

# China's New Economic Diplomacy Workshop Report

The Centre for International Governance Innovation

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The global order is shifting, driven principally by the rise of the emerging powers. The structure of power and parameters of action that have characterized the international system over the past half-century are being altered by the ascent of China, in particular, and its view of the world, growing political influence, unique ambitions, distinctive diplomatic approach, and increasing involvement in international organizations.

On April 25-27, 2008, The Centre for International Governance Innovation (CIGI) convened a workshop of experts in Waterloo, Canada, on the topic of *China's New Economic Diplomacy*. Participation at the session was by invitation and Chatham House rules of confidentiality were in effect. A number of themes and issues were discussed relating to China's foreign policy, domestic and international economic interests, and its views of and approaches to international governance. This report highlights some of the key points that can be drawn from the discussion.

CIGI's work on economic diplomacy is part of a multi-year program that analyzes the rise of a set of emerging powers – Brazil, Russia, India, China, South Africa, ASEAN, and Mexico (BRICSAM) – and their influence in a shifting global order. Economic diplomacy can be conceived as the application of a nation's favourable economic conditions toward particular foreign policy objectives. This program has focused on the interface of the increasing economic systemic weight of these major emerging powers and their growing diplomatic leverage. The first initiative under the Economic Diplomacy project has analyzed the "enhanced engagement" strategies of the Group of Eight (G8) countries and their "outreach" efforts to the so-called Group of Five (G5) countries, namely China, India, Brazil,

Mexico, and South Africa. This research has resulted in a new CIGI edited volume entitled *Emerging Powers in Global Governance: Lessons from the Heiligendamm Process* (WLUP, 2008). The April workshop on *China's New Economic Diplomacy* arose out of the discussions of the G8/G5 project, responding to the identified need to focus in more depth on the pivotal emerging power case of China.

## Questions and Discussion

The workshop participants explored China's emerging views and interests in international governance as well as its differing approaches to a range of key sector areas that included trade, investment, climate change, and monetary and financial issues. The discussion responded to the following main questions:

- How does China view the current state of international and global governance? What seems to be acceptable to China, and what seems in need of change from Beijing's perspective?
- What has China done to reaffirm or challenge existing global frameworks? To what effect?
- What is the likely trajectory of China's future approach to international and global governance?

More thematic or institution-specific topics included:

- China and the United Nations;
- China and reform of the G8 and Bretton Woods institutions;
- China's views on and approach to the international financial and monetary system, the global trade regime, and the regulation of outward FDI;

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- China's preferences for global approaches vs. regional approaches;
- China's role as a creditor;
- China's recent positioning at the Bali climate change meetings;
- China and innovations in Track II and Track III in global governance; and
- China as "great power"? As responsible stakeholder?

## China's Complex Interests and Identity

The workshop discussed how Beijing's approach to different issue-areas of international governance, and to reform at the apex of the global architecture, continues to be shaped, in some significant ways, by its self-alignment with the developing world even as its main priority is to secure its national interests as a de facto great power. In the case of China's evolving relations with the G8, its strategic interests and state ideology appear to be served by putting concerted attention and resources into reaffirming its self-proclaimed status as a "developing country" and representative of the interests of the global South, despite it having become the "world's factory." The reality is that China now possesses many dimensions of international power – economic, political, and security – that many G8 members cannot claim. This desire to self-identify as a leading member of the South has also encouraged Beijing to support a growing list of South-South cooperation initiatives as well as nascent processes of collective identity formation among the leading developing countries; for example, in the G5 at the G8 Summit meetings.

## Integrating or Influencing?

Much of the literature on "engaging China" as an emerging power conceptualizes the issue as one of "international socialization," specifically the socialization of China to international norms, values, and other accepted forms of institutional behaviour (see Johnston, 2007; Johnston and Evans, 1999; Pearson, 1999). Others have examined the limits of China's international socialization (Wang, 2000). Related questions include whether the window of opportunity to socialize China to the established international rules is closing fast, as China's capabilities continue to grow at a rapid pace.

One of the issues which workshop participants discussed was whether the international community's engagement of China should still be discussed in terms of its interna-

tional socialization. The mode of Beijing's interaction with the traditional trading powers in its negotiations for accession into the World Trade Organization (WTO) may have encouraged scholars, especially outside of China, to frame the engagement in terms of bringing China around to the rules of the international community. More recently, scholars inside China have noted that Beijing has drawn important lessons from how it handled the negotiations for accession into the global trading regime, and suggest that China will not again be willing to take the concessionary posture that it did in gaining WTO membership. Pang notes that China is no longer seeking to gain entry into the existing Clubs, but rather that existing Clubs are now approaching China to join (Pang, 2006). China's new leverage can be also be seen, according to other Chinese scholars, in the efforts of the Group of Eight to reach out to China (Cao, 2003; Zhang, 2006). Workshop participants concurred that much has changed in China's relative position and weight in the world since late 2001.

What this shift implies is that China will no longer merely be a "rule taker," learning how to conform to the existing rules of the international system, but will look to strategically yet diplomatically advance its own values, norms, and interests in engaging the international system. Workshop participants suggested that, in the case of China, it may be more appropriate to think in terms of "two-way" socialization, in which China is not only learning established process and rules, and adapting itself, but that it is also leveraging its already significant and still-growing economic influence and other national power capacities (strong military capabilities, massive population) to re-shape the future trajectory of world order, including shared institutional principles, norms, values and rules.

After its fifteen year "initiation" process of gaining entry into the WTO, and following its formal acceptance of trade and regulatory liberalization norms of the global trading regime, China has largely complied in implementing many of its obligations as a WTO member. In meeting its commitments across a number of issue-areas, Beijing has demonstrated its willingness to conform to the status quo. This observation led some workshop participants to suggest that China is basically a "status quo power," an upholder of the existing norms and rules of the international regime. However, others pointed out that Beijing has also taken cautious steps to slowly advance a reform agenda, and has done so by highlighting the cost burden of WTO compliance for developing countries, the institutional capacity building needs of developing states, and has called for reforming the international economic order

– including the global trading regime – toward one that is “just, fair, and harmonious.” Even bolder examples of China’s international reformist behaviour can be seen in its promotion of a comprehensive South-South cooperation agenda, which includes taking a leading role in the G5, G20 finance, and G77 meetings; working together with India and Brazil to support UN-led efforts on climate change solutions; and taking a more prominent role in numerous regional forums. China has increasingly embraced summit diplomacy, starting with APEC, ASEAN Plus Three, and the Forum on China-Africa Cooperation. It has taken a sustained leadership role in new regional initiatives in international security, for example, the Shanghai Cooperation Organization.

Workshop participants discussed which way China may ultimately lean in this two-way socialization, and agreed that it will depend not only on China but also on how the international community chooses to interact with China. The fact that Beijing wants to demonstrate that it is a “responsible stakeholder” means that China will have to subject itself to some measure of socialization in existing international institutions. At the same time, the international community would likely be most effective if it promotes such international learning in a controlled manner.

Participants highlighted that, in some instances, Beijing’s hesitancy to embrace new norms, values, or rules may be rooted in historical legacies, for example, having to sort its way through China’s complex international identity which sees it trying to maintain its “developing country” status while already being a *de facto* great power. This means developing a strategy for gradually adjusting its foreign policy positioning that makes sense both to the Chinese domestic citizenry and its traditional international allies. In this regard, China was seen as not unlike other emerging powers – India and Brazil especially – in having to navigate their way through their evolving international identities, as they gain increasing global weight and influence. At other times, China was seen as not accepting some international norms, values and rules because of not being perceived as in China’s national interests. In these instances, China would consider whether it should seek to reform these aspects of the system. China was seen as unique among the emerging powers group, however, in terms of having the capacity and political will to be able to make a committed effort to change the international rules. For the international community, this means that it would be vital to begin developing a better sense of temporary versus ultimate limits in China’s international socialization, as well as becoming more attuned to new patterns in two-way socialization,

and the potential implications of this phenomenon for international governance. Due to the “special features” of the Chinese political system, two-way socialization will likely be an enduring trend in relations between the international community and China for the foreseeable future, and a central focus in China’s economic diplomacy will be deciphering the evolving context of temporary versus ultimate limits in China’s international adaptation.

## Future Scenarios of China and the International Order

The discussions at the workshop confirmed that China has become more integrated into the world economy and is increasingly active in international institutions. The vision that emerged is that China has *pluralistic* views on international governance, as seen in the differing approaches that Beijing has taken to a range of key issue-areas of international governance (see Christensen, Johnston, and Ross, 2006: 380). In addition, it was highlighted that there is significant debate inside China and within different branches of the Chinese Communist Party (CCP) and government about how China should approach the new challenges of international and global governance. It was further suggested that interpreting Beijing’s international and global intentions is not amenable to a singular logic, and made more complicated by the mix of grand strategy and “muddling through” in global policy.

The differing approaches to international and global governance reflected in China’s new economic diplomacy suggest five potential scenarios of emerging international order:

### *New Concert of Powers*

This scenario appears to be Beijing’s preference, related to its desire to support a shift to a non-hegemonic multi-polar international system that allows for diversity of national political systems and cultures. In such a scenario, differences and rivalry are not necessarily divisive or paralysing, but through the mediation of the differences, there is a maintenance of stability, involving several major nations or alliances of nations (Shambaugh, 2005: 14). One parallel that has been referred to is the Concert of Europe, which functioned for close to half a century after the Congress of Vienna (1815). This system kept the peace and maintained balance between the major European powers in this period; no nation possessed unipolar power or influence – diplomatic consensus had to be brokered.

Some at the workshop believed that for such a new concert of power to emerge, the institutions of international and global governance would have to be adjusted to reflect the new realities of international power. This would require a reallocation of representational power inside the international architecture. The scenario is one of gradually declining economic power of the leading nation, declining power in a number of traditional centres of diplomatic authority and, at the same time, the rise of the emerging powers, with China foremost in this grouping. In its engagement with the G8, Beijing has exhibited partial accommodation of the G7/8's ongoing adaptation efforts. This opens the possibility for movement toward a new concert of powers, even if deeper constraints to this scenario remain.

### *A Condominium of Power*

Another possibility is a condominium of power by the two or three dominant powers in the global arena. Shambaugh (2005: 15) has noted that condominiums usually require that the dominant powers be either allied or mutually trusting. Such relations have been the hallmark of the trans-Atlantic pact between the United States and Britain. Relations between China and the US are more complicated, and challenges of the cultural gap are more endemic.

For such a scenario to emerge, a number of factors would have to materialize. The United States and China would have to be able to put their bilateral relationship on new strategic footing, toward the direction of strategic partnership and arguably even strategic alliance. First, China and the US would have to reach a new agreement on the re-mapping of spheres of influence and on areas of shared authorities and responsibility. Second, the Taiwan issue would have to be resolved in a stable and peaceful manner. Third, trust and confidence-building mechanisms would need to be established to allow for the management of remaining suspicions. Equally important, relations with Russia, Japan, European representation, and India would have to be re-established on an appropriate footing.

Although relations between US and China have improved in recent years, including those at the security and strategic economic dialogue levels, the above points highlight some of the main constraints that stand in the way of the two forging a condominium of power at the global level. Where there exists possibility for greater partnership and perhaps even strategic alliance, and a base for potential complementarity, is in coordinating American and Chinese relations with Africa and in forging new international regulatory frameworks for multinational investment, global financial flows, cooperation on global climate

change, the management of international migration, and protecting global health.

### *A Normative Community*

A third possibility is the emergence of a community of nations at the apex of the international system that shares a series of principles, norms, rules, and broad geo-strategic goals and agrees to abide by them, and reinforce them, in the larger collective interest (Shambaugh, 2005: 15). Such a normative order would have to eventually go beyond operating on loosely shared goals and interactions and graduate to more heavily codified and institutionalized arrangements. Such an international system would require consensus among the members on the norms, goals, and rules for international organization and global governance. China has, so far, appeared more comfortable moving toward such new normative arrangements at the regional level, such as the ASEAN Plus Three (APT) framework and APEC, and arrangements in which the norms are more loosely based, such as in the Shanghai Cooperation Organization and the APT. The materialization of such a normative order at the global level would have to be rooted in a conscious acknowledgement of complex interdependence. China's embrace of such a scenario seems rather remote at this point, however its demonstrated willingness to operate according to the basic principles, norms, and rules of the WTO are a positive sign. Another area of possibility for international normative community building is in the area of environmental protection and responding to global climate change.

### *Dysfunctional Hegemonic System*

This possibility speaks to a continuation of the current global economic crisis in the US-dominant system. Under this international order, other nations would either be subsumed into the system by a still dominant but weakened United States, or would choose to "bandwagon" with Washington in order to protect themselves, holding close to the existing superpower amid a world of increasing turbulence. A variant of this model is the US at the apex of the global pyramid and China atop the Asian part of the pyramid. However, this would require a diminution of Japan's power and influence in the Asian region, which appears unlikely. This scenario would require China to be the surrogate to US supremacy in the Asian region, which also appears unlikely.

The discussions on international finance at the workshop indicated a strong possibility of sliding into a dysfunctional hegemonic system. China appears willing to continue

playing a lower-profile international stakeholder role and hesitant to take on a greater leadership role in the governance of the international financial and monetary systems. Beijing seems to prefer to focus its attention first and foremost on domestic needs and priorities. Assuming a continuation of the weakened state of the US economy, there is the real possibility that the global financial and monetary systems may suffer from a shortage of problem-solving coordination at the apex of the international architecture and that deeper systemic adjustment needs will not be met.

### *Major Power Rivalry*

Another possible scenario is a clash between the current dominant power (the United States) and the emerging great power (China). Drawing on the realist school in international relations theory, there are many historical examples of emerging powers challenging the existing dominant power in a zero-sum competition for dominance. The realist argument is that this is a law of international politics. There is also a variant of this line of reasoning, of bipolar balance of power, in which two major powers possess roughly similar endowments of power and offset each other, maintaining the balance. The Cold War scenario is the classic case. For this situation to come into being, China would have to greatly strengthen its national hard power capacities to match the United States (Shambaugh, 2005, 13). However, this is difficult to envision in the near term. It would also require the US and China to have conflicting interests over a range of international issues and dysfunctional relations at a number of levels, which would stem from a significant worsening of current US-China relations. The workshop discussions on the longer-term implications and long-range strategic planning on standards indicated the potential for major power rivalry in the medium term.

## Further Research

This workshop underlined the need for further analysis of 1) the complex issues behind each scenario, as no one scenario adequately captures or describes the complex interests and diverse impulses that are shaping China's approach to international governance; and 2) the character of the international system that may be emerging as a result of China's pluralistic approaches to international and global governance. More attention should also be given to analyzing China's evolving global strategy in comparison to the other emerging powers and its growing collective interests and collective action with the BRICSAM

grouping. The lens of economic diplomacy helps focus attention on changing power relations in the international system, involving the rise of emerging actors; different and shared interests, institutions, ideas, principles, norms, and rules; and innovative options for international organization in the new global environment. CIGI's research in these areas will continue to identify new options for sound policy development and international governance.

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## Who We Are

The Centre for International Governance Innovation is a Canadian-based, independent, non-partisan think tank that addresses international governance challenges. Led by a group of experienced practitioners and distinguished academics, CIGI supports research, forms networks, advances policy debate, builds capacity, and generates ideas for multilateral governance improvements. Conducting an active agenda of research, events, and publications, CIGI's interdisciplinary work includes collaboration with policy, business and academic communities around the world.

CIGI's work is organized into six broad issue areas: shifting global order; environment and resources; health and social governance; international economic governance; international law, institutions and diplomacy; and global and human security. Research is spearheaded by CIGI's distinguished fellows who comprise leading economists and political scientists with rich international experience and policy expertise.

CIGI has also developed IGLOO™ (International Governance Leaders and Organizations Online). IGLOO is an online network that facilitates knowledge exchange between individuals and organizations studying, working or advising on global issues. Thousands of researchers, practitioners, educators and students use IGLOO to connect, share and exchange knowledge regardless of social, political and geographical boundaries.

CIGI was founded in 2002 by Jim Balsillie, co-CEO of RIM (Research In Motion), and collaborates with and gratefully acknowledges support from a number of strategic partners, in particular the Government of Canada and the Government of Ontario. CIGI gratefully acknowledges the contribution of the Government of Canada to its endowment Fund.

Le CIGI a été fondé en 2002 par Jim Balsillie, co-chef de la direction de RIM (Research In Motion). Il collabore avec de nombreux partenaires stratégiques et exprime sa reconnaissance du soutien reçu de ceux-ci, notamment de l'appui reçu du gouvernement du Canada et de celui du gouvernement de l'Ontario. Le CIGI exprime sa reconnaissance envers le gouvernement du Canada pour sa contribution à son Fonds de dotation.



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