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# China's contingencies and globalisation

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Will China be able to rebalance its economy, heavily tilted towards investment? Will it be able to increase the share of household consumption in GDP? Will it turn steeply growing social inequality around? Will urbanisation contribute to China's rebalancing or will it add to the imbalances? Will China manage to bring pollution under control? Such variables will determine whether China can move beyond the middle-income trap and also affect its external relations. In addition, China's rebalancing is a variable in global rebalancing. This article provides an introduction to the special issue.

**Keywords:** economic rebalancing; growth model; institutions; contingencies; globalisation; China

摘要：中国能否再平衡其过于倾向投资的经济？中国能否增加居民消费在国内生产总值中的比重？中国能否扭转严峻的社会不平等现象？城市化对中国的再平衡有益还是有害？中国能否控制污染？以上种种变量决定了中国是否能否规避中等收入陷阱，也会对中国的对外关系造成影响。中国的再平衡同样也是全球再平衡的变量之一。这也是本期特刊的前言

There is no significant account of China that doesn't feature major contingencies. China's development has been momentous, yet its further course hinges on challenges across many terrains. Since this concerns the world's largest economy and a fifth of humanity, the stakes are large and China's contingencies take on a dramatic character. The contingencies have been shaped by globalisation (such as foreign direct investment, the role of Chinese diasporas, export markets, the intertwining of economies and global value networks, World Trade Organization (WTO) membership, international institutions, regional and wider geopolitics); how China meets these challenges shapes globalisation in turn (as in China as importer, Silk Road economic projects, the role of the renminbi (RMB), the G20, the BRICS, and Asian and South–South cooperation).

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The theme is familiar enough. Hardly a week goes by without another exposé of a China bubble about to burst or disaster pending. Pollution, over-investment, overheating real estate, bad debts, shadow banking, labour conditions, social protests, poor product quality, water scarcity and legal uncertainties are among the themes that come up in the media and reports.

For a long time China bulls were ahead of China bears, as in books such as *When China Rules the World*.<sup>1</sup> Recently a Chinese economist argued that China could easily continue to grow by 8% a year for another 20 years.<sup>2</sup> But such voices have become relatively scarce. During recent years the constraints that China faces have become more visible and more salient in media and research, also in China. The balance has gradually shifted, particularly since the crisis of 2008.

There are ample warning signs. China's rich are leaving – because of pollution, their children's education and uncertainty about the country's future. When they can afford it they leave for Australia, Canada or the USA.<sup>3</sup> A society that cannot keep its elite at home is not in good shape. The worker suicides and strikes at the Foxconn and Honda factories in 2010 and 2011 signalled that labour conditions in China's factories are not sustainable. The protest over land appropriations in Wukan flagged local government corruption. Air pollution in Beijing and other cities is well above hazard levels. To be a China bull now requires taking a prep course in warding off criticisms.

This introduction reviews the major constraints and transformations that China faces, primarily on the basis of policy discussions in China. I then turn to how these constraints and China's rebalancing policies relate to globalisation dynamics. The closing section is an overview of the papers in this special issue.

Before stepping into specifics, a preliminary question is how, in what terms and from what perspectives should we view China's dilemmas? Several perspectives take Western (read: American) institutions and capitalism as a yardstick and assume, implicitly or explicitly, that China should become 'more western'.<sup>4</sup> Discussions of democracy and human rights are part of this and experienced an upswing in the wake of the Tiananmen uprising. The hazards of state capitalism, in contrast to market capitalism, are another familiar trope.<sup>5</sup> Other discussions compare China to Japan, South Korea and Taiwan. Michael Pettis views China as 'mostly a souped-up version of the Asian development model, probably first articulated by Japan in the 1960s'.<sup>6</sup> This isn't as bad as it sounds, because this happens to be the sole model that enabled poor countries to become rich in the 20th century.<sup>7</sup> Nonetheless, differences among Asian countries are significant and whether an 'Asian model' exists is in question.<sup>8</sup> Other accounts view China's problems as problems of neoliberal capitalism or of capitalism generally (also known as 'global capitalism').<sup>9</sup>

To sidestep some of these problems it is best to focus on discussions in China. In the 1990s the Jiang Zemin government followed the 'Singapore model' of fast-lane growth led by foreign direct investment (during a brief period as an actual model; generally as an analogue). Multinational corporations and ethnic Chinese tycoons from Southeast Asia investing in Special Economic Zones in southern China played a major role at this stage. This growth model produced sharp imbalances between coastal and inland development and between economic growth and development. China's New Left highlighted the imbalances in China's growth model and criticised growing materialism along

with 'market romanticism' and 'the fetishism of American culture and its liberal market idea'.<sup>10</sup> Some of these concerns were taken up by the Hu Jintao and Wen Jiabao government, which in 2003 initiated 'harmonious society' and the 'scientific outlook on development' as policy frameworks.

In 2007 premier Wen Jiabao warned that, while the Chinese economy looked strong on the surface, in terms of GDP and employment growth it was increasingly 'unbalanced, unstable, uncoordinated, and unsustainable', an assessment that became known as the 'four uns'. Unbalanced – in terms of urban–rural and east–west disparities; unstable – with overheated investment, excess liquidity and a large current account surplus; uncoordinated – with regional fragmentation, excess manufacturing and an undeveloped services sector, excess investment and lagging consumption; and unsustainable – in view of environmental degradation, excess resource use and persistent tensions in income distribution.<sup>11</sup> These considerations set the stage for the 12th five-year plan (2011–15), which aimed to build broad social safety, reducing the need for household savings, and urbanisation to bridge urban–rural income gaps, something that would serve to boost domestic consumption and reorient the economy away from dependence on exports.

Thus China will no longer be an economy driven by manufacturing exports but will be a major importer of consumer goods – this mantra has been repeated for years, but when and how is this to take place? China must reign in over-investment and boost domestic consumption; however, since this objective was announced in 2005, household consumption has gone down, not up. Household consumption stood at 46% in 2000 and had shrunk to a meagre 34% in 2010 (while the global average is 65%).<sup>12</sup> China must counter rising inequality – but China's Gini index has been rising, not declining, to 0.47 in 2010, which is well above the government-established threshold of when inequality would generate social instability (set at 0.40). After Hong Kong's China's Gini index is now the highest in Asia. China must in particular counter inequality in rural–urban incomes and a major way of doing so is through urbanisation (and 'townisation'). However, this also feeds over-investment in infrastructure, local government land appropriation and corruption, and seems to be a blunt and easily misdirected instrument. Evidence includes newly built ghost cities, giant empty malls and the investment gigantism of the 'Chongqing model'.<sup>13</sup> Rural development, as advocated by Wen Tiejun and others, and rapid dismantling of the *hukou* urban household registration system would have a greater impact on reducing inequality than urbanisation.

Nevertheless, some transitions are being achieved. The shift from price competition to quality competition in manufacturing has been in motion for some time, alongside a strong emphasis on science and technology and vast investments in tertiary education and science and industrial parks. Following worker protests, a looming scarcity of labour and the adoption of the Labour Law in 2007, higher wages and better labour conditions are gradually being achieved. The relocation of some industries to poorer inland areas is also in motion.

Some transformations have been set in motion but are yet to deliver definite outcomes. Pollution has been declared a top government priority. The number of environmental NGOs in China is now over 8000. While China leads in investment in renewable energy and has become a world leader in solar panels and wind turbines, polluting industries and reliance on coal need to be reined in. Aging has

been signalled as a concern and the one-child policy is being loosened, but this is at an early stage. The *hukou* system remains in place even though it is a major variable in rural–urban inequality. Gender inequality is a major issue.<sup>14</sup> A property law that is to provide safeguards against arbitrary seizure of property was adopted after long delay, but how it will be implemented still leaves great uncertainty.<sup>15</sup>

The internationalisation of the RMB has long been a government aspiration but outcomes have been uneven. The amount of China's trade paid for in yuan was 0.02% in 2009 and rose to 25% in 2014. The IMF is ready to grant the yuan 'fair value' and reserve currency status (against US opposition and with the backing of Germany and Australia), with major ramifications for financial markets.<sup>16</sup> It entails the yuan being included as part of the IMF's Special Drawing Rights. Yet a weakness of the yuan remains its store of value function (largely in view of legal uncertainties, including property rights).<sup>17</sup>

That China needs to undergo major transformations is widely understood. How is China managing its transitions from a production to a consumption economy, from price competition to quality competition, from a labour-abundant to an aging society? These transformations are being discussed extensively and big debates concern where China's next 30-year reform should be headed. China 1.0 was Mao Zedong's communist revolution, China 2.0 was Deng Xiaoping's market revolution and China 3.0 refers to ongoing transformations.<sup>18</sup> According to Mark Leonard, 'It is not just the Beijing consensus that is broken; the models of the West are also discredited. The intellectuals of China 3.0 find themselves in uncharted territory.'<sup>19</sup> China's reforms have generated headlines for years within and outside China; such as:

China needs Slower, Better Growth (*Financial Times*, 2010)

New Growth Model Needed (*China Daily*, 2010)

How do you say Bubble Trouble in Chinese? (*Bloomberg Businessweek*, 2010).<sup>20</sup>

### **Shifting the development model**

According to a wide-ranging volume edited by Chi Fulin, at issue for China is terminating the export-oriented model, terminating the investment-led model, terminating the growth–GDP model, and 'shifting the development model' overall.<sup>21</sup> China has moved on from its growth and survival stage to its transformation stage. The keynotes of China changing its model of development in the post-crisis era are its transformation from a production power to a consumer power; the notion that consumption-driven growth best embodies equitable and sustainable growth; and the belief that urbanisation, the integration of urban and rural areas, along with institutional innovation, are the best avenues to accomplish these transitions. Implementing this will slow growth rates and run counter to powerful elite interests, so it is a long and winding road.

Terminating the export-oriented model is necessary because overseas markets are shrinking. Private consumption in the USA, EU and Japan has been sharply down since 2006 and 2008. Besides, Chinese exports face rising costs; since 2008 China has faced increasing trade protection measures of tariff increases, trade embargos, export subsidies and non-tariff barriers (in the USA tyres and

steel pipes from China have encountered rising tariffs). Since joining the WTO in 2001 China has encountered increasing trade frictions; 35% of anti-dumping cases and 71% of anti-subsidy cases have been aimed at China. Given the general shift to a low-carbon economy and the fact that China's products are high carbon, the country may also face carbon tariffs.

The economy of a large country with a population of 1.3 billion cannot depend on overseas demand for a long time. The GDP share of foreign trade rose from 9.7% in 1978 to 66.5% in 2007, sliding to 59.8% in 2008 and to 45% over the period 2010–14.<sup>22</sup> Such fluctuations involve growing social risks; personnel employed in the foreign trade sector number 100 million, a high share of the total employed workforce. Since 2007 25 million workers have lost their jobs and been reintegrated in rural areas, which is itself a major rebalancing feat.

Considerations in terminating the investment-driven model are over-investment, especially by state-owned enterprises (SOEs), and overcapacity of production. China's investment rate rose from 40% in 2010 to 48% in 2012 – greater than consumption, imports and exports combined.<sup>23</sup> China leads in 210 types of industrial products and 10 industries are in over-production, especially steel, aluminium, cement, ethylene, oil refining, and wind power (as at 2006). Local governments drive the oversupply of industrial products. Most industries are low-end with a value-added rate that is only 4%–5% of that of the USA, Japan and Germany. 'For the equivalent of Boeing airplane, China has to export about 100 million pairs of jeans.'<sup>24</sup> Large SOEs squeeze private sector industries (just as large enterprises do in South Korea and Japan). The investment-led model comes at a high cost because the rising price of many resources is long-term. 'Whenever China is about to buy something, its price will go up.'<sup>25</sup> On the labour market side of the equation China is aging faster than other countries (in 2045, 30% of the population will be over 60).

Terminating growth centred on GDP is necessary because the focus on growth represents 'increase without development'.<sup>26</sup> Pollution incidents going back to the 1980s reveal the contradictions between growth and development. The loss incurred as a result of pollution each year is 10% of same year's added GDP and is likely to rise higher in 2020. Local governments drive the continuing focus on growth; local governments competing for mobility and regional economies with their own competition strategies (institutions, policies, zoning and marketing) have been driving fast growth for 30 years.<sup>27</sup> With GDP-ism come a lagging service sector, a shortage of public goods and a widening income gap. The harmonious society policies of 2003 sought to instil a 'human centered, comprehensive development' but have made limited impact.<sup>28</sup>

China's reform is seeking a new breakthrough. Since the 2003 severe acute respiratory syndrome (SARS) crisis debates have focused on 'comprehensive reform fatigue syndrome', with rising public suspicion, so the driving force of reform wanes. Reform is often distorted, lacks consensus and has costs that exceed the benefits. Reform models now face a historical transformation. 'Putting people first should be fundamental criterion in appraising reform'.<sup>29</sup> China's first transition was a survival phase focused on growth and on satisfying the basic demands for food, clothing, housing and travel. The second phase was a development-style stage, a strategic upgrade with a focus on people's



development rights, which involved different standards of judgment. 'In the new phase, justice and sustainable development condition and promote each other.'<sup>30</sup>

These analyses of reform illustrate several trends. As China graduates from growth to development, many of its concerns match international trends. The Chi Fulin volume offers a detailed overview of dimensions ignored in GDP and its critique of GDP broadly matches that of the Stiglitz–Sen commission.<sup>31</sup> The emphasis on sustainable development parallels the consensus that has existed in development thinking since the 1990s. The concern with 'comprehensive development' matches the standard of inclusive development set by the Spence Commission on Growth.<sup>32</sup> The idea that 'justice and sustainable development promote each other' parallels the human development approach of UNDP. Thus, virtually across the board, Chinese development thinking is in sync with trends in international development thinking and policy.

Yet several limitations also come to the fore. The policy recommendations set forth in the Chi Fulin volume are conventional and echo the official government line. Thus, according to the volume, the key point of reforms is 'stimulating consumption through urbanisation, turning millions of farmers into urban residents', which is the official programme. In the post-crisis era the volume advocates 'going global' and observes 'better conditions for going global'. Enterprises organising production and investment abroad, selling directly in international markets, can avoid the impact of the rising value of the RMB and bypass trade and political barriers (as the USA, Japan and South Korea have done in the past). Developing some large enterprises as transnational enterprises and as 'new champions' is another government platform.<sup>33</sup> From a grim account of domestic constraints the volume shifts gear to an upbeat account of international trends and opportunities. While the trade barriers imposed by advanced countries threaten growth, the rise of emerging economies opens possibilities for establishing circular trade flows independent of developed countries. This includes the 'tremendous potential for cooperation among BRIC', regional cooperation in Asia, free trade with ASEAN and the Boao Asian Forum launched in 2001. The volume is upbeat about the internationalisation of the RMB, which faces better chances after the US crisis, can use Hong Kong as RMB offshore centre and can benefit from China's possible lead in an Asian monetary fund and Asian exchange mechanism.

The transformation analyses in this volume are more wide-ranging than its policy recommendations. The policy recommendations echo the government transformation platform – a platform that leaves many of the growth–GDP problems intact. The disconnect between the two dimensions of analysis is a recurring phenomenon. Many Chinese economists and social scientists paraphrase the government line without offering much of an explanation of *how* rebalancing is to take place, or only in vague general terms. Were this to be addressed in a serious fashion, it would require an examination of institutions of governance and would bring analysis to a level of political inquiry and criticism that is absent from most Chinese discussions; no matter how detailed and well informed many economic discussions are, politics is usually an area they don't venture into. New Left thinkers who address politics critically, such as Wang Hui, are often treated as outliers in Chinese debates.<sup>34</sup>

This, too, is not unusual. In international development thinking generally there is a disconnect between elevated standards, lofty aims and recommendations with laundry lists of desirable transformations, which are usually remarkably short on analysis of *how* these are to be brought about. Doing so would require serious engagement with imbalances and asymmetries of power and wealth, something which is hardly a forte of international development institutions (which are supposed to stay out of politics). It is true that state capitalism of China's single-party variety entails a concentration of power – as well as a decentralisation of power in the governments of local states – but the so-called 'free market' of the Anglo-American variety, of course, also involves a concentration of wealth and power. According to Fukuyama, 'US democracy has little to teach China':

The quality of Chinese government is higher than in Russia, Iran, or the other authoritarian regimes with which it is often lumped – precisely because Chinese rulers feel some degree of accountability towards their population. That accountability is not, of course, procedural; the authority of the Chinese Communist party is limited neither by a rule of law nor by democratic elections. But while its leaders limit public criticism, they do try to stay on top of popular discontents, and shift policy in response...China adapts quickly, making difficult decisions and implementing them effectively. Americans pride themselves on constitutional checks and balances, based on a political culture that distrusts centralised government. This system...has now become polarised and ideologically rigid...Democracy in America may have an inherent legitimacy that the Chinese system lacks, but it will not be much of a model to anyone if the government is divided against itself and cannot govern.<sup>35</sup>

The Deng Xiaoping approach of 'crossing the river by feeling the stones', gradualism and pragmatism, has been the norm since 1980.<sup>36</sup> Since China's 'changing the model of development' involves profound and radical interventions, can gradualism be sustained? Given that transformation agendas have been around for years, the question of whether, when and how they are actually to be implemented has become increasingly pressing.

### Scenarios of rebalancing

Michael Pettis criticises the vagueness in Chinese policy discussions. China's rebalancing essentially concerns facing and catching up with the hidden cost of high growth rates. High growth has depended on discounted values of land, labour and the environment and has come with the repression of household income, vast credit expansion and increasingly wasteful investments. In addition, there is the political cost of an overblown state sector and unaccountable governance, also at local levels, as well as the sociocultural cost of a disempowered populace. 'Rapid growth in China had come at the expense of significant distortions in interest rates, wages, currency, and legal structures, along with political capture of the benefits of growth.'<sup>37</sup> According to Pettis:

the fundamental imbalance in China is the very low GDP share of consumption. This low GDP share...reflects a growth model that systematically forces up the savings rate largely by repressing consumption growth. It does this by effectively transferring wealth from the household sector (in the form, among others, of very low interest rates, an undervalued currency, and relatively slow wage growth) in order to subsidize and generate rapid GDP growth.<sup>38</sup>



The transfer of household income to the state and corporate sector also takes place through hidden taxes such as environmental degradation, energy and water subsidies, subsidised land sales, ease of eminent domain expropriations, the deterioration in the social safety net, and so forth. 'The result of this enormously successful model is so much investment-driven and employment-generating growth that even with massive transfers from households, household income has nonetheless surged.'<sup>39</sup> Yet this system cannot continue – investment is increasingly wasteful and debt increasingly exceeds the capacity to repay debt. China's grand bargain – the party improves living standards in exchange for people's continued support – is fraying at the seams. Michael Pettis identifies six scenarios of rebalancing, which run the gamut from a hard landing (a chaotic adjustment) to a soft landing. The refrain is 'either Beijing forces rebalancing, or rebalancing will be forced upon China in the form of a debt crisis'.<sup>40</sup>

China is an amalgam of multiple capitalisms – the state sector of SOEs, large, powerful and inefficient; the 'network capitalism' of the private sector small and medium-size enterprises (SMEs), growing in volume but politically weak; and local government corporates, public-private partnerships that have been termed 'clan capitalism' and carry varying political clout.<sup>41</sup> China's rebalancing scenarios (raising wages, raising interest rates, revaluing the yuan) come with different ramifications for each of these sectors. The distribution of winners and losers in each scenario differs. According to Pettis:

Revaluing the currency would disproportionately help middle- and working-class urban households – for whom import costs tend to be important – and disproportionately hurt manufacturers whose production cost are primarily local...If, however, China chooses to raise wages, it would disproportionately help urban workers and farmers and disproportionately hurt labor-intensive manufacturers and businesses in the service sector, both of which tend to be small and medium-size enterprises. And, finally, if China raises interest rates, it would disproportionately help middle-class savers and disproportionately hurt large, capital-intensive manufacturers.<sup>42</sup>

The scenario of raising wages hurts the SME sector, which is politically weak, while raising interest rates hurts very powerful groups that benefit from cheap capital.

A limitation of many Chinese economic analyses is that they leave political reform out of the equation; a limitation of many foreign analyses is that, in requiring political reform, they imply a convergence with Western institutions and, second, they assume that institutional reform can be achieved by some form of social engineering. Analyses of varieties of capitalism show, however, that institutions aren't the product of social engineering but come about historically. According to Bruno Amable:

Different economic models are not simply characterized by different institutional forms, but also by particular patterns of interaction between complementary institutions which are the core characteristics of these models. Institutions are not just simply devices which would be chosen by 'social engineers' in order to perform a function as efficiently as possible; they are the outcome of a political economy process. Therefore, institutional change should be envisaged not as a move towards a hypothetical 'one best way', but as a result of socio-political compromises.<sup>43</sup>

Institutions cannot, so to speak, be genetically modified but rather come about organically, in tandem with other institutions. Besides, China isn't just an institutional and political field; it is also a civilisation-state.<sup>44</sup>

As Anderlini notes:

The government can tell regional officials that it wants more innovation, more consumption and less investment, but in their annual cadre evaluations about 70 per cent of the points are awarded for raising GDP and avoiding any unrest or embarrassing scandal in their jurisdiction. Few points are given for stated government priorities such as cleaning up the environment, in part because it is so difficult to measure success...The myopic focus on GDP growth rates helps fuel over-investment across the country but it also aligns almost perfectly with the corrupt interests of many officials. By building a large dam, road or giant housing complex, an official can boost GDP and create jobs while also creating a large pot of money he can dip into for himself or spread around friends and family.<sup>45</sup>

In assessing these contingencies a key question is what is the time frame of reform and transformation? Most commentary and analysis is short-term, while many of China's transformations, expansion, investments and overseas loans are long-term. Governments come and go, ports, roads and railways remain. The time frame of financial economics is typically short. Pettis reckons that the debt service crunch time for China is no more than four to five years away. The time frame of economics is longer. The time frame of sociology is longer still. History considers the *longue durée* and structural change, but obviously these are easier to reckon with looking backwards than forward.

In sociological terms China is undergoing a transition from first modernity to second modernity. First modernity is about overcoming scarcity, securing survival and achieving growth, while second modernity is about managing the risks generated by the first modernity, its unintended effects, imbalances and ecological ramifications – in other words, the cost of success. The institutions and skillset necessary to achieve the first modernity is markedly different from those that are required to cross the threshold of the second modernity, which involves different demands and balancing more and wider constituencies. While this analytic follows Ulrich Beck and leans on the experience of Germany and other Western countries, second modernity and risk management has been taken up also in South Korea and Japan.<sup>46</sup>

At issue is not any second modernity; it is a 'second modernity with Chinese characteristics'. China is experiencing a threefold transition: towards modernity in inland regions and the west (which is now boosted by the 'One Road, One Belt' projects), towards second modernity in second- and third-tier cities and in most of the country, and towards postmodern conditions in high-connectivity sectors such as logistics, finance, media, the arts and social media. Thus the transformation process involves multiple temporalities; the new normal is unfolding in different sectors at multiple speeds. Since reflexivity is a keynote of second modernity (processing and reflecting on the risks generated by first modernity), Chinese reflexivity is of crucial importance across social media, general media, public debates, intellectual analyses, government agendas and policy shifts. This poses frictions between government control of information circuits and flows (a function of a first-modernity style of governance) and the

social reflexivity that second modernity requires. In the words of an activist, 'China has so many problems...if we can't speak up, how will these problems ever be known and addressed?'<sup>47</sup>

The Xi Jinping government engages these transitions in several ways. The anti-corruption drive serves to curb the state and party sector, to curb local governments – and to centralise power. The major initiatives in East Asia, Central Asia and beyond – the Silk Road economic belt, One Belt, One Road, high-speed train links through Southeast Asia to Singapore and to Gwadar port in Pakistan, the Maritime Silk Road, the Silk Road Fund, the Asian Infrastructure Investment Bank (AIIB), and the BRICS' New Development Bank and its Contingent Reserve Arrangement (CRA) – extrapolate China's investment-led model abroad. By externalising the investment-led model these projects redeploy the assets of China's construction companies, the China Construction Bank, high-speed train companies, iron, steel and cement factories and related enterprises in cross-border projects. They provide another outlet for China's vast current account surplus besides accumulating US Treasuries.

This redeployment lessens the resistance to winding down investment-led growth *within* China and reduces the resistance of powerful elites and SOEs, or at least divides and distracts the opposition. Xi Jinping's 'Chinese dream' may rejuvenate the weariness of reform after reform and provide a degree of popular support for major transformations, especially when they run counter to formidable entrenched interests. It will be able to do so only if it is perceived actually to deliver transformation – an appeal and legitimacy that 'harmonious society' wasn't able to muster. Expansion in the South and East China Sea may generate popular fervour, not unlike Putin's expansion into the Crimea. Synchronising major regional investment projects and financial largesse with regional expansion puts governments across East Asia off balance and counters the 'Asia pivot' of the USA and the nationalist posture of Japan's Abe government, but it also costs China in terms of soft power. The appeal of the AIIB to Western and Asian countries (57 countries have joined, including the UK, Germany, France, Italy, Austria, Australia and South Korea) splinters Western forces and isolates a stumbling USA. The USA and Japan counter with the Trans Pacific Partnership (TPP), which excludes China. The USA remains the foremost military power in Asia, but the TPP, even if it were successful, doesn't alter China's role as Asia's pre-eminent economic power. 'China is already the biggest trading partner of the most important nations in the TPP negotiations – including Japan, Singapore and Australia – and it is the second-biggest partner of the US itself.'<sup>48</sup>

### **China's new normal and globalisation**

As a driving force in the twenty-first-century world economy, China has made headlines in several capacities. Its rapid growth has played an increasing role in Asia and worldwide; China's demand for commodities has boosted exports from developing economies; its industrial exports have crowded out other industrial exporters. Holding the world's largest current account surplus, over \$3 trillion, weighs in as well. As a large-scale buyer of US Treasuries, it enabled ballooning debt in the USA (which came to a head in 2007–08). Investments in and loans to developing countries in Latin America and Africa have supplemented

or competed with international development institutions. Regional institutions such as the Shanghai Cooperation Organisation have exercised influence, and so forth.

In the wake of the 2008 crisis China's role on the world stage has grown to the point that it is recognised as 'forging a new phase of globalisation in which it helps mould the relationships and rules at the core of the international economy',<sup>49</sup> or as staging a new 'globalisation with Chinese characteristics'.<sup>50</sup> China moved up in international reporting with headlines such as 'China assumes lead on world economy'.<sup>51</sup> In 2011 the *Financial Times* ran a series of articles under the heading 'China shapes the world'.

As China is recognised as a force in the world economy, so is the country's rebalancing. China's premiers contribute opinion articles to the *Financial Times*. Wen Jiabao discussed China 'shifting the development model' and Li Keqiang discussed 'China's great expectations for ties with an indebted Europe'.<sup>52</sup> Yet China is also a 'fragile superpower',<sup>53</sup> and another headline refers to it as 'Hesitating to take on global leadership'.<sup>54</sup>

According to Dani Rodrik, the WTO Agreement on Subsidies (which penalises industrial subsidies) left China no choice but to use monetary policy instruments, including undervaluing the yuan and financial repression. To make room for China in the world economy, he advocates revision of the Agreement on Subsidies.<sup>55</sup> In 2015 the combination of a strong dollar and weak euro and yen, with slow growth in top economies and stuttering emerging markets, is giving rise to IMF warnings of economic stagnation and growing debt. Thus China is also part of a wider tension between WTO rules (liberalising trade) and IMF concerns (economic and financial stability). Min Gong has criticised the accusation of China undervaluing the yuan on wider grounds.<sup>56</sup>

China's leading role in the world economy involves several strands. Its domestic rebalancing and its international role come together in the familiar combo of 'intermestic' (international-domestic) politics. Over time any scenario of China's rebalancing will involve slower growth, which will largely be a positive development for the country, with diverse ramifications for Asia and developing countries across the world.

Just as China's growth and commodities demand has spurred growth in developing countries and emerging economies, China's slowdown affects commodities exporters (from Australia, Brazil and Chile to Peru and Zambia). Since urbanisation and infrastructure development in China and Asia will be ongoing, demand for commodities will be long-term, though at a lower level than previously.

As Chinese industries move up the productivity and technology ladder, this leaves room for low-value industrial production to move to lower wage countries. Yet, with growing competition in emerging economies, manufacturing profit margins have slimmed and this growth path has become more difficult. China's demand for higher quality parts and components will affect different developing countries and sectors differently. China is catching up in research and development, innovation and smart production (Xaomi is an example), but Chinese brands lag behind in international recognition and appeal.<sup>57</sup> Chinese imports of consumer goods will remain limited as long as household incomes remain repressed and the RMB is undervalued.<sup>58</sup>

China's shares market may be about to become part of global emerging market indices: 'China's \$6tn onshore A-shares market is just two to three years away from being included in the major emerging market indices...China's inclusion in global benchmarks would probably herald a huge inflow of capital, as most institutional investors currently have little exposure to the world's largest emerging market.'<sup>59</sup>

China has become increasingly active in international and regional institutions. From 'being globalised' China has increasingly become an active globalising force and the logics of hybridisation have been changing fundamentally.<sup>60</sup> The BRICS New Development Bank and CRA, the Asian Infrastructure Investment Bank (all established in 2014), major Silk Road projects and trade and investment initiatives in Asia indicate that the co-evolution of China and globalisation is reaching a new level. Yet uncertainty prevails. According to Martin Wolf (who doesn't usually issue calls to prayer), for China to navigate the new normal 'will require very deft macroeconomic management...The world must pray the Chinese authorities manage this transition successfully.'<sup>61</sup>

### **Introduction to the special issue**

Four papers in this special issue deal with China and globalisation; three articles address China's economic transformations, one of which ties this in with China's growing role in Asia; two papers deal with China's social movements; one concerns China's migrant workers and the closing paper reflects on China's policies on religion.

The opening papers deal with Chinese perspectives on globalisation and China's role in contemporary globalisation. Debin Liu and Zhen Yan give an overview of Chinese perspectives on globalisation over time. They argue that examining the work of prominent Chinese globalisation scholars helps us grasp the logics of both the material and ideological development of globalisation in China. Chinese thinkers typically acknowledge Marx's role as an early globalisation thinker. Xiao Ren, an international relations scholar at Fudan University, asks whether China should be viewed as a reform-minded or as a status quo power. Examining China's role in the G20 and changes in the international monetary system, Ren finds that China plays both roles, as 'a reform-minded status quo power'. Shi-xu, the director of the Institute of Contemporary Discourse Studies at Zhejiang University, offers a critical perspective on representations of China in Western security discourse. Several representations cast the USA as guarantor of Asian and global stability and China as an external 'other', a potential threat, in other words a very different perspective from that held within China and in other spheres of global affairs. Ning Wang reflects on globalisation from a humanities point of view. China has been undergoing globalisation by Sinicising Western influences, as Mao did by creating a Chinese version of Marxism in which the peasantry, not the proletariat, leads. The Chinese term for such borrowing is 'grabbism'. In the process China is creating an alternative modernity.

The next set of papers deals with China's economic policies. Dianfan Yu and Yajun Zhang of the Shanghai University of Finance and Economics analyse China's industrial transformation and offer strategies for upgrading China's

industrial capacities in the new normal of slower growth. They identify four strategies of industrial transformation which all centre on the role of market forces.

Xiao Li and Yibing Ding, prominent economists at Jilin University, argue that China is transitioning from an export platform to a market provider and offer an upbeat, yet also critical perspective on 'China's role in a globalized Asian economy'. Jonathan Holslag's article, 'Probing China's economic ambitions in Asia' presents a critical view and draws attention to unfulfilled promises in China-Asia relations and to their asymmetric character. The juxtaposition of these two perspectives offers grounds for an interesting debate that is particularly relevant for Southeast Asian economies and ASEAN. A wider question, which these papers don't address, is the extent to which exports from China are part of global value chains that are controlled by multinational corporations, rather than by Chinese enterprises.

Two articles address major social movements in China. Daniel Vukovich analyses two recent massive protests in Southern China: the Wukan uprising in Guangdong and the Occupy Movement in Hong Kong. Vukovich discusses the limits of two forms of convergence thinking: Western or 'liberal', centring on 'democracy'; and the PRC centring on the Party-state. Vukovich questions both while observing that the Party-state can and must be used to further protesters' and citizens' ends – a point that is also made in the next article. According to Shih Diing Liu, China's political landscape is witnessing a new protest cycle and intensification of contentious politics, a 'new contentious sequence'. Instead of viewing the Chinese Party-state as repressive and intolerant he argues that deep-rooted contradictions and ambiguities within the Party-state system have opened up new possibilities. The Party-state increasingly appropriates popular protest to regain regime legitimacy and creates favourable conditions for protest while also placing limits on protests. In his view profound changes in state-society linkages, the restructuring of state governance, the central-local divide and Chinese socialist tradition are combining to reshape the conditions for contemporary popular struggle. Similar arguments have been made in relation to labour struggles in China.<sup>62</sup>

Migrant workers are China's major marginalised group and are the focus of Tang and Li's article, 'Discursive representations of Chinese migrant workers'. In-depth interviews with 15 Chinese old-generation migrant workers show how migrant workers are excluded from mainstream society and view themselves as aliens, outliers and oppressed. This article drives home the fact that social inequality is not a mere statistic, a numbers game, but a stark reality, a yawning gap between the powerful and the powerless, which this study bridges with empathy and understanding.

Arguably the principle of state co-option and control of civil society discussed by Shi-Diing Liu has an older lineage, which comes across in Guo and Zhang's article on China's religious policies. They argue that China has developed a 'state-leads, church-follows' relationship in which the government doesn't interfere in religious affairs as long as political stability is not at risk. To some extent the regime provides an institutional guarantee for the pluralistic development of religions. In the twenty-first century the Party advocates an active role for religion in promoting social harmony in the hope of rebuilding



morality amid moral decline. Although the CCP's religious policies are not as severe as conservatives in the West imagine, the Party still exercises strong control over religion, as in Xinjiang and Tibet, a policy that is increasingly being challenged. This poses the wider question of the extent to which China represents integralism, or a view according to which state and society are merged, which may also be a feature of Confucian polities.

This volume illustrates and discusses a dramatic juncture: the time when China is widely recognised as a major force in the world economy and in Asia is precisely also the time when China faces major dilemmas and is experiencing fundamental transformations. China's success has brought it to a threshold of transformation, the outcomes of which are uncertain. One dream fulfilled – being recognised on the world stage – comes with another dream weighing in the balance—paying the price of success and moving beyond the middle-income trap. The papers in this issue reflect on diverse aspects of this momentous rebalancing process.

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### Notes

1. Jacques, *When China Rules the World*. Of course, the book also signals weaknesses in China's development.
2. Lin, "China and the Global Economy."
3. Lemos, *The End of the Chinese Dream*.
4. See Nederveen Pieterse, "Rethinking Modernity."
5. For example, Bremmer, *The End of the Free Market*; and McGregor, *No Ancient Wisdom*. See also Ikenberry, "The Rise of China."
6. Pettis, *Avoiding the Fall*, 30.
7. See Studwell, *How Asia Works*.
8. Nederveen Pieterse, *What happened to the Miracle Eight?*
9. For example, Harvey, *A Brief History of Neoliberalism*; and Minqi Li, *The Rise of China*.
10. Chi and Ping, "China Reflected"; and Chen, "New Development of Consumerism in Chinese Society," 173.
11. Roach, *The Next Asia*.
12. Pettis, *Avoiding the Fall*, 81–82.

13. Miller, *China's Urban Billion*.
14. Wen Hua, *Buying Beauty*.
15. See Guthrie, *China and Globalisation*, chap. 6.
16. Talley and Wei, "China's Yuan Push."
17. Cohen, "The Yuan Tomorrow?"
18. Leonard, "What does the New China Think?"
19. *Ibid.*, 11.
20. Hu Shaowei, "New Growth Model Needed"; Yu Yongding, "China Needs"; and Roberts, "How do you say Bubble Trouble?"
21. See Chi, *Change of China's Development Models*.
22. *Ibid.*, 15. Data after 2010 are from World Bank Databank, Merchandise trade (% of GDP), 2015, accessed June 28, 2015.
23. Pettis, *Avoiding the Fall*, 5.
24. Li, "China's New Development Stage," 142.
25. Chi, *Change of China's Development Models*, 32.
26. *Ibid.*, 37.
27. *Ibid.*, 38.
28. *Ibid.*, 41.
29. *Ibid.*, 45.
30. *Ibid.*, 84.
31. *Ibid.*, 36; and Stiglitz et al., *Mismeasuring our Lives*. See also Fleurbaey and Blanchet, *Beyond GDP*.
32. Commission on Growth and Development, *The Growth Report*.
33. Chi, *Change of China's Development Models*, 91.
34. Wang Hui, *China's New Order*; and Wang, *The End of the Revolution*.
35. Fukuyama, "US Democracy has little to teach China."
36. Ho, "Beyond Development Orthodoxy."
37. Pettis, *Avoiding the Fall*, 3.
38. *Ibid.*, 8.
39. *Ibid.*, 39.
40. *Ibid.*, 9.
41. See Redding and Witt, *The Future of Chinese Capitalism*; Peck and Zhang, "A Variety of Capitalism"; and Nederveen Pieterse, "Rethinking Modernity."
42. Pettis, *Avoiding the Fall*, 96.
43. Amable, *the Diversity of Modern Capitalism*, abstract and chap. 1. See also Whitley, *Divergent Capitalisms*.
44. Redding and Witt, *The Future of Chinese Capitalism*, 36; and Jacques, *When China rules the World*.
45. Anderlini, "Small Repairs."
46. Beck, *Risk Society*; Chang Kyung-Sup, *South Korea*; and Kit-wai Ma, "Compressed Modernity."
47. Quoted in Hille, "Speech Breaks Out."
48. Rachman, "Obama's Pacific Trade Deal."
49. Dyer, "A Strategy."
50. Henderson, "Globalisation with Chinese Characteristics." See also Zhao, *China's New Maritime Silk Road*.
51. Dyer, "G20."
52. Wen, "How China plans to Reinforce"; and Li, "China's Great Expectations."
53. Shirk, *China*.
54. Dyer, "China assumes Lead."
55. Rodrik, "Making Room for China."
56. Gong, "Global Specialisation."
57. Wilson, "China is Really Big."
58. Wolf, "Why China."
59. Johnson, "China to 'become 20% of Portfolios'."
60. Discussed in Nederveen Pieterse, "Hybrid China"; and Liu and Yan, this issue.
61. Wolf, "China will struggle."
62. For example, Friedman, "Alienated Politics." See also discussions of environmental movements and NGOs in China, such as Duara, *The Crisis of Global Modernity*, 35–39.

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