local officials and enterprise managers have evolved strategies of keeping "zombies" alive, the key elements of which are subsidizing them, incessantly borrowing from state banks to keep them going while staving off demands for repayment, and "internal protectionism," or keeping out competing products from other localities.[40]

The end result is that keeping "zombies," which are mainly SOEs , alive has been extremely costly. Overcapacity brings down prices, bringing down profits throughout an industry. Indebtedness becomes a permanent condition, so that one can speak of a permanent line of credit to banks which is never repaid. Calculations of the levels of debt of the public and private corporate sector in China are not easy to come by, but according to the consulting firm McKinsey, China's companies went from owing $3.4 trillion to $12.5 trillion between 2007 and mid-2014, "a faster buildup of debt than in any other country in modern times."[41]

Financial Vulnerabilities

Massive indebtedness, mainly to Chinese state banks, clearly poses a threat to the economy. But China is no ordinary capitalist economy. Under normal capitalism, when loans are nonperforming, the banks come calling on the debtor and either collect or force them into bankruptcy. But in China, the fact that the state enterprises and the banks are owned by the government places the day of reckoning far into the future. As Dinny McMahon writes:

> The real advantage of China's system of state ownership isn't that the cleanup is easier than in market economies; it's that the clean-up is easier to put off, something that it can do indefinitely but not forever. State firms may be "backed" by the state, but in practice that doesn't mean that the government covers the companies' debts if they can't repay them. Rather it means that the banks are safe from political fallout if the loans go bad. They will just hold bad loans on their books and, with the government's acquiescence, pretend that they're fine—as they've been doing for some years already. In the short term, there's no real fallout. Sure bank profits erode—after all, a big chunk of their loans aren't paying interest—but otherwise no one has to take responsibility for mounting bad loans. And, most importantly, deadbeat companies are kept alive.[42]

But the financial system has other vulnerabilities apart from the mountain of debt owed by SOEs. These are a real estate bubble, a roller-coaster stock market, and an uncontrolled shadow banking system.

The Real Estate Bubble. There is no doubt that China is already in the midst of a real estate bubble. As in the United States during the subprime-mortgage bubble that culminated in the global financial crisis of 2007-09, the real estate market has attracted too many wealthy and middle-class speculators, leading to a frenzy that has seen real estate prices climb sharply.

Chinese real estate prices soared in so-called Tier 1 cities like Beijing and Shanghai from 2015 to 2017, pushing worried authorities there to take measures to pop the bubble. Major cities, including Beijing, imposed various measures: They increased down-payment requirements, tightened mortgage restrictions, banned the resale of property for several years, and limited the number of homes that people could buy.[43]

However, Chinese authorities face a dilemma. On the one hand, workers complain that the bubble has placed owning and renting apartments beyond their reach, thus fueling social instability. On the other hand, a sharp drop in real estate prices could bring down the rest of the Chinese economy and—given China's increasingly central role as a source of international demand—the rest of the global economy along with it. China's real estate sector accounts for an estimated 15 percent of GDP and 20 percent of the national demand for loans. Thus, according to Chinese banking experts Andrew Sheng and Ng Chow Soon, any slowdown would "adversely affect construction-related industries along the entire supply chain, including steel, cement, and other building materials."[44]

The problem is not just a real estate market slowdown having a domino effect on the rest of the economy owing to reduced demand; it is also that so many other industrial sectors are heavily invested in real estate. As the former chief economist of the Agricultural Bank of China writes, "Almost all big manufacturing companies have, to a certain extent, gotten involved in real estate…For many companies sales are stagnant, business is difficult, and the ability to earn a profit has sharply declined, so more and more manufacturing companies have started to subsidize their losses by getting involved in real estate or with financial investments."[45]

The Shanghai Casino. Financial repression—keeping the interest rates on deposits low to subsidize China's powerful alliance of export industries and governments in the coastal provinces—has been central in pushing investors into real estate speculation. However, growing uncertainties in that sector have caused many middle-class investors to seek higher returns in the country's poorly regulated stock market. The unfortunate result: a good many Chinese have lost their fortunes as stock prices fluctuate wildly. As early as 2001, Wu Jinglian, widely regarded as one of the country's leading reform economists, characterized the corruption-ridden Shanghai and Shenzhen stock exchanges as "worse than a casino" in which investors would inevitably lose money over the long run.[46]

At the peak of the Shanghai market in June 2015, a *Bloomberg* analyst wrote that "No other stock market has grown as much in dollar terms over a 12-month period," noting that the previous year's gain was greater "than the $5 trillion size of Japan's entire stock market."[47]

When the Shanghai index plunged 40 percent later that summer, Chinese investors were hit with huge losses—debt they still grapple with today. Many lost all their savings—a significant personal tragedy (and a looming national crisis) in a country with such a poorly developed social-security system.

Chinese stock markets, now the world's second largest, according to some accounts, stabilized in 2017, and seemed to have recovered the trust of investors when they were struck by contagion from the global sell-off of stocks in February 2018, posting one of their biggest losses since the 2015 collapse.

Shadow Banking Comes Out of the Shadows. Another source of financial instability is the virtual monopoly on credit access held by export-oriented industries, state-owned enterprises, and the local governments of favored coastal regions. With a significant part of the demand for credit from a multitude of private companies unmet by the official banking sector, the void has been rapidly filled by so-called shadow banks.[48]

The shadow banking sector is perhaps best defined as a network of financial intermediaries whose activities and products are outside the formal, government-regulated banking system. Many of the shadow banking system's transactions are not reflected on the regular balance sheets of the country's financial institutions. But when a liquidity crisis takes place, the fiction of an independent investment vehicle is ripped apart by creditors who factor these off-balance-sheet transactions into their financial assessments of the mother institution.

The shadow banking system in China is not yet as sophisticated as its counterparts on Wall Street and in London, but it is getting there. Ballpark estimates of the trades carried out in China's shadow banking sector range from $10 trillion to more than $18 trillion.

In 2013, according to one of the more authoritative studies, the scale of shadow banking risk assets—i.e. assets marked by great volatility, like stocks and real estate—came to 53 percent of China's GDP.[49] That might appear small when compared with the global average of about 120 percent of GDP, but the reality is that many of these shadow banking creditors have raised their capital by borrowing from the formal banking sector. These loans are either registered on the books or "hidden" in special off-balance-sheet vehicles. Should a shadow banking crisis ensue, it is estimated that up to half of the nonperforming loans of the shadow banking sector could be "transferred" to the formal banking sector, thus undermining it as well. In addition, the shadow banking sector is heavily invested in real estate trusts. Thus, a sharp drop in property valuations would immediately have a negative impact on the shadow banking sector—creditors would be left running after bankrupt developers or holding massively depreciated real estate as collateral.

Is China, in fact, still distant from a Lehman Brothers–style crisis? Interestingly, Sheng and Ng point out that while "China's shadow banking problem is still manageable…time is of the essence and a comprehensive policy package is urgently needed to preempt any escalation of shadow banking NPLs [nonperforming loans], which could have contagion effects."[50] Beijing is now cracking down on the shadow banks, but these are elusive, and unless there is a fundamental reform in its national credit system to end the virtual monopoly by the export-oriented economic complex of the banking system, there will always be a strong demand for these *sub rosa* entities.

Finance is the Achilles' heel of the Chinese economy. The negative synergy between an overheating real estate sector, a volatile stock market, and an uncontrolled shadow banking system could well be the cause of the next big crisis to hit the global economy, rivaling the severity of the Asian financial crisis of 1997-98 and the global financial implosion of 2008-09.[51]

A factory along the Yangtze River belches smoke. Severe air pollution now plagues urban areas all over China. *Courtesy of Wikimedia Commons.*

Environmental Crises

Not surprisingly, China's infrastructure-intensive smoke-stack-industries-dependent high speed growth has been accompanied by widespread and chronic environmental crises, with perhaps the dangerous air pollution levels in Beijing being the most widely discussed internationally. Water scarcity, desertification, deforestation, soil erosion and degradation, and soil and water contamination have all contributed to a greater concern about the environment, especially among the middle class. Yet that same middle class is the source of much of the problem. Reliance on fossil fuels contributes significantly to air pollution and climate change. Prosperity has made China the world's biggest car market, with the consequent rise in unhealthy levels of airborne pollution in the cities. Owing to its price competitiveness, coal continues to be the fuel of choice for generating power, accounting for 65 per cent of electricity use. As Elizabeth Economy points out, "[A]s China's urban middle class expands, and income levels continue to rise, more energy is consumed: on average urban residents use as much as four times more energy than their rural counterparts."[52]

Apart from their massive negative impact on the environment and public health, fossil fuel-driven industrial processes have increasingly boomeranged on the economy. Economists have estimated that environmental degradation and pollution cost the Chinese economy the equivalent of 3 to 10 per cent of GDP owing to work days missed, crops lost to pollution and contamination, decline in tourism, and other problems. A recently published retrospective analysis by the Chinese Academy of Sciences placed the figure higher, at 13.5 per cent of GDP in 2005.[53]

A concrete illustration of pollution's negative impact on the economy comes from agriculture. In many instances, farmers know that their vegetables are contaminated with heavy metals like cadmium or mercury and don't eat local produce. Yet they keep the knowledge to themselves since public awareness of the fact could lead to a drop in sales and a crisis in the local economy, as happened with the discovery of cadmium levels exceeding government safety levels in rice from Hunan province, which led to sales of rice plummeting. China is said to produce 12 million tons of heavy metal-contaminated grain every year, costing the economy more than $3.2 billion.[54]

Social Inequalities

China's breakneck capitalist growth relying on cheap labor has had two contradictory effects on the socioeconomic conditions of its people. On the one hand, people living in extreme poverty declined from 88 per cent in 1988 to two per cent at present.[55] On the other hand, it has converted it from one of the world's most egalitarian societies during the Mao period to one of the world's most unequal societies. Research by Branco Milanovic, one of the world's leading experts on inequality, shows that in the period 1988 to 2008, income inequality in China rose far more rapidly than in any other region in the world.[56]

Estimates of China's Gini Index or Gini Coefficient, the most commonly used measure of inequality, range from 0.47, the government's estimate, to 0.55.[57] As Arthur Kroeber notes, "If we accept the government's figure, China's income inequality is substantially greater than all developed countries. More important, it is much greater than in the successful East Asian economies it emulates (Japan, South Korea, and Taiwan) or even India—a country long infamous for its extremes of wealth and poverty."[58]

Though the countryside was favored in the first decade of reform, the urban classes have been the main beneficiaries of the country's export-oriented manufacturing strategy over the last 30 years. Nonetheless, the ratio of the average urban income to the average rural income has fallen from 3.3 times in 2007 to less than 3.3 times at present.[59] This seemingly positive trend does not, however, reflect the fact that "land expropriations have been the single greatest source of unrest in China,"[60] owing to local authorities legally taking over farmers' lands to fund their development projects.

Class-related inequality has recently been joined by gender-related inequality as a great source of concern. Ironically, as China has become more prosperous, the gap has increased between women's incomes and economic status and those of men. With the headlong rush towards capitalism, the earnings of women went down from 80 per cent those of men at the start of the reform era to 67 per cent in the cities and 56 per cent in the countryside.[61]

The drivers of this regression from the status of women during the Mao period are a greying population and the demographic imbalance produced by the controversial one-child policy, when male children were favored over females, resulting in widespread abortion and infanticide. As a New York Times report explains, “Chinese women are being squeezed out of the workplace by employers who penalize them if they have children, and by party officials urging them to focus on domestic life. At the same time, those who have managed to keep working are increasingly earning less relative to men."[62]

Gender is now one of the most important factors determining income inequality in China, perhaps more so than even the longstanding divide between the cities and the countryside.[63] Over the past decade,

Women hard at work in a Seagate factory in Wuxi.
Courtesy of Robert Scobie via Wikimedia Commons.

China's ranking in the World Economic Forum's global gender gap index has plummeted, from 57th out of 139 countries in 2008 to 103rd in 2018.[64] China once enjoyed one of the highest rates of female labor force participation in the world, with nearly three in four women working as recently as 1990. Now the figure is down to 61 percent, according to the International Labor Organization.[65]

What is alarming is that discrimination against women is now accepted if not promoted by the country's leadership. Mao famously told women that they held up “half the sky,” and despite turmoil and the persistence of patriarchal traditions, they entered the work force in record numbers and began to enjoy greater rights. Now, in a break with the Marxist ambition of liberating women, President Xi has openly called on women to embrace their “unique role” in the family and “shoulder the responsibilities of taking care of the old and young, as well as educating children."[66] No party leader would have been caught saying something like this in the past, but the breaking of the taboo apparently stems from the male party leadership's push to raise the birth rate owing to its obsession with China's looming demographic crisis. It could also be motivated by a desire to meet the gaps in China's still fragile social security system by shifting much of the burden of care from the state to women and the family.[67]

Social Protest

An analysis of the political economy of China would not be complete without touching on, even if only briefly, the phenomenon of social and political protests. Protests are not uncommon in China. Before it stopped publishing statistics on "mass incidents" after 2008, such events went from 10,000 in 1994, increasing yearly, with 58,000 in 2003, 74,000 in 2004, and more than 100,000 in 2008.[68] In the three years before he was seized by police in 2016, the indefatigable chronicler of protests, Lu Yuyu, and his girlfriend, recorded over 70,000 outbreaks of social and political protest.[69]

Protests range from rural actions against land grabs by local authorities in rural areas to workers' strikes to environment-related mobilizations. While repression appears to be the dominant response to peasant protests, there have also been concessions, such as "people's centered governance" focused on providing better social welfare benefits and restraining local officials during the Hu Jintao-Wen Jiabao era. Authorities have been more careful in the cities, where concessions have also been part of the government response. In a landmark action, for instance, Honda's local affiliate, with the agreement of local authorities, gave in to workers' demands in Guangzhou in 2010 after the workers' strike spread to other sectors of the automotive industry.

In 2018, with the economy slowing down, there were 1700 workers' actions throughout China protesting mainly against unpaid wages and factory relocations, up from 1250 in 2017. While there were reports of protesters and activists being arrested, one analyst monitoring workers' actions said there were "far too many protests to crack down on" and in most cases police didn't get involved.[70] According to labor researcher Elaine Hui, "The Chinese government seems to be aware union reform could help stabilize labor relations. To make the [government-linked ACFTU [All-China Federation of Trade Unions] and its affiliates more responsive to workers' grievances, during the 2000s the government pushed for workplace unionization, especially in foreign-owned Fortune 500 companies, through a top-down effort. Following a major strike wave in 2010, the government tried to strengthen enterprise-level union organizations, along with implementing pilot workplace union elections and collective bargaining."[71] There has, however, been a pushback under Xi.[72]

Environment-related protests have also been widespread, though most of these take place on the internet. Owing to its large support from the middle class, the government is perhaps more sensitive in the area of environment than in its handling of labor and peasant protests. Civil society organizations and personalities have been allowed much space to air grievances, although this is narrowing. Perhaps the greatest achievement of environmental

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activists has been pushing the government to come out with a new raft of laws, action plans, and regulations that provide a framework for tackling air pollution. This is not just talk. Beijing cancelled 85 new coal-fired power plants and pledged not to approve new projects until 2018 in as many as 13 provinces, though as Economy points out, "the other eighteen provinces and regions—primarily in the interior and western parts of the country—presumably have greater latitude to consider new coal-fired power plants."[73] Nevertheless, the government has made "undeniable progress in advancing clean energy production and consumption," says Elizabeth Economy, who closely monitors of China's environmental sector, and this has been in response to citizen action.[74]

The government's oscillation between the iron fist and the velvet glove reflects its nervousness about manifestations of instability. In fact, the Communist Party is obsessed with stability, which is the reason party and government officials often go to great lengths to ensure that worker discontent does not spill out into the streets by making concessions, like keeping loss-making state enterprises on life support. As McMahon observes, "Regardless of how a successful official has been at generating growth, one protest above a certain size automatically puts an official's promotion prospects on ice. Social instability, broadly defined, is the one thing that renders all others achievements moot, providing officials with the motivation to keep companies alive, their workers employed, and their pensions intact."[75]

Despite the party's fears, the vast majority of protests are single-issue affairs, motivated by concerns about the welfare of local communities or groups. As a rule, protesters don't reach out across localities to other groups with "systemic demands." Some analysts have wondered why there are so few protests calling attention to conditions of great inequality, as in other countries. There is, of course, fear of repression, like the massacre at Tiananmen Square in 1989. But perhaps equally or more important, some point out, is that while inequality has indeed grown, incomes have risen even faster. Average per capita income in China rose between 1988 and 2008 by 229 per cent, ten times the global average of 24 per cent and far ahead of the rates for India (34 per cent) and other developing Asian economies.[76] "For most of the past three decades, all boats have been rising," one analyst speculates, "and most people pay more attention to their own boat than the boats that have risen higher…They may, in short, have bought into Deng Xiaoping's motto early in the reform era that 'some people and some regions should be allowed to prosper before others'."[77]

Conclusion

China's economy has a number of vulnerabilities.

One is regional disparity, stemming from a long-held policy of pushing some regions to develop ahead of the rest, which favored the southeastern coastal region that was easiest to integrate into the global economy.

A second is overcapacity, which stems from the decentralized character of China's capitalist development. This has encouraged excessive investment as local authorities competed with one another to attract investors to build industrial enterprises, resulting in much duplication and waste.

A third point of vulnerability is a destabilized financial sector marked by massive debt on the part of SOEs, runaway speculation in land, a roller coaster stock market, and an elusive, growing shadow banking system.

A deteriorating environment is a fourth source of growing crisis, though there have been undeniable advances in the government's programs to deal with some critical problems like air pollution.

Perhaps the fifth source of crisis might be the most intractable. This is rapidly growing social inequality, including gender-based inequality, which stems from formal and informal reversal of the gains women made during China's socialist period.

Environmental and social inequalities have generated widespread protests. The authorities have dealt with these outbreaks with a mix of repression and concession, being worried about the image of being associated with the emergence of large-scale protests, which would affect their chances of promotion in a party state system that values social stability above all. Despite their frequency, however, the impact of protests has been limited since they usually involve individual or group grievances that are not translated into challenges against the system of rule. A key reason for this may be that although inequality has risen in China, individual incomes have risen much faster, and people experiencing their boats rise rapidly might be less concerned with other boats rising much faster than theirs.

V

THE POWER BLOC

Internal power struggles are a central factor in shaping China's relations with the rest of the world. At the same time, China's global presence has had a feedback effect on domestic politics. One cannot fully understand the domestic power equation, for instance, without taking into consideration the major weight of groups, agencies, regions, and individuals associated with China's highly successful export-oriented manufacturing strategy.

Who rules China? From one perspective, the answer is simple: the Communist Party.

Reality, however, is not that simple. It is perhaps best to describe the party as the canopy within which different party factions or coalitions associated with certain policies, ministries, regions, and enterprises struggle for dominance, though within limits imposed by the party structure, traditions, informal understandings, and the internal power equation. The dominant coalition may be termed the "power bloc," by which is meant the group or coalition of groups whose interests the country's political economic configuration primarily serves. To determine which is the reigning power bloc, it might be useful to look at the struggle over economic policy over the last three decades.

One identifiable faction was constituted by the liberalizers, who were committed to transforming the economy into a more full-fledged capitalist economy marked by a stronger role for market forces, which they believed would promote a more efficient allocation of resources. Thenthere was the set of interests that had developed and congealed around the export-oriented strategy that had made China the "world's manufacturer." This coalition of elites, whose geographical base was the coastal provinces of southeastern China, writes Hung, "had germinated after China's initial opening to the world…grew in financial resources and political influence with the export boom and became increasingly adept at shaping the central government's policy in their favor. Their growing leverage in the central government's policy-making process secured the priority given to enhancing China's export competitiveness and the country's attraction to foreign investment."[78] A third grouping was made up of party leaders, government officials, and SOE managers from the western and inland regions that felt that their areas had been left behind by an economic growth process. Complex and fluid alliances marked the relations of these groups with one another, though the two main rivals appeared to be the liberalizers and the export lobby.

The export industrial complex or "coastal elite" developed into a powerful force over time, and its main argument in debates among the leadership was that China's very success as an exporting superpower meant that economic policy should not harm the interests and policies that had been responsible for this. They saw many of the liberalizers' initiatives as doctrinaire and harmful western liberal prescriptions.

The lobby included government planning bodies like the National Development Reform Commission and the Ministry of Finance, both of which had fathered the strategy of export-led industrialization; export-oriented state and private enterprises; local government and Communist Party bodies in the coastal provinces; and, not to be underestimated, state-owned construction firms whose infrastructure projects undergirded the export-led strategy.

This is not to say that the liberalizers and the export industrial lobby did not share some interests and points of view. Both favored China's cheap labor policy. Both supported the break-up of the institutions of job security of the Mao era, including the withdrawal of state subsidies for loss-making state enterprises that had not adapted to the export-led strategy. Financial policy was, however, another matter. Here the battle lines were drawn. Reformers wanted a more rapid reform of the financial system, pushing for liberalizing the low interest rates on deposits that had subsidized the export lobby as well as ending the virtual monopoly on bank loans enjoyed by the latter. Not only would the allocation of resources be more efficient, they argued, but millions of long-exploited savers would benefit, as would private businesses that had no access to credit from the state banks. The export lobby, however, was able to slow down reforms, and they were helped in no small measure by the conflict between the liberalizers at the People's Bank of China and anti-reformists ensconced in the big state banks. As Eswar Prasad points out, "The big banks, in tandem with the large state-owned enterprises and provincial governments that they bankroll, have been fierce and powerful opponents of reforms. The system, as it is structured, works well for these groups, which hardly makes them eager for greater liberalization."[79]

The leadership of President Hu Jintao and Premier Wen Jiabao that took over in 2002 tended to conciliate the export lobby but at the same time, it was worried that China's economy had become too dependent on exports and was sensitive to criticisms that the export lobby was cornering most of the country's real and financial resources, leading to greater inequality in the country and serving as kindling for social protest, to which the Communist Party was extremely sensitive.

When the Chinese growth rate began to dip as a consequence of the global financial crisis, the Hu-Wen leadership rolled out the $585 billion stimulus program, which, in relation to the size of the economy, was bigger than the concurrent $787 billion stimulus that the Obama administration injected into the US economy. The aim was not only to serve as a countercyclical instrument to reverse economic contraction. It was also meant to trigger a macroeconomic reorientation of the Chinese economy from export-led to domestic-led growth by increasing the purchasing power of consumers. The move was also meant to address the complaints of party and state officials from the inland provinces, whose state enterprises were less internationally competitive, that their regions had been left out of the boom. In fact, even before the crisis, the Hu and Wen leadership had already taken some steps to address these inequalities.

Western analysts like Barry Naughton have credited the stimulus program for saving China from spinning into recession while at the same time faulting it for being the key event that put an end to the big push towards economic liberalization that was pushed by Prime Minister Zhu Rongji at the turn of the century. Their argument is the stimulus involved a lapse into the "old socialist ways," where funds were indiscriminately funneled by the banks to the big state enterprises and local governments in order to have an immediate impact, and this resulted in inefficient, wasteful spending, revived the specter of nonperforming loans for the big Chinese state banks which the reforms of Zhu Rongji had banished, and brought back the worst features of state management.

These analysts are correct that the focus on rolling out the stimulus froze liberalization initiatives. But what transpired was not a retreat to socialism in the sense of prioritizing the interests of those groups that had been left behind by China's export-led growth. Alongside workers and peasants, these disadvantaged sectors included the small and medium entrepreneurs serving local markets and the general population in their roles as savers and consumers—in short, as the economist Hongying Wang put it, all those who have "suffered from the financial and public finance systems that have deprived them of their fair share of the national wealth."[80]

Since they controlled the channels through which trillions of renminbi could be quickly deployed—the big state banks, local governments, and big state and private enterprises engaged in infrastructure—the export lobby didn't just neutralize the plan to make domestic consumption the cutting edge of the economy. It was also able to hijack the massive stimulus program that had been intended to place money and resources in the hands of consumers. According to statistics Wang cited from *Caijing Magazine,* some 70 percent of the stimulus funds went to infrastructure while only 8 percent went to social welfare expenditures like affordable housing, healthcare, and education.[81]

Under Xi Jinping, who took over as president in 2012, the strategy has apparently been to impress the world with the rhetoric of

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UNDER XI JINPING, WHO TOOK OVER AS PRESIDENT IN 2012, THE STRATEGY HAS APPARENTLY BEEN TO IMPRESS THE WORLD WITH THE RHETORIC OF LIBERALIZATION BUT, IN PRACTICE, GOING IN THE OPPOSITE DIRECTION.

liberalization but, in practice, going in the opposite direction. As Economy points out, “the Xi-led government is…maintaining and even enhancing the role of the party in the economy. It is intervening to protect the economy from the vicissitudes of the market, shielding it from foreign competition, and more actively intervening in decision-making at the firm level.”[82] SOEs have played a critical role in the export-oriented strategy, but many have been regarded as inefficient and targeted for radical reform by the liberalizers. Under Xi, says Economy, “far from reducing the role of SOEs in the economy and the party's role in SOEs, the state has elevated their importance as national champions and intensified the role of the party in SOE decision-making.”[83]

That the interests of the coastal export industrial complex have been enhanced under Xi is perhaps not surprising, for as Hung points out, Xi Jinping, like former President Jiang Zemin, has come from the coastal export industrial lobby, and their promotion to the party-state power center “definitely increases the leverage of the coastal local elite, many of whom are the top leaders' former proteges and acquaintances, to lobby for policies in their favor.”[84] This is not to say that other interests and policy preferences are not promoted by the dominant bloc. Coalition politics are fluid and there are issues with cross-cutting appeal to a range of forces that may not see eye to eye on all issues, such as the necessity of purifying the party of corrupt elements or checking the most socially destabilizing effects of the market with safety nets.

A new phase in coalition politics may have taken place since 2013, with the launching of the BRI. The BRI might be an effort to reconcile the different interest groups struggling for dominance—among them, the coastal coalition, the faction pushing the interests of the inland provinces, the SOE infrastructure-industry lobby seeking an outlet for overcapacity, and state banks looking for a way to stop the unprofitable SOEs' drain on their resources. The BRI has, in fact, been promoted as a “win-win” solution for all factions.

To be effective, the interests of the power bloc must be seen as advancing the general interest. This is where vision and ideology come in, and in this area, Xi Jinping's “Chinese Dream” has played a critical role in legitimizing his faction's claim to party and state leadership. Elements of this dream include the doubling of incomes by 2020, comprehensive national economic and military modernization, rejuvenation of the Chinese nation, and regaining China's historic place in the international system through such programs as the Belt and Road Initiative. This is not to say that Xi is not sanguine about achieving these goals; it is simply to acknowledge that one of their functions is to ensure legitimacy for the reigning power bloc.

Conclusion

Economic policy has been a central area of struggle in China over the last three decades. While there have been several factions involved in the policy struggle, the two main rivals have been the liberalizers and the coastal export industrial bloc. Basing its legitimacy on China's export success, the latter has been able to channel resources to its preferred regions and policies.

The $585 billion stimulus in response to the 2008 global financial crisis was a major bone of contention from which the coastal export coalition emerged victorious, being able to corner the bulk of resources unleashed by the stimulus. The liberalizers have yielded even more ground since Xi Jinping, who comes from the coastal coalition, came to power in 2012. While Xi has adopted the rhetoric of liberalization, the implementation of his policies has favored the interests of the export industrial bloc.

The launching of the BRI in 2013, however, might represent a new phase in coalition politics, with the project sold as a win-win situation for all key interest groups. This ties in to Xi Jinping's vision of a rejuvenated and comprehensively modernized China that has regained its place in the sun. This "dream" must be seen not simply as device for mobilizing national energies in the desired directions but also as a means to legitimize the country's power bloc.

VI

CHINA'S GLOBAL REACH: FOLLOWING IN THE FOOTSTEPS OF THE WEST?

Since the late 1990's, to feed its people and the export machine, China's SOEs and private companies have fanned out throughout the developing world seeking raw materials, food, markets and profits, and entering into trading arrangements with other governments, if not themselves engaging in direct investment to secure and process these commodities.

Trade

Africa, Latin America, and Southeast Asia have, over the last 20 years, have seen the heavy footprint of the Chinese economy. To governments in these economies, this has been largely positive, and they undoubtedly are right that Chinese demand for their raw materials, food, and industrial inputs has been an important contributor to their growth, especially during the pre-2008 period.

A division of labor emerged among the different areas of the world in terms of provisioning China's economy. Africa has specialized in providing raw materials such as copper, oil, and coal. In 2012, crude oil accounted for 70 per cent of African exports to China and other raw materials came to 15 per cent.[85] While iron ore and oil are important, a huge part of Latin America's exports to China has been food products like soybean, sugar, coffee, and animal feed. At the beginning of this decade, Brazil provided China with approximately 45 percent of its soybean imports and Argentina accounted for another 30 percent.[86] With its trade war with the US, China has become more dependent on Brazil for soybeans, and it is now importing more soybeans from Brazil than the US.[87]

Since 2009, China has outstripped Japan, the EU, and the US as the largest trading partner of the Association of Southeast Asian Nations (ASEAN).[88] Two-way trade soared ninefold, from $4.8 billion in 2002 to $446.3 billion in 2013.[89] However, the trade patterns established with China are a bit more complex than those of other regions. While most Southeast Asian countries, like most developing countries, export mainly raw materials and food to China and import finished manufactured goods, an increasing portion of their exports are components for finished goods. For instance, in the case of the Philippines, in 2018, electronic components accounted for 55.1% of total exports, with "other" manufactured goods accounting for a 6.3% share and machinery and transport equipment for 4.8%.[90] These figures reflect the fact that China has become the center of a regional production network encompassing both the developed countries of Northeast Asia and the less developed Southeast Asian economies. Under pressure from competition from China in finished manufactured goods, Asian economies chose not to go head to head with China on these goods but painfully restructured their industries to provide components for goods that were assembled with cheap labor in China. As Hung writes, with capital for labor-intensive assembly fleeing to China, "most Asian economies increased the weight of their export of high-value-added components and parts (e.g., for Korea and Taiwan) and capital goods (e.g., for Japan) to China, where these capital goods and parts were employed and assembled into finished products to be exported to rich countries' markets."[91]

While the relations of China with the developing countries appear to follow classic "colonial" or "neocolonial" patterns, whereby the latter are mainly raw material and agricultural exporters and importers of manufactured goods, it is important to bear in mind a couple of things.

First, unlike the trade relations of developing countries with the West, which were initially created by force before they congealed into structural features, China has not engaged in forcible and violent imposition of its trading patterns.

Second, while China's edge in low-cost manufacturing has destabilized the manufacturing sectors of countries like Mexico and Brazil even within the latter's domestic markets, trade with China has been a boon to many developing countries by allowing them to diversify their trade from dependence on western markets. There is a great deal of truth in the statement made by Buddy Buruku, policy adviser of the Ghana-based African Center for Economic Transformation: "African leaders have to realize we Africans are in a unique position we never enjoyed before. Africa has an abundance of resources that China does not have much of. So Africa is the girl China has to court. There is a power we have as Africans we are not exercising. Realizing that will make for a better [relationship] over time."[92] To some analysts, this statement underplays the benefits accruing to Africa since many African governments (and Latin American governments) have been able to extract significant royalty payments from commodity exports or commodities-for-infrastructure exchange arrangements with Chinese state firms.

Third, China has been a strong advocate for developing country positions in the World Trade Organization, when it comes to agricultural trade, "special and differential treatment" of developing economies, and protection from EU and US efforts to tighten intellectual property rights, bring down investment barriers, weaken domestic regulations, do away with industrial policy, and subject state enterprises to greater WTO discipline. Despite its status as the world's largest economy, China's oft-repeated claim that it is still a developing country with developing country interests has a strong basis in fact.

Investment

Like trade, Chinese investment in the developing world has boomed over the last two decades. China, as Kevin Gallagher notes wryly, is now"the world's largest development bank." [93] Two of its agencies, the China Development Bank and the Export-Import Bank of China, have provided nearly a trillion dollars' worth of financing to foreign countries since the early 2000's. Additionally, it has negotiated or pledged some $230 billion in development in bilateral and regional development funds across world.[94]

Including loans and direct investment, China's cumulative investment in Africa totaled $40 billion in 2012, including $14.7 billion in direct investment. According to Beijing, there are more than 2,000 Chinese firms that have invested in Africa.[95]

From 2005 to 2014, China has provided more than $100 billion in loan financing to Latin American countries and firms, with two major state-owned banks, China Development Bank and China Eximbank accounting for the bulk of this.

In Southeast Asia, billions of dollars have been funneled by China's state-owned banks into infrastructure and related projects executed by Chinese state-owned enterprises. Southeast Asia is China's backyard, and it is not surprising that the Chinese government has reportedly spent 1.5 trillion yuan or $240 billion in projects to link Guangxi province to Southeast Asia and plans to spend $80.6 billion in infrastructure in Yunnan "to create a gateway to Southeast Asia."[96] On the other side of the border, Myanmar has been the recipient of billions of dollars for infrastructure and related projects. One is a 2806 kilometer-long oil and gas pipeline, estimated to have cost $2.5 billion, linking Yunnan to the coastal state of Rakhine. Another is the 6000 MW Myitsone Dam in Kachin state, in which China was expected to invest $3.6 billion before it was suspended owing to opposition among the Kachin ethnic minority.[97] According to some estimates, at least 45 Chinese corporations have been involved in approximately 63 hydropower-linked projects in the country.[98] Chinese state corporations have also been involved in two multibillion dollar scandal-ridden port-upgrading and industrial park projects in Malaysia,[99] and a controversial $1.6 billion hydroelectric plant in Sumatra, Indonesia, and two agreements totaling about $333 million to build dams on Luzon island have been signed with the Duterte government in the Philippines.[100]

Most of the monitoring of Chinese investment has focused on highly visible loans and investments by Chinese banks and state enterprises. Increasingly, however, much investment has come into China's neighbors and other developing countries in the form of what Alvin Camba calls Chinese "flexible" private capital. Many small-scale private textile and garment firms, for instance, have moved from Shenzen to Vietnam as labor costs have risen in China. Other private investments are less publicized and less easy to comprehensively monitor since they often involve controversial operations such as massive landgrabbing in Cambodia, with the connivance of the Hun Sen government, or illegal small-scale mining and shady offshore gambling operations in the Philippines.
As noted by Camba, perhaps the leading analyst of Chinese flexible capital, much flexible Chinese capital seeks "to escape the whims of the Chinese state."[101] Much capital entering the Philippines, for instance, does

not come directly from China, but is raised by borrowing from capital markets like Hong Kong by Chinese nationals who then funnel it to the Philippines, sometimes with the aid of Filipino-Chinese intermediaries.[102] Xi Jinping's push for more centralized control over private capital has also apparently pushed many of the bigger private capitalists to support these smaller enterprises, with much money transmitted via the shadow banking system.[103]

Criticisms of Chinese Investments

Support for Autocratic Regimes. As with its trade relations, there have been criticisms of Chinese investment. One criticism, voiced by organizations concerned with labor and human rights, is that it does not attach human rights conditionalities to its loans and investments, thus helping prop up corrupt authoritarian regimes such as that of Robert Mugabe in Zimbabwe and Joseph Kabila in the Democratic Republic of the Congo. Other criticisms have to do with labor and environmental abuses by Chinese firms and their engagement in economically destabilizing activities or outright illegal operations.

On the question of Chinese loans and investments helping to prop up dictatorial regimes owing to Beijing's refusal to attach human rights and democratic conditionalities to its loans out of respect for national sovereignty, there are several things to consider. First of all, while there are instances where this is true, the claim does not hold as a general rule according to some researchers. It might be worth pointing out that investigation by Julia Bader, has, in fact, come out with the counterintuitive finding that "China's economic cooperation appears to have unexpected positive effects for democratization," that is, the level of Chinese aid is positively correlated with transitions to democracy.[104] This is an issue that must be probed further.

Second, not being itself a democratic regime, it is hardly to be expected that the Chinese government would limit its loans and investments only to democratic governments. Democracies, with their inherent complexities when it comes to decision-making, are not that legible to Beijing which is much, much more familiar with the top-down processes of authoritarian rule. Much, much more questionable in this regard is the solid support given by the United States to a bloody dictatorship like Saudi Arabia, even as it has set itself up as a champion of democracy, as it did during the administration of President Barack Obama and all preceding administrations, Democratic or Republican.

Third, democracy is not a guarantee that aid will be put to good uses. When China has provided support to some democracies, its aid or loans have become enmeshed in the corrupt politics of the recipient government, as in the case of Chinese aid to the Jacob Zuma government in South Africa and the administration of Gloria Macapagal Arroyo in the Philippines.[105]

Fourth, it is arguable that the indirect consequences of China's not attaching human rights and democratic rights conditions to its loans are much less damaging than the direct comprehensive structural consequences of invasive neoliberal conditionalities attached to bilateral or multilateral loans by western governments or western-dominated international agencies. In this regard, It is now accepted that economic policy conditionalities attached to World Bank and International Monetary Fund loans and grants contributed to stagnation,

Activists and analysts allege that controversial Kamchay Hydroelectric Dam in Cambodia benefits mainly local elites. *Courtesy of International Rivers.*

greater inequality, and greater poverty in large swathes of Latin America and Africa in the 1980's and 1990's.[106]

Chinese investments and their social and environmental impacts. On the question of labor abuses, environmental crises, and economic and social destabilization, again, the charges are valid. There are many reports, many of them undoubtedly true, of abusive labor practices when it comes to local workers and the displacement of the latter by imported Chinese workers. That a number large-scale projects financed and implemented by China have many drawbacks, including the fact that benefits are being cornered only by Chinese state enterprises and local elites, to the disadvantage of the majority of the rural population, have also been well documented, for example, in the case of the Kamchay Dam in Cambodia and a number of energy infrastructure projects in Ghana.[107]

There is conflicting evidence on whether the practices of Chinese enterprises are worse than those of western corporations. Certainly, western companies engaged in extractive and related activities, such as the Australian-Canadian mining giant Oceana Gold in El Salvador and the Philippines, have records that would compare with, if not surpass in notoriety, those of Chinese firms.[108]

Moreover, Western transnational firms have increasingly taken to subcontracting their cheap-labor and polluting operations to enterprises in developing countries, so that the comprehensive global impact of their value-chains, in terms of labor exploitation and environmental pollution in the Africa, Latin America, and Asia outside China is probably much greater than those of a limited number of Chinese state enterprises. It has been shown, for instance, that "carbon emissions arising from the global supply chains of the European pharmaceutical industry are about ten times as high as its emissions from direct operations. A similar picture is observed for water consumption (about three times as high) and air pollution (twenty times as high)."[109] In the countries included in China's Belt and Road Initiative, for instance, "US and EU consumers are responsible for 30% of the carbon emissions in BRI countries through embodied carbon flows."[110]

The bigger problem for both western and Chinese enterprises is the dynamics of capitalism, where the search for profit is the main driver of wage rates and processes of production that have a negative impact on the environment. But here, one can make the argument that Chinese state enterprises are better equipped to make positive reforms in these areas since they do not operate only on the law of value but of also of other considerations like social stability, as they do within China, where even when unprofitable, enterprises are kept alive, wages are maintained at decent rates, and communities are not disrupted for fear of provoking instability. There are, indeed, signs that Chinese state firms are beginning to take seriously complaints about their behavior and considering putting in place some reforms already implemented domestically.[111] This having been said, however, the trend observed by some analysts is for Chinese state firms to behave in ways "no different from other large multinationals operating in the global South."[112]

The foregoing considerations have been brought up not to excuse bad or questionable practices on the part of Chinese state enterprises but to place them in perspective, especially in relation to the practices of western corporations and western-dominated official agencies like the World Bank and the International Monetary Fund, which have a much longer record in their dealings with the global South.

Chinese private capital and its impact.
While the focus of many analysts has been on Chinese state enterprises, a great deal of social and environmental damage has stemmed from the operations of Chinese private capital, which has been accused of harsh exploitation of labor. In Zimbabwe, Zambia, and the Democratic Republic of Congo, the chief culprits of labor abuse in the mining industry are small Chinese mining companies.[113]   Small and medium private capital is also engaged in criminal activities

WHILE THE FOCUS OF MANY ANALYSTS HAS BEEN ON CHINESE STATE ENTERPRISES, A GREAT DEAL OF SOCIAL AND ENVIRONMENTAL DAMAGE HAS STEMMED FROM THE OPERATIONS OF CHINESE PRIVATE CAPITAL, WHICH HAS BEEN ACCUSED OF HARSH EXPLOITATION OF LABOR.

or questionable activities like land grabbing, illegal mining operations, and internet gambling. They have also triggered socially disruptive processes like uncontrolled inflation of real estate prices in the host societies. These are to a great extent outside the control of the Chinese state, though there might be corrupt officials involved in the facilitation of these businesses.

Indeed, the Chinese state may want to curb these activities. In the case of offshore gambling in the Philippines, for instance, Chinese operators serving mainland gamblers fled to the Philippines owing to tighter regulation of gambling in Macau, the only place in China where casinos are legal. As a result of its electronic subversion of the gambling ban in China, which has intensified with the anti-corruption campaign of Xi Jinping, Beijing has pressured the Duterte government to close down offshore gambling casinos.[114] This has, however, been so far largely unsuccessful since online gambling is a profitable business for moneyed interests supportive of President Rodrigo Duterte, contributing $184 million of the country's total revenue from gambling of $2.92 billion.[115]

Assessing China's Global Presence in the Light of Lenin's "Imperialism…"

Lenin's *Imperialism: The Highest Stage of Capitalism* may seem to many to be dated, but his checklist of what distinguishes an imperial power might be a useful theoretical tool for evaluating China's role in the world.[116] Of the five essential features that define an imperial power—the dominance of monopolies, the merger of finance with industrial capital, the central importance of its export of capital alongside its export of commodities, being part of what he called "international capitalist associations" that provide the political canopy for economic exploitation, and the territorial redivision of the world by force—China lacks the fifth element. Lenin's stress on this dimension parallels and reinforces our contention that the employment of force, coercion, and violence in support of economic interests, whether formal or informal, overt or covert, is a central consideration in judging if China is an imperial force in the image of the West.

Force and violence, which were so central in forging the trade and investment relations of the United States and Europe with the developing world, have been absent in China's 25 years of global trade and investment expansion. One simply cannot find equivalents of the violent scramble for colonies that the western powers pursued in the late 19th century in Africa, nor instances of the gunboat diplomacy that both Britain and the US resorted to in Latin America. There have been cases of abuse of labor, environmental destruction, and preference for Chinese over local workers, but we see nothing in China's record that matches the Central Intelligence Agency's covert actions to overthrow Jacobo Arbenz in Guatemala, Mossadegh in Iran, and Salvador Allende in Chile in the second half of the 20th century.

China's neighbors have little fear of China mobilizing for intervention in the event of an investment dispute, and this is not only because it does not have the military capabilities to do so but because intervention is simply not part of China's economic diplomatic repertoire. China's army lay just across the border, but the Thein Sein government in Myanmar did not even take the prospect of military intervention into consideration when it abruptly cancelled

The village of Tang Hpre village relocated for the Myitsone Dam in Myanmar. Protests by the Kachin people forced the Myanmar government to suspend the project. *Courtesy of Rebecca via Wikimedia Commons.*

the construction of the Chinese-funded Myitsone Dam in 2012. Indeed, when Yangon opened up to the world in 2011, Beijing acknowledged that it lost much of the economic influence it had built up during Myanmar's period of isolation, but there was never any consideration on its part to restore its preeminent position by force or intimidation.[117] Nor was the deployment of force entertained when two nearby countries, Pakistan and Nepal, cancelled multibillion dam projects that these two governments had entered into with Chinese state enterprises, in the first case, because of objectionable conditions, and in the second because of the lack of competitive bidding.[118]

In contrast, Latin American countries, such as Venezuela, have always factored in the possibility of US intervention, not only by direct gunboat diplomacy but by covert action and support for opposition forces when they nationalize US firms or adopt progressive economic policies not sanctioned by the US.

This is not to say that China never uses force in its relations with other countries. It does, but when it has, this has for the most part not been to advance economic or corporate objectives but to assert its side in border disputes, push what it considers historical sovereign rights, or pursue defensive strategic goals. One must flag here, however, that strategic politics and economic self-interest have come together in a very disturbing way in China's behavior in the South China Sea or West Philippines Sea. This is, however, a special case, the implications of which will be taken up below.

The Broader Context

At this point, it is critical to bring in the broader context for assessing the impact of China's trade and investment activities in the global South. In contrast to western institutions and corporations, Chinese capital has had only about 25 years of "going out into the world." One can say that it is still engaged in the early phase of a learning curve where one can expect many mistakes to be made. The reality is that, for all its flaws and missteps, China's trade, lending, and investment push has been a net positive for developing countries. It has given them alternative markets and an alternative capital source to western private capital and to loans from multilateral agencies with all their growth-throttling conditionalities. In the much needed area of infrastructure building, where there is said to be an grossly unmet need of some $3 trillion, China offers practically the sole source of financing for many countries since western-led financing for development has been stagnant for years now and western agencies attach neoliberal conditionalities.[119] In this regard, China is not just engaged in building much criticized hydroelectric dams and coal-powered plants. Chinese loans have also been a source of financing for building hospitals, schools, and rural roads and bridges.

Global macroeconomic data indicate that Chinese lending offers not only alternative finance but alternative finance that tends to reduce inequality. Research by a transnational consortium of analysts from leading US and German universities found that "Chinese development projects—in particular, 'connective infrastructure' projects like roads and bridges—are found to create a more equal distribution of economic activity within the provinces and districts where they were located. The study also measures the impact of Chinese development projects on economic inequality between provinces and districts, and here too the results provide grounds for optimism: Chinese government-financed projects appear to reduce, rather than widen, economic disparities between regions."[120] This conclusion does not, however, factor in environmental impacts, so more research is necessary for a truly comprehensive assessment of the impacts of Chinese investment—a consideration that we will take up more fully below, when we discuss the Belt and Road Initiative.

It is true that Chinese loans carry an interest rate above that which accompanies loans from the World Bank, regional development banks, and bilateral donors like Japan. However, China has also engaged in many acts of debt forgiveness or debt cancellation. This year, it has written off $78 million owed by Cameroon; in 2018, it wrote off $72 million owed by Botswana and $10.6 million owed by Lesotho; and in 2017, $160 million worth of debt owed by Sudan.

The Rhodium research group found 40 instances of renegotiations of debts to China amounting to $50 billion across 24 countries since 2000. In his 2010 UN Millennium Challenge speech, then Prime Minister Wen Jiabao revealed that China canceled debt owed by 50 heavily indebted poor countries (HIPCs) and least developed countries (LDCs) worth 25.6 billion yuan ($3.8 billion) as of 2009, and would cancel more in 2010. Similarly, in 2018 Xi Jinping said that China would write off some interest-free loans to Africa's poorest nations during the Forum on China-Africa Cooperation.[121]

If one takes this broader view, then, while criticisms from recipient governments and communities of aspects of the activities of China's SOEs that stem from negative practices must be taken seriously by Chinese authorities, this process must be seen is part of the learning process. One can only hope the Chinese will derive the appropriate lessons from this experience to avoid having to repeat what Gallagher describes as the "tattered past" of western development lending.[122]

Indeed, for all their complaints about the behavior of Chinese state enterprises in their countries, many people do not place China in the same category as western corporations. Looking closely at the depictions of China in both the government-controlled and opposition press in a number of African countries, one of the more even-handed studies of China's role in the continent found that,

> …African media have criticized Chinese individuals and corporations for bad behavior; a few Zimbabwean news articles were found to accuse China of neo-colonialism or portray China as an economic threat, and some South African and Zambian media articles have criticized their governments for being too friendly with China, but most articles have not portrayed China an evil empire out to exploit Africa.
>
> Although China gets its share of criticism in the African media, apart from a few exceptions, the African press did not see China as a neo-imperialist nor did they paint the Chinese in racist colours. So, to the question of whether the African media perceives China as imperialist or neo-colonialist, the answer is mostly "no"…Both the state-owned and relatively freer media have not depicted China as imperialist. State-controlled media tends to reflect the views of the government, while the more independent media generally reflects more the view of the people.[123]

These perceptions may, however, change if China does not make moves to correct its mistakes and allows the questionable practices that its corporations and agencies made in the first stage of the country's opening up to the world to persist. Changing questionable or bad behavior will not be easy, but unless China acts soon, these behaviors can congeal into structural patterns similar to those displayed by western corporations. These structures can then become the mechanisms and avenues of domination should a leadership seeking global hegemony emerge in China—a point that some—not the author—say has arrived with Xi Jinping, who is said to be intent on making China supplant the United States as the world's leading power.

The behavior of Chinese economic actors is definitely of great concern, but does this dimension and the related issue of China's military behavior, which we will take up later, exhaust our concerns about China's imprint on the global South? Might not looking at China's economic and military behavior and coming to the judgment that they are not reproducing western patterns be too limited a perspective in assessing China's relationship with the developing world? This is an issue that we will probe further in the following section, on the Belt and Road Initiative.

Conclusion

There is no doubt that many countries have had some negative experiences in their trade and investment ties with China such as environmental damage, destabilization owing to the super-competitiveness of Chinese goods, and preference for Chinese over local labor.

In evaluating these experiences, however, several things must be borne in mind.

CHINA'S TRADE RELATIONS WITH THE GLOBAL SOUTH HAVE NOT BEEN IMPOSED BY FORCE, UNLIKE IN THE CASE OF THE WEST AND THE SOUTH.

First, China's trade relations with the global South have not been imposed by force and violence, unlike in the case of the West and the South.

Second, the absence of human rights or democratic rights conditionalities in its loans may have had negative consequences in terms of indirectly propping up some dictatorships but, as noted above, some serious research shows no positive correlation between Chinese aid and lending and the consolidation of autocracies, revealing instead a counter-intuitive correlation of the former with democratization. On the other hand, neoliberal conditionalities attached to western loans have consistently been shown to have great negative impacts of a comprehensive and structural nature.

Third, the negative social and environmental impacts of western corporations are also likely to be much greater since these are transmitted globally via supply chains as they subcontract many of their operations to developing country enterprises.

Fourth, when other countries cancel or go back on multibillion dollar contracts with Chinese enterprises, they do so for the most part without fear of Chinese retaliation in the form of military intervention or covert operations, again unlike the experience of many countries with the West. This not to say that China never resorts to force to protect its interests, but in those cases when it has, most of these are connected mainly with border disputes or defensive strategic concerns. It must be pointed out here, however, that this is not the case in the South China Sea crisis, where strategic concerns have been wedded to resource grabbing, an issue we shall elaborate on below.

Fifth, having had only about 25 years since they "went out to the world," China's SOEs have been on steep learning curve, with many mistakes and bad practices stemming from this learning process.

Finally, despite complaints about the behavior of Chinese enterprises, China is, for the most part, not seen by many in developing countries as an imperial or neocolonial power in the image of the West.

It is also important to distinguish between the impacts of state-backed Chinese capital and flexible private capital. The behavior of state-backed capital can be blamed on the Chinese state, which has the ability to correct it. That of flexible private capital is much more difficult for the state to control since many of the Chinese interests in a large number of private enterprises are hidden from view in covert ownership arrangements. Moreover, a good deal of private capital is involved in activities that are criminal and illegal in either China or the host state. When the Chinese state does try to halt business activities that it perceives as harmful to its citizens, it sometimes finds its desire thwarted by the host state, as in the case of online gambling in the Philippines.

Overall, China's trade and investment relations with developing countries have been a net positive, providing, as they do, alternatives to trade, investment, and aid relations with western countries or western-dominated multilateral agencies that impose growth-strangling conditionalities. Nevertheless, China must act quickly to correct the questionable and deplorable practices of some of its state and private enterprises abroad before they congeal into structural patterns that can become the mechanisms or avenues for domination should a leadership emerge that is bent on global hegemony.

The question is, however, posed: might not be the question of whether or not China is reproducing the ways of the West, while very important, be rather limited in helping us to fully comprehend its impact in the global South?

The Myitsone Hydroelectric Project is located at the confluence of the Mali and N'Mai rivers and is the largest of seven dams (total capacity 13,360 MW) planned along the Irrawaddy, Mali Hka, and N'Mai Hka rivers in Myanmar. Scheduled for completion in 2019, Myitsone was slated to become the 15th largest hydropower station in the world, with installed capacity at 6,000 MW, when construction was suspended by the Myanmar government owing to protests from the Kachin people. *Courtesy of International Rivers.*

VII

THE BELT AND ROAD INITIATIVE: GRAND PLAN FOR DOMINATION OR STRATEGY FOR CRISIS?

Four international projects have been associated with China during the last few years: the Asian Infrastructure Investment Bank (AIIB), the New Development Bank, the Regional Comprehensive Economic Partnership Agreement (RCEP), and the Belt and Road Initiative. All four, but especially the last, have been seen as projects meant to enhance China's global economic power.

First proposed by President Xi Jinping in 2013 to fund Asia's infrastructure needs, the AIIB has currently 52 member states, with 18 prospective members, and its starting capital is $100 billion. The New Development Bank, also known as the "BRICS Bank," was set up by China, Brazil, Russia, and South Africa in 2015 to support development projects in the Global South. While some have interpreted these moves as China's effort to supplant the US-dominated multilateral system, Hung asserts that China's effort to build multilateral banks "should be seen not as a challenge to the existing system of international finance, but as a way to supplement that system that allows China to sacrifice some of its discretionary power to obtain the cover and legitimacy that other participating countries can provide."[124]

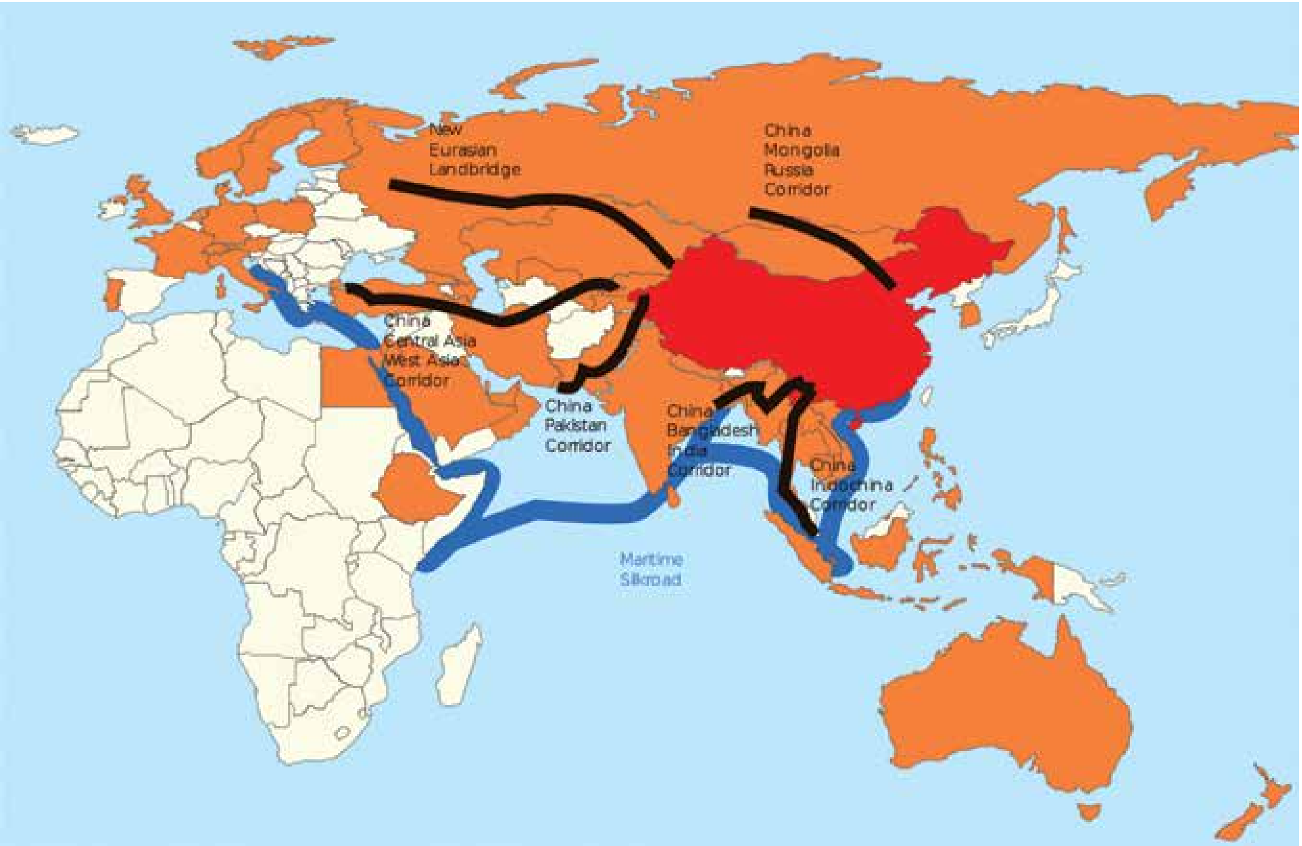
China is a key actor in the proposed Regional Comprehensive Economic Partnership Agreement, which brings together the ten members of the Association of Southeast Asian Nations (ASEAN) with China, Japan, India, South Korea, Australia, and New Zealand in what would be the world's biggest free trade bloc, upon completion of negotiations which have been dragging on for years since the body was first proposed in 2010. RCEP was seen by many to be the answer from China and its close Asian allies to the proposed Trans Pacific Partnership (TPP) that had, at US insistence, excluded China.

It is, however, the Belt and Road Initiative (BRI), for which Xi Jinping has announced a commitment of $1 trillion, that has elicited the most attention and has been interpreted by some as Beijing's boldest gambit in its drive for global power. Drawing on the historical image of trade routes from China to Europe—one the overland "Silk Road" via Central Asia, the other the "Maritime Silk Road" that had southeastern China as the starting point—Beijing offered to finance a plan of infrastructure building across regions that it claimed would lead to collective prosperity.

One analyst describes the BRI as a "well thought-out Chinese grand strategy... [designed] to reclaim [China's]] geopolitical dominance in Asia ... [challenge] US dominance and ... create a Chinese-centered order."[125] The aim of this "offensive nationalism," writes Jonathan Holslag, is to "predate on Europe's internal market" and, through massive investment, "enmesh Eurasia and Africa into a dense network of trade, capital, transportation, communication, and information."[126] For the White House Office of Trade and Manufacturing Policy headed by Peter Navarro, arguably the most influential economist in the US today, the BRI is "a Chinese strategy to dominate much of the infrastructure, resources, and trading routes of the world" that is one dimension of Beijing's strategy of "economic aggression."[127]

BRI and the Overcapacity Problem

To some other analysts, however, the BRI is really an effort to place a superficial image of order to crisis and chaos. The crisis is the overcapacity problem that is now the key drag on the Chinese economy, forcing SOE balance sheets into the red, and making their survival dependent on the permanent infusion of funds from the state banks, resulting in even more massive indebtedness. Externalizing China's surplus capacity crisis is the key drive behind the BRI, earlier known as the One Belt, One Road (OBOR). As Lee Jones puts it, the BRI "is not some new invention of Xi Jinping...[It] is really a rebranding exercise, or a fresh spur, to a process of externalisation of surplus construction capacity that has been happening for well over a decade."[128]



One Belt, One Road transmogrifies into six or seven as provincial and local authorities battle for visibility, funding, and influence in Beijing. *Courtesy Lommes via Wikimedia Commons.*

As Jones and Zeng explain, China's overcapacity problem, already serious before the global financial crisis, was exacerbated by the massive $586 billion stimulus that the Hu Jintao-Wen Jiabao leadership put together in 2008 to counter the effects of the implosion on the domestic economy:

> The real impetus for expanding infrastructure programmes through OBOR [One Belt, One Road] was the long-term fallout from the 2007–2008 global financial crisis. China rode out the crisis only through a US$586bn stimulus package, mostly involving local government borrowing to finance infrastructure projects. By the early 2010s, the stimulus was spent and many local governments were virtually bankrupt. Overcapacity exceeded 30% in the iron, steel, glass, cement, aluminium and power generation industries. Many SOEs faced a major profitability crisis, with returns on domestic infrastructure turning negative. Meanwhile, Chinese banks faced their own over-accumulation crisis, with US$3tr in foreign exchange reserves and dwindling domestic lending prospects. For these interests, OBOR represented an opportunity to internationalise their domestic surplus capacity.[129]

Interestingly, there are Chinese academics close to the government who do not hesitate to claim that overcapacity is a central driver of the BRI and the AIIB. "It is not true that China is simply altruistic," writes Xiao Ren. "At present, the overall Chinese economy is undergoing a restructuring process. As its economy slows down and evolves, the country needs to find new markets for its capital goods." Thus, infrastructure projects promoted by the AIIB "will help to transfer the overcapacity of production…."[130]

Also to be noted is that Holslag, who sees the BRI as a grand strategy, admits that overinvestment and overcapacity are its central drivers, though he hastens to add that China seeks to "bend" these "weaknesses" into "strengths."[131] Also of interest is that while the White House Office of Trade and Manufacturing Policy paper cited earlier denounces China's coordinated global "economic aggression," it admits in a footnote that "It is unclear whether China deliberately uses overcapacity to gain control of industries. A competing view is that such overcapacity is the result of factors within China beyond the central government's control, e.g., the entrepreneurial efforts of local and provincial governments to stimulate growth in their jurisdictions."[132]

Looking more closely at the surplus capacity problem, it is important to point out that the fallout from the 2008 stimulus merely made it more acute rather than created it. The essential cause lies in the main features of economic decision-making

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THE BRI IS REALLY A PROJECT TO SOLVE CHINA'S OVERCAPACITY PROBLEM THAT ENDS UP EXPORTING ITS ENVIRONMENTAL CRISIS.

in China, earlier alluded to. One is the fragmentation of authority, or the dispersal of authority "to numerous, often overlapping, agencies, ministries and quasi-independent regulators."[133] Another is the "decentralization of power, resource control, and policy making and implementation, particularly to provincial governments, creating a '*de facto* federal' state," whereby "subnational governments can 'adjust' national policies to local circumstances, producing constant multi-level bargaining around, and substantial non-compliance with, central initiatives."[134] A third is the "internationalization" of formerly domestic actors, such provincial authorities and local SOEs that come into contact and establish relations with foreign governments and international agencies separate from the relations of the central government with these bodies.[135]

BRI Rhetoric and Reality

The upshot is that while Xi articulated BRI as part of his vision for the "rejuvenation" of China, the content of BRI was filled with projects by provincial authorities, SOEs, and national ministries competing for funds and bureaucratic power. Rather than the top-down planning that was the image of the BRI in the West, the process was actually a competitive and often disorganized bottom-up affair. After Xi gave his Silk Road speeches in 2013, bureaucrats tried to outdo each other in sycophantic praise of him even as they launched a battle of resources for their local governments, SOEs, and ministries. Jones and Zeng provide a snapshot of this process:

> [T]hese politico-economic actors lobbied furiously to influence the translation of Xi's slogans into concrete policy, in order to grab part of the spoils. Only 14 provinces were invited to the NDRC's initial OBOR symposium in December 2013, indicating a relatively tight circle of beneficiaries. Excluded provinces, however, quickly lobbied for inclusion,through forums like the NPC. Provincial universities and think tanks were encouraged to demonstrate locales' historical links to the ancient silk road—generating the aforementioned publications boom. Local media were also enlisted, leading to a profusion of stories mentioning OBOR, from 543 in 2014 to 5935 in 2015, with coverage in virtually every provincial outlet. For example, Shaanxi and Henan provinces waged an intense public battle over which of them contained the start of the historical silk road. Competition over the MSR's 'starting point' was even fiercer, with rival claims from Fujian, Jiangsu, Guangdong and Guangxi. Provinces with weaker claims invented 'starting points' linked to geographical locations or commodities, like porcelain or tea, then even squabbled over these. Shandong and Hebei, for example, both claimed that their cities, Qingdao and Huanghua, were the 'northern starting point.'[136]

The ultimate in bureaucratic inflation occurred, however, when, in 2015, "BRI was opened up to every country on Earth. There was no longer one belt and one road, but rather three land routes (to Europe via Central Asia/Russia; to the Middle East via Central Asia; and to India via Southeast Asia); two maritime routes (to Europe via the Indian Ocean, and to the South Pacific via the South China Sea); and six 'corridors' (the New Eurasian Land Bridge, China-Mongolia-Russia, China-Indochina, China-Central Asia-West Asia, China-Pakistan and

BCIM)."[137] Even some government officials and intellectuals saw this as a bit too much, with one influential scholar, Xue Li, decrying the expansion of the BRI's mandate to the whole world, arguing, "If you put it everywhere, it becomes nothing."[138]

Not only does BRI threaten to become meaningless. It's become very costly. For instance, the BRI's vision of Eurasian "connectivity" has resulted in an explosion of railway traffic from China to Europe as local governments maneuvered to get themselves on as railway freight stations to gain visibility to the party leadership and thus access subsidies provided under BRI. This uncontrolled competition has resulted in virtually empty freight trains running hundreds of thousands of kilometers across the vast Eurasian land mass, with one particularly scandalous case involving transporting 40 empty containers and just one full container all the way to Europe.[139] One commentary noted that the China-Europe railway "confirms what some observers have suspected all along: that China's central government lacks the ability to keep the BRI strategically tight and coordinated. Sub-national stakeholders, as they do in other policy areas, have the incentives to bend the initiative to their own narrowly defined interests and in the process undermine the overarching strategy, if such a strategy indeed exists at all."[140]

Some of the more sophisticated exponents of the BRI as Grand Strategy thesis concede that "the initiative's ambiguous and disaggregated aspects have attracted valid criticism," but they contend that "over time synergies may emerge between its various dimensions, its regional manifestations, and the other instruments of Beijing's grand strategy." Some potential synergies, like port construction activities and military expansion in the Andaman Sea-Indian Ocean-Persian Gulf regions, might be foci of legitimate concern among peoples in these areas. However, some synergies are not at all evident and appear to exist more in the mind of the analyst than in the minds in Beijing. For instance, Thomas Cavanna writes:

> The nascent Polar Silk Road and the combination of infrastructure investments in continental Eurasia, the Suez Canal, and European port terminals might propel China's commercial penetration of wealthy northwestern European economies. Likewise, a growing naval presence, new land corridors through Pakistan and Myanmar, and a rising influence in island states like Sri Lanka and the Maldives could turn Beijing into a "resident power" in the Indian Ocean region. Admittedly, none of these outcomes is predetermined. But they seem reasonably plausible....[141]

Not Helpless Pawns

In assessing the impacts of the BRI, it must be pointed out that participating countries are not helpless pawns, as those promoting the grand design theory would like to portray them, though there are, of course, some who would find it harder to stand up to Beijing. For instance, within weeks of each other in 2017, citing concerns about their national interests, Pakistan and Nepal cancelled multibillion dollar big dam projects that were part of the BRI, as pointed out earlier. Pakistan objected to conditions that would have given China ownership of the Diamer-Bhasha dam in return for assuming costs of operation and maintenance and a pledge to build another dam.[142] In Nepal, the deal to build a dam between a previous governing coalition and the China Gezhouba Group Corporation was reversed owing to the lack of competitive bidding during the old regime, according to the new government.[143] Pakistan is a close ally of China while Nepal borders China, but, as in the case of the suspension of the Myitsone Dam by Myanmar, both countries cancelled the deals with no apparent fear of Chinese retaliation, something that would be inconceivable if it were western companies that were involved.

The list of governments showing their independence of Beijing goes on: Prime Minister Mohammed Mahathir threatened to cancel the corruption-ridden East Coast Rail Link project with a Chinese corporation made by the previous government, then successfully brought down the cost of the project from $16 billion to $11 billion in renegotiations.[144] In the Maldives, the electoral defeat of a pro-China president in favor of the more critical Ibrahim Mohamed Solih has resulted in the renegotiation of BRI-related debt, while in Sierra Leone the cancellation of a planned Chinese-funded airport in the capital, Freetown, marked the first termination of a BRI project in Africa.[145] What these examples show is that Beijing is not some all-powerful force that dictates the terms of participation in the BRI to developing countries but a distant center that is enmeshed in local elite struggles with its state enterprises, which creates problems for their projects and for China once local power changes hands.

"Debt Trap Diplomacy"?

One of the accusations against Beijing is that it is engaged in "debt trap" diplomacy. As laid out by the White House Office on Trade and Manufacturing Policy, "China uses a predatory "debt trap" model of economic development and finance that proffers substantial financing to developing countries in exchange for an encumbrance on their natural resources and access to markets. These resources range from bauxite, copper, and nickel to rarer commodities such as beryllium, titanium, and rare earth minerals."[146] Moreover, China then uses indebtedness to get countries to yield territory that is used for strategic purposes, that is to project Chinese military power. The case cited here is that of the Hambantota Port, which it acquired from Sri Lanka (with a $1.12 billion investment for a 85 per cent equity share) on a 99-year lease because the government had a difficult time servicing its debt on a Chinese loan for the project.

The problem with this claim is that from a review of more than 1,000 Chinese loans totaling more than $143 billion between 2000 and 2017, tracked by the authoritative

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ONE OF THE ACCUSATIONS AGAINST BEIJING IS THAT IT IS ENGAGED IN "DEBT TRAP DIPLOMACY." THE FACTS DO NOT BEAR THIS OUT.

The money-losing Hambantota Port in Sri Lanka that was leased to China in exchange for a grant to cover the Sri Lankan government's debt to Beijing. Who got the better deal—Sri Lanka or China?—is still the subject of scholarly dispute. *Courtesy of Dinesh De Alwis via Wikimedia Commons.*

China-Africa Research Initiative (CARI) at Johns Hopkins University, and more than $140 billion in Chinese loans to Latin America and the Caribbean since 2005 by the equally prominent Global Development Policy Center of Boston University, "the idea that the Chinese government is doling out debt strategically, for its benefit, isn't supported by the facts," says CARI director Deborah Brautigam.[147]

When it comes to Hambantota itself, a detailed analysis by Jones based on interviews with people intimate with the details of the deal lends more credibility to the counterargument that the outcome resulted in China's trying to find a solution to a deal that was badly conceived from the beginning, and one that was, in fact, more unfavorable to it than to the host country.[148]

In this telling, the Sri Lankan president, Mahinda Rajapaksa, who was a native of Hambantota, was the prime mover. Seeking to solidify his hold on his constituency, he resurrected an old plan, and convinced China to finance it and to fast-track its lending. When the port began operations, however, revenue intake did not match the original grandiose projections, saddling Sri Lanka with a debt servicing problem. Instead of a renegotiation of the terms of repayment, Sri Lanka and China agreed to the lease arrangement, which, on superficial view, benefited China but actually saddled a Chinese SOE with managing an unprofitable operation. In his detailed account, Jones claims:

> As a senior researcher in a think tank linked to China's State Council, familiar with the project, notes...Chinese involvement was commercial: "the Chinese firms and banks expected a good outcome...the port would make a profit and [the Sri Lankan government] could

repay the debt" (Interviewee E06 2018). In practice, however, the port created vast surplus capacity, leading to heavy losses: in 2016, the port's revenues were just US$11.8m, versus operating expenses of US$10m. Without the profits needed to repay its loans, Colombo had to seek debt relief from China. In July 2017, in exchange for US$1.1bn to service its debts to EXIM Bank, Colombo transferred a 70 percent stake in the port to a different SOE, China Merchants Port Holdings (CMPH), under a 99-year lease, along with 1,235 acres of land.[149]

In short, the reality was that "far from a realization of China's cunning plans," the solution actually reversed China's recently adopted policy to relieve the problems of its indebted SOEs by shifting the burden of repaying loans to China's banks from the banks to the recipient governments.

> As the State Council researcher states, "the debt crisis for other countries is an asset crisis for Chinese banks". CMPH—ultimately backed by state-owned banks—has acquired a "white elephant project" that may never recoup its US$1.1bn outlay. CMPH is left trying to turn the port's fortunes around to recoup some of the Chinese state's financial losses; "that for China is a failure, not successful... This behaviour is a trap for Chinese firms", rather than the Sri Lankan government (Interviewee E06 2018).[150]

Developments also contradicted the claim that China plotted to seize Hambantota to use as a naval base since the lease agreement specifically prohibited this, and in July 2018, the Sri Lankan navy's southern command was instead relocated to the port.[151] "Far from a case of skillful 'debt trap diplomacy,'" Jones concludes, "this is a case study of Chinese ineptitude, with an attempt to export surplus capacity and capital creating a 'debt trap' for the Chinese state.[152]

The Rhodium Group also looked at charges of Chinese seizure and found that "actual asset seizures are a very rare occurrence. Apart from Sri Lanka, the only other example we could find of an outright asset seizure was in Tajikistan, where the government reportedly ceded 1,158 square km of land to China in 2011. However, the limited information available, and the opacity of the process makes it difficult to determine whether this specific land transfer case was in exchange for Chinese debt forgiveness, or (as some observers argue) part of a historical dispute settlement between the two countries."[153] Other investigators found that similarly unfounded were reports that in return for debt relief, China was taking over Zambia's electricity grid, or that in exchange for rebuilding Mogadishu's seaport it was getting "exclusive fishing rights" off Somalia's coast.[154]

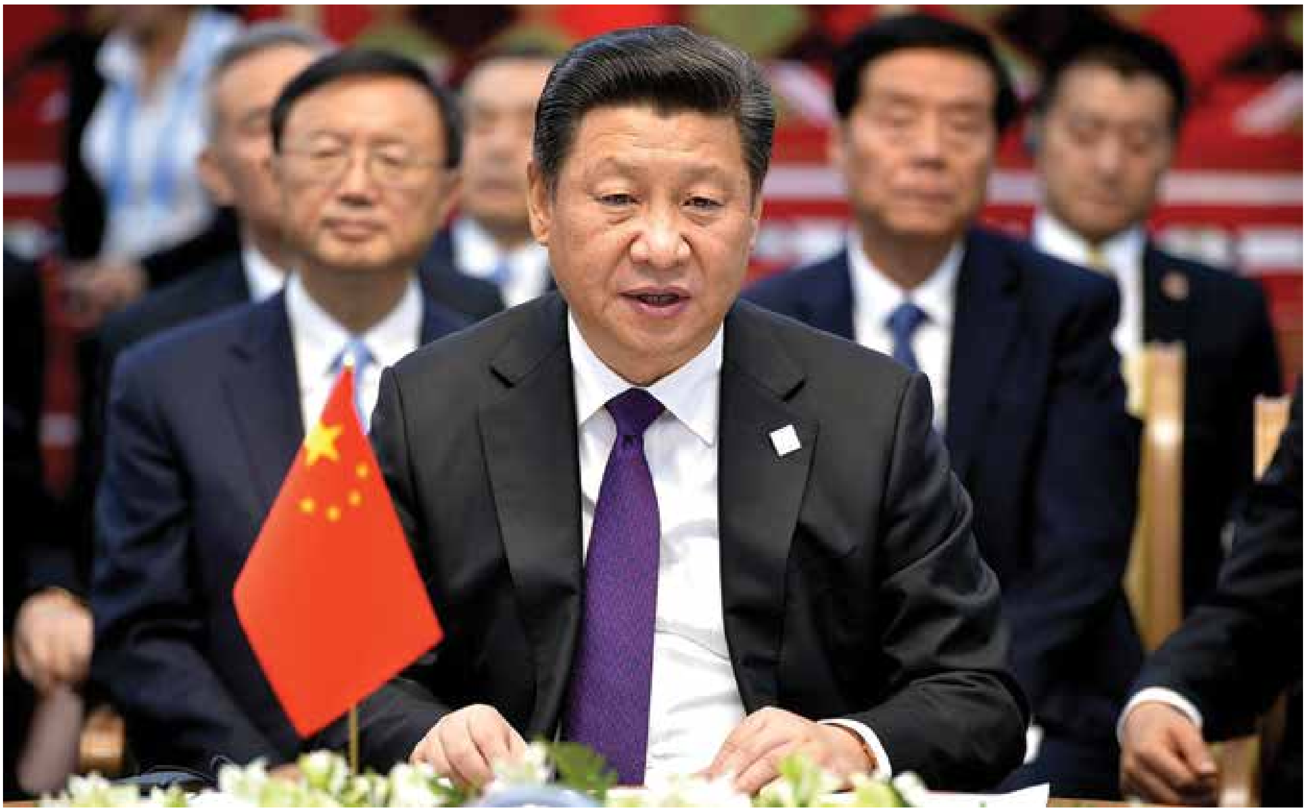
After sifting through available records, one research agency concluded that "despite China's size and growing international economic clout, its leverage in some of these cases remains quite limited, even in disputes with much smaller countries."[155]

Mismatch between Ambitions and Resources

Even if one were to grant that global hegemony rather than a desperate effort to externalize China's surplus capacity is the main goal of BRI, one must ask where China has the resources to sustain its ambitious reach.

Some of those who see BRI as a grand plan appear to think that Beijing is an inexhaustible piggy bank. The reality, however, is that China's growth is slowing down, the export markets from which it derived so much of the profits that it channeled to the global expansion of its SOEs are stagnant, and the severely indebted SOEs that are also key actors in BRI cannot be maintained indefinitely on life support on the backs of the ill-rewarded savings of China's consumers that are funneled to them by state banks. At some point, something has to give. Indeed, instead of providing a way to make indebted Chinese SOEs profitable, the BRI, as the Sri Lanka example shows, may merely compound China's problems by taking on customers that would be hard put to repay their loans, thus worsening the balance sheets of both the SOEs and the state banks that are keeping them alive. As Gallagher has pointed out, "Like those from Western-backed development banks in earlier years, Chinese loans now face default by countries that have long been branded "serial defaulters." China has provided massive loans to Pakistan, Sri Lanka and Venezuela, and it is not clear the Chinese will be paid back in full."[156]

There is, in fact, some indication that Beijing is now having second thoughts along this line: In 2017 and 2018, Chinese-led investment in BRI countries declined, meaning China could be tightening up its financing.[157] As one analyst observes,"[C]ertainly, [the government has] reined in BRI in the last year or so and that trend of consolidation is likely to continue for the period ahead."[158] In addition to financial constraints, "on the domestic political front," notes one report, "recent BRI loans have triggered a 'wave of grumbling in China' from citizens who feel those funds would be better



President Xi Jinping leads China's delegation in the 2015 Summit of the BRICS (Brazil, Russia, India, China, South Africa) grouping. *Courtesy of www.kremlin.ru via Creative Commons.*

spent at home in a country that still defines itself as a developing economy."[159]

While there are those that acknowledge this mismatch between ambition and resources in the face of China's growing economic troubles, they say that China will somehow manage to muddle through. How exactly is not clear, however, given constraints that have finally caught up with China's ascent. Here it is worth quoting at length one of the more thoughtful analysts of the current state of the Chinese economy, though one may not agree with all its assertions.

> President Xi has labeled this current period of slower growth "the New Normal." It's a brilliant piece of marketing, because there's really nothing normal about the situation. In reality, the Chinese economy is in a state of flux. Most importantly, there are no good options left, and seemingly no political drive to endure the pain needed to set China on a newly invigorated, more efficient path. The government is under immense pressure to maintain what it calls "medium fast growth." Without it, China won't move clear of the middle income trap, nor will it be able to realize the dream of national rejuvenation before demography takes over and the aging population becomes a drain on the economy. But maintaining growth at such elevated levels only exacerbates the problems of debt and waste.
>
> Furthermore, reform comes at a cost. Beijing can't wave a wand and wish the debt away. It must decide how the burden of cleaning up the debt is going to be distributed—and those decisions come with political ramifications. Devaluing the yuan is good for exports but bad for the middle class, which loses the perks of affordable overseas travel, shopping, and education. Similarly, market-oriented reform is good for economic efficiency but bad for the well-off, who benefit from the privileged position the state occupies in the economy. Closing down redundant factories is an important step in dealing with industrial overcapacity, but it will result in unemployment and lost wages and will exacerbate inequality. And raising taxes or stoking inflation will be useful for reducing the corporate debt burden, but it will eat into the ability of the public to consume, making people materially worse off when Xi's promise—and that of his "Chinese Dream," where China will be restored to its rightful place in the global order—is that things will get better.[160]

China has entered a time of economic troubles. BRI is an attempt to solve the country's economic contradictions by externalizing them. In fact, it may end up exacerbating them.

Exporting Environmental Crisis

This brings us to the biggest problem with the BRI.

The BRI, we have said, is not a grand plan for domination but a desperate effort to export Chinese industry's surplus capacity. It may also be seen as a way to export China's domestic political contradictions, by providing an ostensibly "win-win" solution to the competing factions in the party-state leadership, the "maritime silk roads" for the coastal export lobby and the "overland silk roads" for the inland provinces lobby and the infrastructure lobby, with all the competing SOEs associated with these groupings.

Thousands of people within Laos' Nam Ou basin rely on farming, fishing, and riverweed collection. According to a basin-wide study, over 60% of fish species found in the Nam Ou will be unable to survive the BRI-financed seven dams and reservoirs being constructed in the area and will likely disappear altogether. *Courtesy of International Rivers.*

To these dubious exports must be added a third, the export of China's environmental crisis brought about by the wasteful, duplicative, and environmentally harmful activities of these same competing political and economic actors.

A great number of BRI projects are focused on dam-building and creating coal-fired power plants, whose negative environmental impacts are already widely known. Some are most likely to be in extractive activities like mining and oil, where China has financed ventures in Africa and Latin America. While some advances have been made in terms of having environmental impact assessments accompany dam and other infrastructure projects in China, environmental guidelines such as the Ministry of Environmental Protection of China's (MEP) Guidance on Building the Green Belt and Road "are non-binding and hardly implemented" in BRI projects.[161]

Over 1,700 critical biodiversity spots and 265 threatened species will be adversely affected by the BRI, according to the World Wildlife Federation, one of these being Sumatra's Batang Toru forest highlands, one of Indonesia's most biodiverse regions, where a $1.6 billion hydroelectric power plant poses a danger to the rare Tanapuli orangutan and the critically endangered Sumatran tiger and Sunda pangolin.[162]

In the Philippines, the BRI-funded Kaliwa Dam in mountainous Eastern Luzon island is projected to displace some 20,000 indigenous peoples living in 230 hectares of dipterocarp forests well as pose a threat to rare species of flora and fauna in the area, "including several species of rattan, a valuable palm used in the manufacture of furniture and balls used in the kick volleyball game Sepak takraw," as well the white-winged flying fox, slender-tailed cloud rat, civet cats, wild boar, Philippine eagle, and Philippine deer.[163]

Chinese officials boast of the "connectivity" among countries that will be triggered by the BRI. However, another kind of connectivity, a more sinister one, might actually be one of the greater outcomes. According to one study, BRI's network of roads, railways, and pipelines could introduce more than 800 alien invasive species—including 98 amphibians, 177 reptiles, 391 birds and 150 mammals—into several countries along its many routes and developments, destabilizing their ecosystems.[164]

The BRI is actually not so much a grand plan for domination but a grandiose anachronistic transference to the 21st century of the technocratic capitalist, state socialist, and developmentalist mindset that produced the Hoover Dam in the US, the massive construction projects in Stalin's Soviet Union during the 1930's, the Three Gorges Dam in China, the Narmada Dam in India, and the Nam Theun 2 Dam in Laos. These are all testaments to what Arundhati Roy has called modernity's "disease of gigantism."[165] Others have called this "neodevelopmentalism" while yet others have called it "extractivism." This mindset cannot be said to be associated with capitalism alone, since it has had an appeal across ideological lines, with Fordist capitalists, Soviet socialists, Chinese planners, and progressive Latin American governments such as the government of former President Rafael Correa in Ecuador and President Evo Morales in Bolivia.

Chinese financing in Latin America, for instance, has supported many extractivist ventures in oil, gas, and mining by progressive governments which promoted these top down projects harmful to the environment and indigenous peoples, with a perspective that "[s]ome damage to the environment and even some serious social impacts are accepted as the price to be paid for the benefits that are obtained for the population as a whole."[166]

Technocratic and top-down in planning and execution, driven by the needs of China's infrastructure construction complex, marked by incoherence and duplication, and insensitive to popular democratic control,

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CHINESE OFFICIALS BOAST OF THE "CONNECTIVITY" AMONG COUNTRIES THAT WILL BE TRIGGERED BY THE BRI. HOWEVER, ANOTHER KIND OF CONNECTIVITY, A MORE SINISTER ONE, MIGHT ACTUALLY BE ONE OF THE GREATER OUTCOMES.

the BRI is the ultimate gigantistic program and it is inviting a transborder ecological and social disaster—that is, if it does not first run into a crisis triggered by fiscal and financial overreach.

Conclusion

Rather than a grand plan, the BRI is better seen as 1) a not too coherent package of infrastructure building 2) clothed with high-flying visionary rhetoric, 3) that is meant to externalize China's surplus capacity crisis and 4) that is driven by competition and conflicts among local authorities, SOEs, and national ministries that spill over into the international arena, and 5) that exports not only China's surplus capacity but its factional political contradictions and its environmental crisis.

In writing about the BRI, the target countries are often portrayed as passive aid and loan recipients. However, far from being intimidated by China, neighboring countries have not hesitated to cancel or renegotiate deals that they felt were not in their interest. And far from it being a case of cunning Chinese diplomacy to entrap Sri Lanka in debt in order to seize a national asset for strategic military purposes, the much discussed Hanambatota deal with Sri Lanka is better interpreted as a case of Chinese ineptitude leading to a debt trap—for China.

Even if one were to concede that BRI is a grand strategy, the big problem is where the trillions of dollars envisaged to underwrite it will come from at a time when long postponed economic problems are catching up with China, including the massive indebtedness of the SOEs involved in the infrastructure building initiatives. Designed to relieve China's problems by externalizing them, the BRI may well make them worse.

The biggest problem with the BRI, however, is that with its externalization of industrial surplus capacity, it is also exporting its ecological crisis with its focus on dam and infrastructure building and extractive ventures with few or no environmental impact assessments. With its network of roads, railroads, and pipes, it is creating routes for invasive species into local environments. The BRI is at heart a 20th century top-down technocratic project being transposed into the 21st century, along with the attendant flaws that accompanied such projects in the US, Soviet Russia, India, China itself, and Latin America.

VIII

THE STRATEGIC DIMENSION

Germany is often described as a global economic giant with a puny military capacity. China is not in the same category, but its global economic presence far outstrips its military reach. China has a relatively small fleet of intercontinental ballistic missiles, a large army as befits a continental land power, and a navy that is growing but is, for all intents and purposes, bottled up in the East and South China Seas.

The Historical Record

As the eminent Singaporean academic Kishore Mahbubani has pointed out, In contrast to the other permanent members of the United Nations Security—the United States, France, Russia, and Britain—Chinese troops have not been engaged in an armed conflict with or in a foreign country in the last 30 years, the last one being a relatively brief naval battle with Vietnam in 1988.[167] Prior to that event, the only instances where the People's Republic of China was engaged in a shooting war were in 1979, when it carried out a punitive expedition across the border with the Socialist Republic of Vietnam to "teach Hanoi a lesson" for overthrowing the Khmer Rouge, Beijing's ally in Cambodia; in 1974, when It seized the Paracel Islands in the South China Sea from the now defunct state of South Vietnam; in 1969, when its troops engaged Soviet troops in battle in a border war along the Ussuri River; in 1962, when it was involved in large-scale skirmishes with India high in the Himalayas to assert what Beijing felt was the rightful demarcation between India and China; and in 1950-53, during the Korean War, when it intervened massively to stop General Douglas MacArthur's provocative push towards Manchuria to unilaterally reunify Korea which China saw as an existential threat.

There is simply no way this military record can be described as colonialist, imperialist, or expansionist, though China's recent actions in the South China Sea appear to deviate from this established pattern, a point to which we will return later.

When it comes to Tibet, Xinjiang, Taiwan, and Hong Kong, the diplomatic posture of most governments, is that these areas are historically part of China, so the PRC's actions with respect to them cannot be placed in the same category as foreign aggression or foreign intimidation. However, two considerations must be borne in mind. First, like all other countries, China is accountable to the world's peoples for policies and practices that have a negative impact on its people's human rights, democratic rights, labor rights, minority rights and other rights contained in the United Nations' Universal Declaration of Human Rights and other international conventions to which it is a signatory. Second, much negative global reaction is understandable since Beijing has often behaved towards these areas in a manner like that of a foreign sovereign, with little sensitivity to the ways in which history, religion, and culture have affected the disposition of the peoples of these areas towards China.

Propaganda poster by Xu Ling shows US General Douglas MacArthur butchering civilians. MacArthur led the US/UN forces that crossed from South Korea to North Korea in an effort to militarily unify Korea. Feeling an existential threat, China intervened massively at the invitation of the Democratic People's Republic of Korea as MacArthur's forces neared China's border. *From International Institute of Social History, call no BG E/27/169, reproduced in Robert Bickers, Out of China: How the Chinese Domination Ended the Era of Western Domination (London: Penguin, 2018).*

Changing US Assessments of China's Military Power

To understand the evolution of China's military posture, it is important to refer to the US defense establishment's changing assessments of China's relationship vis-à-vis Washington. During the Reagan and Bush I years, China was seen as an ally against the Soviet Union. With the collapse of the Soviet Union, Beijing was formally named a "strategic partner" for most of the Clinton years, where Washington was focused on supporting the massive movement of US industrial facilities to China to take advantage of its cheap labor, though it would raise its voice occasionally about Beijing's human rights record, especially after the Tiananmen Square Massacre.

With the arrival of the George W. Bush administration, China's status was transformed into that of a "strategic competitor." However, owing to the priority it accorded the "War on Terror" focused on the Middle East and the need to win China's support for it, the Bush II administration was largely distracted from following up on this strategic redefinition of China. However, the succeeding administration of Barack Obama sought to refocus on China, heralding its much touted "Pivot to Asia," whereby 60 per cent of the strength of the US Navy was deployed to the Western Pacific.

From the very first year of his administration, President Donald Trump has adopted a bellicose posture toward China. In the National Security Strategy (NSS) paper released on December 2017, China was declared a "revisionist" power intent on replacing the US-centered world order with its own Sino-centric system, one that would be "antithetical to U.S. values and interests."[168] In particular, it claims, "China seeks to displace the United States in the Indo-Pacific region, expand the reaches of its state-driven economic model, and reorder the region in its favor."[169] Declaring a turning point in US policy towards Beijing, the NSS claimed that,

> For decades, U.S. policy was rooted in the belief that support for China's rise and for its integration into the post-war international order would liberalize China. Contrary to our hopes, China expanded its power at the expense of the sovereignty of others. China gathers and exploits data on an unrivaled scale and spreads features of its authoritarian system, including corruption and the use of surveillance. It is building the most capable and well-funded military in the world, after our own. Its nuclear arsenal is growing and diversifying.[170]

While Trump has remained ambivalent on Russia and flipflopped on North Korea, he has been consistent in his antagonism towards China, though he seemed personally warm towards Xi in his first weeks in office. Moreover, unlike other administrations, which delinked economic relations with China from strategic relations, the Trump White House has linked the two, saying the erosion of the country's industrial base, which it attributes principally to Chinese "economic aggression," is also compromising the US's security:

> A healthy defense industrial base is a critical element of U.S. power and the National Security Innovation Base. The ability of the military to surge in response to an emergency depends on our Nation's ability to produce needed parts and systems, healthy and

> secure supply chains, and a skilled U.S. workforce. The erosion of American manufacturing over the last two decades, however, has had a negative impact on these capabilities and threatens to undermine the ability of U.S. manufacturers to meet national security requirements. Today, we rely on single domestic sources for some products and foreign supply chains for others, and we face the possibility of not being able to produce specialized components for the military at home. As America's manufacturing base has weakened, so too have critical work-force skills ranging from industrial welding, to high-technology skills for cybersecurity and aerospace. Support for a vibrant domestic manufacturing sector, a solid defense industrial base, and resilient supply chains is a national priority.[171]

Trump's trade war with China is not just a trade war. It is part of an arsenal of tools designed to counter what the White House perceives as China's taking advantage of the US's economic and technological resources for its own gain. Its strategic aim is to pressure Beijing to dismantle the state's role in the economy, which it sees as constituting an unfair advantage for China. That economic warfare can slip into military action is something that worries China, especially since ideologues closely tied to Trump see the threat coming from China in undifferentiated political-military-economic terms. Former White House chief strategist Steve Bannon, for instance, has seen China's rise as "the greatest existential threat ever faced by the United States."[172]

To be fair, China was not blameless in the ending of the informal economic and political alliance with Washington and the onset of worsening relations by the end of the 2000's. On the Chinese end, Hung asserts, "The US-China alliance turned into US-China rivalry largely because of a conjunction of factors: the 2008 global financial crisis that gave some in Chinese elite the illusion of the coming collapse of the US and Europe and that China's time to replace the US had come, and the economic crisis of China starting circa 2012 that urged Beijing to resort to a more bellicose and nationalist policy to strengthen the regime's legitimacy, which had previously been grounded on the economic boom that was coming to an end."[173]

It is important to trace the hardening of the US posture towards China over two decades (and China's own contribution to it) to understand why Beijing departed from the deliberately low-profile military stance of the Deng years. But things must be put in perspective: the $250 billion it spent on its military in 2018 was far outstripped by the $649 billion military budget of the US, which accounted for 36 per cent of worldwide military spending.[174] Moreover, there is virtually no credible military expert that would claim that China has fundamentally departed from its military posture during the Deng period, that of the "strategic defensive."

Current military doctrine has nuanced this posture to be one of "active defense," a concept described as "strategically defensive but operationally offensive" and is said to be "rooted in a commitment not to initiate armed conflict, but to respond robustly if an adversary challenges China's national unity, territorial sovereignty, or interests."[175] Or as one of the leading western analysts on the People's Liberation Army puts it, "Strategically, China is defensive—it's not offensive, it's not an aggressor, it's not a hegemon.But nevertheless, to achieve these defensive goals, it will, at the operational and tactical levels of warfare, use offensive operations and means."[176]

The Nuclear Balance

A country's nuclear forces are one key indicator of a military power's imperial ambitions, not so much because of the possibility of their actual use but because of their being used to intimidate other countries to be compliant with its demands or wishes. Beijing has a relatively small nuclear force, being guided by a strategic doctrine of "No First Use" (NFU) focused on deterring a potential aggressor via the maintenance of a second strike retaliatory capacity. The US has vastly superior nuclear capabilities, and it has not adopted an NFU position. The PRC has only about 260 nuclear warheads while at the end of 2017, the United States' nuclear arsenal contained just under 1,400 deployed and approximately 4,000 stockpiled warheads.[177]

The PRC's land-based offensive rockets as well as its sea-based missiles are burdened with major technical problems. Modernization of the People's Liberation Army's Rocket Force in both technical or organizational terms has been limited in comparison to the United States' constant innovation of its nuclear forces, particularly its missile defense systems. China's nuclear-armed submarines number only four, and they are "much louder compared to similar submarines."[178]

The PRC, in fact, feels that its long-standing deterrence posture has been undermined by the United States' deployment of a Terminal High Altitude Area Defense (THAAD) system in South Korea, which the US said was directed at North Korea but Beijing interpreted as being also meant to "contain" China. In Beijing's view, the US could become more reckless and be tempted to engage in a preemptive nuclear attack if it felt its missile defense systems could nullify Beijing's retaliatory strike capabilities.[179] Chinese fears have now been compounded by the US's announced intention to deploy intermediate range missiles in the Asia Pacific after it withdrew from the Intermediate Nuclear Forces Treaty with the Soviet Union in early August 2019.[180] Understandably, Beijing sees this as significantly adding to the temptation of a US preemptive strike, and one that is particularly worrisome given skyrocketing tensions with a US administration that apparently feels there is no "Chinese Wall" between a trade war and a shooting war.

Conventional Warfare Capabilities

China's conventional warfare arsenal has multiplied over the last decades, with the development of short range anti-ship and anti-aircraft missiles and carrier based-aircraft like the J-15 aircraft designed to take off from carriers with a "ski-jump" deck. Much of the focus of western analysts has been on the People's Liberation Army Navy (PLAN), now said to be the biggest in Asia, deploying 300 warships, including four ballistic missile submarines, four attack submarines, 50 conventionally powered submarines, and two aircraft carriers, only one of which is currently operational.[181] Numbers are not, however, a good measure of real strength, for the quality of many of China's new weapons remains largely a question mark, and where there is more

NUMBERS ARE NOT, HOWEVER, A GOOD MEASURE OF REAL STRENGTH, FOR THE QUALITY OF MANY OF CHINA'S NEW WEAPONS REMAINS LARGELY A QUESTION MARK, AND WHERE THERE IS MORE THAN SUPERFICIAL KNOWLEDGE, THE JUDGMENT IS OFTEN NEGATIVE, AS IN THE CASE OF ITS NOISY SUBMARINES OR ITS FUNCTIONALLY HANDICAPPED AIRCRAFT CARRIERS.

than superficial knowledge, the judgment is often negative, as in the case of its noisy submarines or its functionally handicapped aircraft carriers.[182]

Moreover, a dictum of military assessments is that preparation for war is not the same as the capacity to wage war successfully, and one of the greatest drawbacks of the Chinese military is its lack of actual military experience since the late seventies,[183] whereas the US has been constantly engaged in warfare over the last seven decades.Ironically, this lack of experience is rooted in China's longstanding posture of strategic defensive, which it has shown no intention of abandoning, contrary to what some western analysts suggest.

There is much writing about the so-called "blue-water" ambitions of the PLAN, that is, its alleged push to compete for naval supremacy with the US. Much of this writing remains highly speculative, however, and reminds one of the spate of analyses about the alleged Soviet push for maritime ascendancy in the 1970's and early 1980's, with the "founder" of the modern Chinese Navy, the now fabled Admiral Liu Huaqing, substituting for the then fabled Soviet Admiral Gorshkov.

When it comes to two key indicators of a military's offensive capability, aircraft carriers and overseas bases, China is severely handicapped. The PLAN has only one operational carrier, a retrofitted former Soviet carrier, and its first domestically built carrier is still undergoing trials. At the moment, China has only one overseas base, in Djibouti, and writing about its planned acquisition of a "string of pearls" or island bases in the Indo-Pacific area is largely based, not on official defense policy, but on musings on China's strategy by US government agencies.[184] The port of Hambantota in Sri Lanka, which China leased for 99 years, is often routinely assumed to be one of these pearls, but as noted earlier, the lease agreement specifically prohibits its conversion into a base and there is no evidence of China's intention to use it strategically.[185] True, the PLAN has taken more active measures to protect its trade routes, like establishing the base of Djibouti and participating in anti-piracy activities off the Gulf of Aden. Since about 78 per cent of China's oil imports transit through the Straits of Malacca from farther west, it would be downright risky to rely solely on other navies, such as that of the US, to provide security for these shipments. It is also true that PLAN has become more active diplomatically, with increased ship visits to ports throughout the world. But these actions can hardly be taken as evidence of intent, effort, or capacity to establish maritime dominance, at least in the short and medium term.

Indeed, there seems to be a growing gap between the PRC's many interests and people to protect abroad and its capacity to defend them from terrorists, saboteurs, and hostage takers. Unwilling to subcontract security to the US and other foreign governments, China has taken the unusual step of hiring foreign mercenaries like Erik Prince, the founder and former CEO of Blackwater, the security firm that became infamous for its actions in Iraq. In 2014, Prince was recruited to head Frontier Services Group (FSG), a new Hong Kong-based logistic and risk management firm with close ties to CITIC, China's biggest state-owned conglomerate.[186] Its main business, according to Hung, "is to provide security services to Chinese companies in Africa through a network of subcontractors on the ground. In late 2016, the company announced that it was to adjust its corporate strategy to "better capitalize on the opportunities available from China's One Belt, One Road (OBOR) development initiative." It seems that instead of building up the power projection capabilities of its security agencies, China, at least in the short to medium term, is taking the route of having mercenaries take over a significant part of that role.

Shenyang J-15 jet fighter aircraft on deck of Chinese aircraft carrier Liaoning, one of only two People's Liberation Army Navy (PLAN) carriers (one of which is still undergoing trials.) The US has 11 carrier task force groups centered around mainly Nimitz-class supercarriers. *Photo courtesy of Cha Chunming. Public domain.*

Beijing's Strategic Dilemma

The reason Beijing will not be able to depart from a strategic defensiveposture and move to one of global military hegemony for a long, long time, if ever, is that it has its hands full coping with its strategic dilemma in the South China Sea. China's industrial power lies along the eastern and southeastern coats bordering the East and South China Sea, which is a relatively narrow stretch of water ringed on its western end by the so-called "First Island Chain" stretching from South Korea through Japan down to Okinawa, Taiwan, and the Philippines. South Korea and Japan host numerous US bases and thousands of military personnel, the Philippines has US forces stationed in nominally Philippine bases, Taiwan remains a US protectorate, and the US Seventh Fleet, which never demobilized after the Second World War, roams the East and South China Seas with impunity. For all intents and purposes, the US intends a permanent military presence in the first island chain since, as General Douglas MacArthur once put it, "The strategic boundaries of the US were no longer along the western shore of North and South America; they lay along the eastern coast of the Asiatic continent."[187]

This perspective is what has guided the consistent US strategy of "forward defense,"

China's Liaoning aircraft carrier. China has only two aircraft carriers, one of which is still undergoing trials.
Courtesy of "Baycrest - Wikipedia user - CC-BY-SA-2.5 / Baycrest - 維基百科用戶 - CC-BY-SA-2.5" via Wikimedia Commons.

which is to push the active defense of the US homeland farther westward several thousand miles away from its western political boundary, with the defensive goal sliding into an offensive thrust of projecting US power onto the Asian land mass to prevent the rise of a rival power that could threaten the United States. Preemptive action has become central to the US posture, with the National Security Strategy Paper of 2002 declaring that the US could engage in "anticipatory action to defend ourselves, even if uncertainty remains as to the time and place of the enemy's attack."[188]

Backing the US forces in the East and South China Sea and first island chain are massive forces deployed farther east, on the second island chain stretching from Japan to the Marianas and Micronesia, where deep waters provide an ideal environment for US ballistic missile submarines, and on and around the third island chain centered on Hawaii, where the headquarters of the US Indo-Pacific Command is located.

The largest of the United States' Unified Commands, the Indo-Pacific Command has an awesome reach and a strike capability that has been displayed in war and aggressive "show the flag" actions numerous times in the South and East China Seas since the end of the Second World War, including the dispatching of two aircraft carrier task forces to intimidate China, if not actually defend its Taiwanese ally, had Beijing taken more radical military action during the Taiwan Straits Crisis in 1996. Currently, the Command deploys some 337,000 military personnel. The US Pacific Fleet consists of approximately 200 ships, including five aircraft carrier strike groups, nearly 1,100 aircraft, and more than 130,000 sailors. US Marine Corps forces include two Marine Expeditionary Forces and about 86,000 personnel and 640 aircraft. The US Pacific Air Forces comprise approximately 46,000 airmen and more than 420 aircraft. The US Army Pacific has approximately 106,000 personnel from one corps and two divisions, plus over 300 aircraft and five watercraft deployed from Japan and Korea to Alaska and Hawaii. Also included are more than 1,200 Special Operations personnel.[189]

The inescapable strategic dilemma of China is that large parts of this force lie right on its doorstep. And it constitutes not simply a potential threat but an active one. As one western analyst notes, "Washington's persistent military encirclement of China, its debates about blockade scenarios, and its Air-Sea Battle Doctrine only aggravated [China's] concerns."[190]

A strategy such as that of China during the Mao period, of having the capability of retreating to China's vast interior in the event of conflict, is no longer possible for today's China since that would leave exposed the heavily populated coastal urban areas of Eastern and Southeastern China that undergird the country's industrial and technological power. As Samir Tata, an analyst appreciative of Beijing's strategic problem, puts it:

> As a land power, the Middle Kingdom does not have to worry about the unlikely possibility of a conventional American assault on the mainland via amphibious landing by sea, parachuting troops by air, or an expeditionary force marching through a land invasion route. What it is vulnerable to is U.S. control of the seas outside China's 12-nautical mile maritime boundaries. From such an

> over-the-horizon maritime vantage point, the U.S. Navy has the capability to cripple Chinese infrastructure along the eastern seaboard by long range shelling, missiles, and unmanned aerial bombing.[191]

"To address this weakness," Tata writes, "in addition to modernizing and expanding its land-based anti-access/area denial capabilities, China is systematically establishing and demarcating a maritime equivalent of the Great Wall—a *cordon sanitaire* running from the South China Sea through the East China Sea to the Yellow Sea."[192] The northern portion of this cordon would run from the Diaoyu Islands (Senkaku Islands, to the Japanese), which China claims but Japan occupies, to Taiwan, which China seeks to eventually integrate into its territory, and the southern part from Taiwan to the Spratly Islands in the South China Sea, which China claims as its national territory.

Still stymied by Japan in the northern portion, China has been more successful in the south, unilaterally seizing maritime formations claimed by the Philippines and, via land reclamation, adding some 3200 acres of artificial land to the seven formations it currently occupies. According to the Pentagon, in early 2018,

> China continued its gradual deployment of military jamming equipment as well as advanced anti-ship and anti-aircraft missile systems to its Spratly Islands outposts. The missile systems are the most capable land-based weapons systems deployed by China in the disputed South China Sea. China completed shore-based infrastructure on four small outposts in the Spratly Islands in early 2016. Facilities on Johnson, Gaven, Hughes, and Cuarteron Reefs include administrative buildings, weapons stations, and sensor emplacements.[193]

China had also "completed more extensive military infrastructure on three larger outposts in the Spratly Islands at Fiery Cross, Subi, and Mischief Reefs. These installations now include aviation facilities, port facilities, fixed-weapons positions, barracks, administration buildings, and communications facilities."[194]

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A STRATEGY SUCH AS THAT OF CHINA DURING THE MAO PERIOD, OF HAVING THE CAPABILITY OF RETREATING TO CHINA'S VAST INTERIOR IN THE EVENT OF CONFLICT, IS NO LONGER POSSIBLE FOR TODAY'S CHINA SINCE THAT WOULD LEAVE EXPOSED THE HEAVILY POPULATED COASTAL URBAN AREAS OF EASTERN AND SOUTHEASTERN CHINA THAT UNDERGIRD THE COUNTRY'S INDUSTRIAL AND TECHNOLOGICAL POWER.

MH-60R helicopter launches from the flight deck aboard the guided-missile destroyer USS Spruance, which is part of the US 3rd Fleet. *US Navy photo.*

The strategy guiding the formation of this cordon sanitaire is apparently that of "'forward edge defense' that would move potential conflicts far from China's territory."[195] This may have some success since, as Tata claims, "China's advantage is that it does not have, nor does it seek, the responsibility for controlling the global maritime commons, and, therefore, Beijing can concentrate substantially its entire naval fleet on ensuring that it controls what it considers to be territorial waters within the Middle Kingdom's maritime Great Wall."[196]

But even if China were successful in nullifying US power within the East and South China Seas, the US capacity to strike its coastal areas within minutes from the second island chain area with conventional weapons would remain formidable. Not surprisingly, the most recent elaboration of the Pentagon's overall combat strategy, the Joint Concept for Access and Maneuver in the Global Commons, is likely to be seen by Beijing as designed to overcome "an unprecedented array of anti-access/area-denial (A2/AD) capabilities that threaten the U.S. and allied model of power projection and maneuver"[197] that constitutes the main component of its defensive buildup in the East and South China Seas. But perhaps Beijing seeks not so much to gain substantial protection but to communicate to the US and any other adversary that its forces within the first island chain would have to be prepared to sustain heavy losses in any conflict.

Conclusion

China's swift global economic expansion has not been matched by growth in the reach of its military forces.

Unlike the other big powers, China has not engaged in a war outside its borders for over thirty years, and prior to that most of the conflicts it was involved in were border disputes, a large-scale defensive intervention, and a cross-border punitive expedition. In no way can this record be seen as expansionist.

Over the last two decades, China has significantly modernized its forces. This process cannot, however, be fully understood without reference to the changing posture of the US towards it, from being a de facto ally during the 1980's to being a strategic competitor from 2000 to 2016 to being officially branded a "revisionist power" and "economic aggressor" and unofficially as the "greatest existential threat to the United States" by the Trump administration and its key ideologues and policymakers.

Beijing has greatly increased its spending for defense but the US continues to massively outspend it.

Military modernization has not been accompanied by a change in China's military posture since the beginning of PRC. Strategic defense continues to be its fundamental stance. A major reason barring it from becoming a globally hegemonic military power is its preoccupation with its massive strategic dilemma in the waters off its eastern and southern coasts. Flanked by relatively narrow bodies of water, these urban areas are directly threatened by the awesome combined land, air, and naval power of the United States right at its doorstep. Some of these forces roam the East and South China seas and are based on the offshore island chain stretching from South Korea to Japan proper to Okinawa to the Philippines, with the rest deployed in the vast rear area of the second and third island chains. China's application of strategic defense has been mainly to seek to build a "great maritime wall" in the waters and disputed maritime formations, in support of its navy and land-based missiles and other weapons in its coastal areas. The aim of this "forward edge defense" is to push US forces as far from Chinese territory as possible on the pain of their suffering significant damage the event of a conflict if they loitered near the Chinese coast. Nevertheless, even if China does gain dominance in the East and South China Seas, the threat from the massive firepower that the US can rain down on its coast within minutes is probably only slightly mitigated.

IX

CHINA AND ITS NEIGHBORS IN THE SOUTH CHINA SEA

As has been shown in the preceding section, China has very valid strategic defensive concerns in the East and South China Seas. Its way of addressing its strategic dilemma has, however, been problematic. More than other instances of questionable Chinese behavior, it has been Beijing's moves in the South China Sea that have triggered accusations that it is no better than the US and other western powers. They have created the image of China as a Goliath bullying the small countries of the Association of Southeast Asian Nations (ASEAN), which, like Beijing, have territorial and resource claims in the South China Sea: Vietnam, the Philippines, Brunei, Malaysia, and Indonesia. This is unfortunate since beyond the disputed areas in the South China Sea and East China Sea, none of China's neighbors fear territorial aggression by Beijing and have developed otherwise positive relations with it.

Another disturbing aspect of China's behavior in the South China Sea is that monopolizing the resources of the area appears to have become as important a motivation as strategic defense, leading some to worry that, in the future and in other parts of the world, China might deploy the might of its military and other resources in support of its economic ambitions.

Valid Concerns, Wrong Approach

Even before the controversial submission of its notorious "Nine Dash Line" claim to the United Nations in 2009, China had engaged in a unilateral takeover of a formation close to and claimed by the Philippines in 1995. This formation, Mischief Reef, was 130 nautical miles off the Philippine island of Palawan and about 660 nautical miles from China. Despite protests from Manila, China reclaimed land, built structures, and eventually put up anti-aircraft and other weapons systems.

It was, however, a protest that China made in 2009 against continental shelf submissions made by Malaysia and Vietnam that shocked the region. Aside from submitting the Nine Dash Line that graphically illustrated China's claim to some 90 per cent of the South China Sea, Beijing also asserted in a *note verbale* that it had "indisputable sovereignty over the islands in the South China Sea and the

Chinese and Vietnamese government vessels face off at sea in a dispute over oil exploration rights in May 2014.
Courtesy of nbcnews.com via Creative Commons.

adjacent waters, and enjoys sovereign rights and jurisdiction over the relevant waters as well as the seabed and subsoil thereof."[198] The Chinese claim was rightly interpreted by China's neighbors as disregarding their rights to 200-mile Exclusive Economic Zones (EEZs) under the United Nations Convention on the Law of the Sea that was signed and ratified by Beijing. This was confirmed by a number of Chinese incursions into the zones of neighboring countries to engage in oil and resource exploration and drilling and harassment of their efforts to do so in their own EEZs. Chinese fishing boats, many actually government vessels, were also said to be entering their zones in large numbers, even as their own fishermen were harassed by Chinese maritime patrol ships.

The next big escalation of China's territorial acquisition strategy occurred in 2013, when it effectively seized Scarborough Shoal, just 150 nautical miles from the Philippines, after a standoff involving Filipino and Chinese government vessels. Filipino fishermen were then banned from entering the shoal by the Chinese ships.

In response to Chinese violations of its maritime rights, the Philippine government brought a landmark case against China to an arbitral tribunal at the Permanent Court of Arbitration in the Hague, which issued a number of judgments in favor of the Philippines in June 2016. The most important of these rejected China's claim of historic rights to almost all of the South China Sea and its maritime formations. The arbitrators judged that "the Convention [UNCLOS] defines the scope of maritime entitlements in the South China Sea, which may not extend beyond the limits imposed therein," meaning that "China's claims to historic rights, or other sovereign rights or jurisdiction, with respect to…the 'nine-dash line' are contrary to the Convention and without lawful effect" if they extend beyond the territorial sea, exclusive economic zone, and continental shelf which the country is entitled to under UNCLOS.[199]

China did not participate in the proceedings and has ignored the ruling, saying the tribunal had no right to hear nor issue a judgment on the Philippine case against it. Despite Philippine President Rodrigo Duterte's decision not to press Beijing to accept the Philippines' legal victory, tensions remain, climbing a notch higher with the ramming and sinking of a Filipino fishing boat in June 2019. Vietnam and China have also engaged in recent confrontations over fishing and oil exploration in disputed waters.

China's decision to go the unilateral big power route was not inevitable. There have been alternative ways to resolve both the territorial/resource issue and the strategic question that could have resulted in a more positive outcome for China and its smaller neighbors than the current imbroglio, from which only the US has benefited, with the main issue, its strategic encirclement of China, largely obscured. In this regard, in an article that appeared in a recent issue of Harper's Magazine, the prominent Singaporean analyst Kishore Mahbubani regrets the loss of an opportunity to take an alternative path in 2015, and this was not on account of China's intransigence:

> A former US ambassador to China, J. Stapleton Roy, told me that in a joint press conference with President Obama on September 25, 2015, Xi Jinping not only proposed an approach to the South China Sea that included the endorsement of declarations supported by all ten members of the Association of Southeast Asian Nations, but, more significantly, added that China had no intention of militarizing the Spratly Islands, where it had engaged in massive reclamation work on the reefs and shoals it occupied. Yet the Obama Administration made no effort to pursue China's reasonable proposal. Instead, the US Navy stepped up its patrols. In response, China increased the pace of its construction of defensive installations on the islands.[200]

In Search of an Alternative

In an article written following the Hague tribunal judgment and China's rejection of it in 2016, the author outlined one such proposal for both a strategic and territorial settlement, using the Philippine-China conflict as a starting point.[201]

First, since strategic defense is a central motivation for China's behavior, the Philippines and China can agree to have bilateral talks on how to bring down the tension between the countries. The aim of the these talks will not be to settle the territorial issue but to negotiate military de-escalation. One possible proposal could be a freeze in China's base-building activities in exchange for a freeze in the implementation of the latest military agreement that the Philippines has with the United States, the Enhanced Defense Cooperation Agreement (EDCA), which allows the US to use Philippine bases for its military buildup in that country.

Second, perhaps simultaneously with the Philippine-China bilateral talks, China should take seriously ASEAN's longstanding offer to hold multilateral talks on a code of conduct to govern the maritime behavior of all parties with claims to the South China Sea that they agreed to back in 2002.

Third, should these two confidence-building measures achieve some success, ASEAN and China could move on to negotiations to achieve significant demilitarization and denuclearization of the South China Sea, with the goal of coming up with a multilateral treaty that would be binding on all parties, including third parties like the United States.

Such an agreement would, of course, necessitate abandoning EDCA on the part of the Philippines and dismantling of military structures in the South China Sea on the part of China. This agreement would complement two earlier ASEAN agreements—the agreement to make ASEAN a Zone of Peace, Freedom, and Neutrality (ZOPFAN) and the Southeast Asia Nuclear Weapons Free Zone Agreement

(SEANWFZ). It could also be the forerunner of an East Asia-wide collective security treaty that would replace the dangerous and volatile balance of power politics that simply promotes an uncontrollable arms race.

Finally, ASEAN and China could begin the process of resolving their competing claims on Exclusive Economic Zones and continental shelves and discussing joint development of fisheries and other resources. Given political sensitivities, these might be de facto arrangements instead of full-blown treaties or agreements, and would not necessitate the concerned parties formally abandoning their claims.

This route would not be easy to take. But its medium and long-term benefits for China would far outweigh what little benefits the unilateral course can reap for it and avoid its heavy costs. Beijing would distance itself from its image of intransigence, especially as it seeks to be respected as a global actor different in intent and methods from the western powers. This route would also open up a future of peace with its neighbors instead of one of endless tension. It would make it increasingly difficult for the US to justify its massive military presence in the western Pacific by convincing other countries that it is necessary in order to "balance" China. It provides a way out of a very volatile and destabilizing balance of power politics that could promote rather than prevent large-scale conflict, as it did in Europe in the years leading up to the First World War. As has been pointed out a number of times, a mere ship collision can quickly escalate into a major war.

China is at a crossroads. Will it follow the road taken by the western imperial powers or will it take a different route that does not seek to promote its interests at the expense of others? A non-unilateral resolution to the South China Sea conflict could be the starting point of a different path.

Conclusion

China has very valid strategic defensive concerns in the South China Sea. However, the road it has taken there to resolve its strategic dilemma has involved violations of the rights of other countries bordering that body of water. It has also given China the image of being a new Goliath that is intent on repeating the aggressive behavior of the western powers and thus no different from them. Also disturbing is the apparent Chinese aim of monopolizing the resources of the area, leading to fears that in the future, in other parts of the world, China might deploy military force and other resources in support of its economic ambitions.

An alternative route is possible, one that is a combination of bilateral and multilateral dialogue that aims at providing a peaceful and equitable resolution of the territorial issues as well as a much more effective way to address Beijing's strategic concerns about US power. This route could pave the way for a multilateral agreement to demilitarize and denuclearize the area. This path would lead the region away from the current balance of power politics, which promotes rather than restrains military competition and conflict, much like it did in Europe in the years leading up to the First World War.

Beijing is at a crossroads in its rise as a significant global actor, and its way of dealing with the South China Sea issue could be the starting point of an approach to other countries that is different from the behavior of the western imperial powers.

X

CONCLUSION: THE JURY IS STILL OUT

China's emergence as a capitalist power, from one of the world's poorest economies to its second largest in just 40 years, is one of the most remarkable feats of modern history. That this process has been largely peaceful, without the massive forced rural dislocations, slavery, genocide, and plunder that marked the rise of the European and American capitalist economies is equally remarkable. When Chinese leaders boast that their economic emergence has been a "peaceful ascent," it is not just rhetoric.

To a great extent, the conditions surrounding the peaceful rise were unique. Export-oriented production for the US and European markets had been pioneered by Japan and the so-called "tiger economies." It took place under the political canopy of an informal US-China alliance against the Soviet Union. In the US and Europe, neoliberalism had destroyed the Keynesian social contract with workers, allowing transnational corporations to relocate to cheap labor areas. Compared with other societies, China had a massive supply of labor that seemed inexhaustible. Neoliberal doctrine and institutions like the World Trade Organization brought about low tariffs and the elimination to other barriers to trade, promoting a wave of corporate-driven globalization of production and markets. While the US and Europe employed intimidation of developing countries to pry open their markets, it was not them but China that became the ultimate beneficiary of this process. Indeed, China's rise was hugely destabilizing economically, not for China, but mainly for the advanced capitalist economies, which underwent a process of deindustrialization and saw the wages of their working classes stagnate and their living standards erode.

As China's economy expanded, so did its demand for the raw materials and products of developing countries, providing them with an alternative market to those in the global North and sparking a rise in the price of commodities. Likewise, Chinese capital, which sought to develop raw material sources as well as support infrastructural development in the host economies, provided an alternative to development finance from the western-dominated multilateral institutions which had insisted on neoliberal conditionalities that had led to stagnation, dislocation, and rising poverty and inequality throughout the 1980's and 1990's. Today, with infrastructure lending from the World Bank and other western sources at a low level, China is virtually the only viable source for infrastructural loans for many developing countries without invasive conditionalities.

As China has expanded its economic relations with the global South, there have been many complaints about its loans and projects benefiting repressive regimes, promoting environmental destruction, and involving labor exploitation. The accusations parallel criticisms of the behavior of Chinese corporations and authorities within China itself. Many of these complaints are valid. However, they must be considered with three things borne in mind. One, that China's going out into the world has taken place only during the last 25 years and it is still on a steep learning curve. Two, that the depredations of western capital and its agencies, both historically and today, have been overall far worse. And three, that China's trade and investment relations have not been imposed by force on developing economies, unlike those of the West. Having said this, the behavior highlighted by these criticisms must be urgently addressed and rectified on pain of their consolidating into hegemonic patterns of behavior.

Beijing's Belt and Road Initiative (BRI) has elicited different reactions from around the world. On the one side are those who see it as Xi Jinping's bid for global hegemony. Others see it as a sign of China's accumulating economic problems, a desperate effort to solve the problem of industrial overcapacity by externalizing it. The second is the more likely explanation. A fundamental problem faced by the trillion dollar enterprise is where the resources will come from at a time when China's growth rate has slowed significantly , export markets are stagnant, state enterprises are in severe debt, and squeezing savings out of consumers to fund ambitious projects is an increasingly unviable and unpopular strategy.

The biggest problem with the BRI, however, is that it is a grandiose top-down technocratic project guided by obsolete 20th century perspectives transposed to the 21st century, which threatens to expose a large part of the world to ecological crisis. This neo-developmentalist "gigantistic" approach has appeal across the ideological divide. Its negative impacts on the environment and democracy should be regarded as of equal concern as the possibility of China reproducing the economic and military behavior of the capitalist powers.

In terms of its military power, the People's Republic of China has, for the most part, not deployed force for economic intimidation or "gunboat diplomacy," and while it has not shunned military conflicts, these have, for the most part, involved border disputes, with the one massive military intervention it engaged in being a campaign to counteract a unilateral US effort in 1950-53 to reunify a neighboring country, Korea, that posed an existential threat to it.

The PRC's fundamental posture continues to be that of the strategic defensive, though it has engaged in military modernization that now makes its military budget the second largest in the world. The PRC's budget is nonetheless a far cry from the size of the US military budget. No amount of modernization, moreover, has resolved Beijing's basic strategic dilemma, which is the exposure of its eastern and southern coasts to massive destruction from US nuclear and conventional forces in the event of conflict.

The PRC's controversial moves of unilaterally taking over disputed maritime formations, engaging in military build-ups, and disregarding the territorial and economic rights of other states in the South China Sea must be seen in the context of an attempt to address this strategic dilemma by creating what some have called a "Great Maritime Wall" extending from the Diaoyu islands off Japan to the Spratlys off the Philippines to counter US power ensconced in the so-called "First Island Chain" that runs from South Korea through Japan to the Philippines. Where China has gone wrong is that in order to address the threat posed by the US, it has engaged in unilateral measures rather than collective negotiations and actions with its smaller neighbors. It has also troubled many that China's motives are not only strategic but also economic, that is, to monopolize the economic resources of the area, evoking the use of state power for economic exploitation that has been a central feature of western imperialism.

The result has been a terrible image of China as a Goliath and a windfall for the US, allowing the latter to promote the idea that its military is in East Asia to protect the interests of the smaller countries in the area. Instead of demilitarization, the region is now witnessing a destabilizing balance of power regime where a major war could result from as small an incident as a ship collision in the South China Sea.

China has undergone a largely peaceful process of economic expansion. It is, however, now at a crossroads after 25 years of going out to the world. It can continue to ignore complaints about the behavior of its state enterprises, corporations, and citizens and allow these negative practices to congeal into structural patterns very similar to those of the western powers. It can ignore the fears of many that its top-down neo-developmentalist infrastructure-led program—the ambitious but incoherent BRI—will have a massive negative ecological and social footprint on a vast swathe of the globe.

Or it can take these criticisms seriously and work with other governments and citizens' movements to strike out on a different and more benign path in its evolving relationship with the global South. It is in the South China Sea conflict that this choice most acutely confronts China. How it resolves its differences with its smaller neighbors there can provide a template for the way it meets the criticisms that have been levelled at it elsewhere.

Will China go the way of the West? The jury is still out on this question, but the window of opportunity for China to take a different path is closing fast. In this decision on where China will go, progressive individuals and organizations outside China have a role to play. Indeed, their contribution would be invaluable. It is important for them to make their critical voices heard by the Chinese government and people whenever they see Chinese government agencies, SOEs and private firms following in the footsteps of western actors, or imposing a destabilizing neo-developmentalist program like the BRI. In this regard, they might take a leaf out of the book of peasants, workers, and environmentalists, whose protests have become common in China and served as a counterweight to the actions of local officials, in many cases forcing them to retreat or change their behavior.

Criticism, however, is not enough. International civil society actors can offer constructive suggestions on how Chinese enterprises can change their behavior. "CSR" (corporate social responsibility) is a much derided term owing to the ways western corporations have avoided real change in their ways through superficial behavior modification such as greenwashing. Nevertheless, learning from these failures, progressives can come out with stricter codes of conduct with which to engage all economic actors, including the Chinese government, Chinese SOEs and Chinese private enterprises. They can offer alternatives to the anachronistic 20th century modernist monstrosity that is the BRI. An approach that combines hard criticism with positive engagement might be the best way that we can help China avoid the path followed by the West.

In conclusion, one may not have much affection for the People's Republic of China, but to say that it is an imperial power like the United States, Britain, and a number of other European countries would be a gross misreading of historical and contemporary reality. Likewise, to retreat, as some do, to the position that while it is currently not hegemonic, China is destined to become an imperial power in the long run simply because it is a capitalist country that is going to have the world's biggest economy in a few years' time is to fall into the fallacy of predestination, much like Calvinists did. One may speak about tendencies, but there is no such thing as predetermination. Not just individuals but societies have agency.

That having been said, while it is not an imperial power in the image of the West, China's global expansion poses its own unique set of problems for the South, problems that China needs to address and rectify on pain of imposing irreparable harm. A major source of concern is its obsolete 20th century approach to development, which is technocratic, resistant to democratic control, and insensitive to ecological concerns. This approach is most fully in display in its ambitious—and alarming—Belt and Road Initiative.

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