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China's International Strategic Environment

Zhang Yuyan,¹ Feng Weijiang² and Liu Wei³

Introduction

The international strategic environment refers to the external environment in which a country designs and implements its national strategies. The international strategic environment determines China's medium- and long-term development strategy and foreign policy and constitutes the background of financial reform and opening up. This chapter analyses the international strategic environment from three perspectives: peace, development and governance. These three perspectives cover a wide range of issues including new approaches, factors with a sustained influence, material, ideological and institutional factors, and the tactical characteristics of actors. Moreover, with China's increasing role in the global system, China's own development and behaviour is affecting the external environment more significantly. As a result, examining variations in the external restrictions China is facing and evaluating the external response to China's influence are equally important in judging and analysing the international strategic environment.

1 Director of the Institute of World Economics and Politics at the Chinese Academy of Social Sciences.

2 Staff researcher at the Institute of World Economics and Politics at the Chinese Academy of Social Sciences.

3 Staff researcher at the Institute of World Economics and Politics at the Chinese Academy of Social Sciences.

Part 1: Although overall global peace can be maintained, the international security environment is becoming increasingly complicated

Peace and war are both closely related to a country's survival. They also lie at the centre of a national strategy. A revolutionary change in international relations has significantly decreased the possibility of war between major powers. As a result, overall global peace can be maintained. However, local security risks and unconventional security threats are increasing and have become an important source of threats to national stability and prosperity. In particular, the continuous extension of people's activities and communication has a spill-over effect in various realms, including the economy, society, culture, healthcare and information. This is seen across different countries and appears to be increasing.

Normalisation of peace among major countries

Since the first half of the twentieth century, four revolutionary changes have weakened the motives for major powers to resort to war and have restrained many indirect or accidental causes of war. They provide a basis for long-term group values that make lasting peace among the major powers possible. These four changes are outlined below.

First, with the advent of nuclear deterrence and other new-type weapons (e.g. long-range, precision munitions), wars among major powers are no longer a reasonable option to gain war benefits such as annexation of land and securing of resources. Second, wars among major powers are no longer the only way to secure a country's war interests, as countries are more effectively using their economic and social means to enhance their influence. Third, the decision-making systems and processes of modern foreign policy have progressed rapidly, inhibiting the incentives for wars among major powers. Fourth, information technology, globalisation and consumerism enhance anti-war values in the populations of major powers.

For China, the 'new normal' of long-term peace among major powers has the following strategic implications.

First, the long-term judgement is that World War III will never happen and peace and development is the theme of the time. Specifically, the overall external environment for China's reform and development will remain stable. China must also consolidate its foundations, coordinate the domestic and international situations, promote the stable development of its economy and a society driven by reform and innovation, and advance modernisation in the national governance capacity. On this basis, China will steadily enhance its influence on the world stage, while avoiding aggressive strategies.

Second, competition between major powers under the 'peaceful new norm' will be enduring and complex. Specifically, in the next five to 10 years, hegemonic states will increase the structures around China and across the world to improve their influence and increase their involvement in regional issues. China's situation in relation to global and peripheral affairs may worsen, crises may break out more frequently and pressures on safety will increase. China may be placed in a disadvantaged position in relation to longstanding and multidirectional enemies. This requires more sophisticated forecasting and assessment capabilities in the short to medium term, and the comprehensive use of diplomatic, economic and other responses.

Neighbouring regions are 'disordered without battle, fighting without splitting up'

Despite overall peace among the major powers being maintained, China still faces increasing uncertainty from its neighbouring regions, along with a more diversified and dispersed security risk. Non-traditional security threats have become prominent. China's neighbouring countries and the Asia-Pacific region are regarded as a key battlefield for shaping future international patterns. Strategic mutual trust among major countries is reduced, and the security problem is highlighted. The region's security issues seem more complicated with the involvement of foreign powers. Heated issues frequently and increasingly escalate into crises. However, the situation is generally controllable.

Although the United States (US) has abandoned the Asia-Pacific rebalancing strategy as such, the overall trend of concentrating US resources in the Asia-Pacific region will continue. In recent years, with its diminished comparative advantage in national strength, the US has continued to draw India, Australia and Singapore to its side, forming an

arc that encourages these three nations to take an active role in achieving 'shared responsibilities'. This makes the security threat faced by China even more complicated. Disputes over neighbouring territories and territorial waters will become more serious. Connections between the proliferating geopolitical issues of the South China Sea and South Asia will be significantly enhanced. In the future, the South China Sea and South Asia will represent a significant crisis for China. Fortunately, in the foreseeable future, South Asian countries will be greatly restricted by their internal affairs and resources, ensuring that their capacity for intervention is limited. They will be unable to affect the security environment of China's neighbouring regions in a fundamental way. In the long term, the US's deployment of the Terminal High Altitude Area Defense system will significantly damage the strategic balance and mutual trust between China and the US. In the meantime, North Korea has made many breakthroughs in its research and development of nuclear missiles and, in theory, has the ability to launch nuclear attacks on the contiguous US. Responding to and settling the North Korean nuclear issue requires all parties to focus on the long-term and comprehensive use of various policy instruments.

The comparative strengths of major powers are undergoing substantial change

Currently, global patterns are undergoing profound changes. With an increase in their strengths, developing countries and emerging economies are entering the global stage at a rapid pace. Conversely, the vested interest groups of developed countries have gradually lost absolute dominance in the global system due to a decrease in their relative national strengths. Despite this, the US will assume the position of a superpower in the long term. With its expanding economic scale, China's economic strength is approaching that of the US. The gap between other countries and the US or China will be further widened.

The most important actors globally are the US and China. China's gross domestic product (GDP) has grown rapidly from a volume equivalent to that of Japan to more than twice the GDP of that country, and as much as 60 per cent of the US's GDP. Even if calculated using the 'inclusive wealth' concept, which includes human, physical and natural capital, the speed at which China is catching up with the US is amazing, despite the significant gap. Developed countries, led by the US, have already reached the plateau of their overall national strength. The growth of

the national strength of developed countries is generally slowing down. One explanation for this may be the financial difficulties that industrial countries generally face. Fiscal conditions not only influence people's welfare and extend or restrict space for policy decisions, but also have a direct effect on the implementation of a country's foreign policies, especially for major powers or groups of states. Fiscal pressure has, to some extent, influenced the strategic contraction of the US in the Middle East and other regions. The situation is similar in regard to challenges from Russia in relation to Syria, and influence from the Philippines and Malaysia in relation to China. US President Trump wants to renegotiate the North Atlantic Treaty Organization and North American Free Trade Agreement with the US's allies because the US cannot afford to 'play this game' financially.

Although the US is experiencing stagnation or even a decline in power, it will remain the most important global player over the next decade. Having witnessed a rapid economic development for one-third of a century, China has risen to become the only country able to challenge the current and future global hegemony of the US. With the narrowing gap between China and the US, and the widening gap between these two and other countries, the global order is likely to become polarised. The rapid rise of China has worried the US, forcing it to treat China as a genuine competitor. As the US has a relative advantage, it may be the only country that can impede China's modernisation process. Strategic competition between the countries is likely to fall into the 'Thucydides Trap'. Fortunately, the existence of nuclear weapons has significantly decreased the possibility of a Sino-US war, because nuclear weapons change the rules of the games played by major powers. The nuclear deterrence strategy ensures that large-scale wars are less likely to develop. This means that the major global players have few choices for resolving disputes other than nonviolent means. The competition between nuclear states has, as a result, become even more complex.

Against this background, China is shifting from relying on exogenous strategic opportunities to creating endogenous opportunities. As the second-largest economy with a significant potential for development, China's foreign policies reverberate internationally. When China proposed 'a period of strategic opportunities' a decade ago, it emphasised the exogeneity of strategic opportunities. The shift from exogeneity to endogeneity is, to some extent, a result and signal of the substantial changes in the relative strength of China and the US.

The ‘double-edged sword phenomenon’ of cyber technology is becoming evident

Generally, people regard technological innovation as an indicator of human progress, because it can increase the productivity of labour, promote welfare and improve living conditions. However, the uncertainty (or even destruction) created by technology can be significant, at least in certain historical periods. This is the ‘double-edged sword phenomenon’ of technological progress.

Technological innovation is changing people’s way of production and lifestyle rapidly in the twenty-first century. The rapid development of information technology has expanded the way people acquire information, stimulated the spread of various values and ideologies and facilitated interaction and collective action among humans. Due to such characteristics as openness and anonymity, the internet has evolved into a major platform for groups to obtain information and express emotions. Some extreme or even distorted information has spread quickly through the internet. This situation could lead to accidental and violent mass incidents at any time.

The ‘double-edged sword phenomenon’ also applies to cyber technology. Due to the lack of relevant laws and the fact that users can remain anonymous, the general public has resorted to the internet more often to voice their concerns, which can gradually evolve into anti-establishment grassroots movements. These bottom-up movements question and challenge existing rules. Many extreme phenomena, such as trade protectionism among blue-collar workers in the US, the integration of ultra-nationalism and populism in Western society and the religious extremism represented by the Islamic State (also known as ISIS or ISIL) are not recent developments. However, the values related to these developments are now disseminated and exaggerated through the internet and have influenced the political orientations of larger groups. The world is now exposed to the danger of cyber war because of the global network.

The rise of terrorist attacks signals the clash of civilisations

Terrorism was one of the most important unconventional security issues in the realm of international relations during the twentieth century. Despite the large amount of personnel and capital invested in international counter-terrorism alliances, terrorist activities are still on the rise and have evolved into new forms. Under pressure from international counter-terrorism alliances, the Islamic State has begun to establish branches and alliances, leading to the spread of terrorist organisations to other countries such as Libya, Egypt, Nigeria, Afghanistan and Pakistan. The Islamic State has also used new technology and social media to incite radicals to initiate terrorist strikes in several cities around the world. They mainly target train stations, ports, hotels, sports stadiums and other public facilities, causing considerable loss of life and property, as well as social panic.

The rise of terrorism reveals not only the conflict created by economic inequality, but also the conflict of values created by different civilisations. The 'clash of civilisations', coined by Huntington, states that the root of future international conflict will be related to culture instead of ideological or economic issues. The confrontations and conflicts between civilisations will become the major battle lines. The competitive coexistence and confrontation among different civilisations will become the dominant theme of international politics.

Demographic structures and the racial composition of a society can undergo substantial changes. With intensified religious beliefs, integration in multi-ethnic countries becomes increasingly difficult. This affects not only international relations, but has also led to the rise of nationalism in developed countries. Currently, there are more than 50 million Muslims in Europe. Half of all newborn babies in the Netherlands and Germany are from Muslim families. At the current growth rate, in 2050, Muslims will account for more than half of the population in France and Germany, and 50 million of the total population in the US. Currently, there are about 10 million Muslims in the US, along with 30 million Hispanics. This figure is still increasing. Demographic changes in the twenty-first century have made conventional 'white' elites in Europe and the US anxious. They attribute social crises and domestic challenges to the clash of civilisations, an approach that eventually strengthens the strain between mainstream Western society and Muslim immigrants. Thus, the 'conflict of civilisations' becomes a self-perpetuating prophecy.

It is worth noting that religious nationalism is not exclusive to Islam. Racism in some forms of Christianity has long been a political undercurrent in Western society. This racism is restricted and concealed by political correctness. Trump's rise to political power has revealed the religious conflict hidden in US society. With the rise of nationalism in developed countries, the pressure related to nationalism and populism that has accumulated over a long time is released in election cycles or social movements. This may result in social unrest and terrorist activity, or even international conflict due to the transfer of domestic problems abroad.

Part 2: International strategic environment: A development perspective

Development is a basic demand of human society, as well as the key to solving all problems. Only with development can we eradicate the roots of conflict, ensure people's basic rights and meet citizens' demands for a better life. However, lack of development is still a challenge faced by many. A number of problems, such as income inequality, either between or within nations, the energy and resource bottlenecks that developing countries face, and a lack of global economic growth are constraining economic and social development.

The global economy shows signs of short-term recovery, but long-term sustainable and balanced growth faces challenges

The prospect of global economic growth is an important condition for China's economic development. China's foreign trade and investment are dependent on strong, sustainable growth in the global economy. Recently, global economic growth has improved markedly, the labour market has continued to improve, the price level has risen moderately globally, and the growth of international trade has increased. However, long-term factors supporting the rapid growth of international trade have not yet been formed. The adjustment of the US's fiscal and monetary policies will have a spill-over effect on the world economy; anti-globalisation, especially protectionist trade and investment policies, continues to strengthen; the debt problem has become more serious; and asset bubbles are rapidly

accumulating and may burst at any time. Geopolitical risks and terrorism remain, indicating the lack of a solid foundation for sustained, stable and balanced growth (Zhang & Yao, 2018).

During the decade before the global financial crisis (GFC) (1998–2007), the annual global GDP growth was 4.2 per cent. In the nine years following the GFC (2008–2016), the annual global GDP growth rate fell to 3.2 per cent (International Monetary Fund [IMF], 2017). At present, global economic growth is dramatically variable. Since mid-2016, the global economy has entered an upward cycle, and this momentum has accelerated. According to the IMF (2017), forecasts for 2017 and 2018 global economic growth rates have been raised by 0.1 percentage points to 3.6 per cent and 3.7 per cent respectively. However, economic recovery remains uncertain: ‘The short-term recovery is still fragile and robust growth may not be sustainable, and the medium and long-term prospects in many areas are not satisfactory’ (IMF, 2017). From a longer-term perspective, the medium-term growth rate of most developed countries is still below pre-GFC levels. As a result, the current economic recovery remains fragile, and uncertainties may be intensified. Sustainable growth faces long-term challenges.

One of the biggest problems faced by global economic growth is the slow increase in labour productivity. According to data released by the Conference Board, the average annual labour productivity growth dropped from 3.2 per cent between 2003 and 2007 to 1.8 per cent between 2012 and 2016. In 2017, global labour productivity growth witnessed a slight increase to 2.2 per cent. The slow or even stagnant growth is caused by a number of reasons, such as the slowdown of technological advances and investment growth, slow technology diffusion because of inadequate market competitiveness and institutional inertia, slowdown of human capital accumulation and population aging in major economies, and misallocation of resources resulted from the quantitative easing policies in many countries (Zhang & Yao, 2018).

The slow recovery of global direct investment is also an important factor affecting economic recovery. Global direct investment is an important force in promoting the international division of labour, as well as economic integration and prosperity. According to the United Nations Conference on Trade and Development, global foreign direct investment (FDI) inflows increased by 5 per cent to 1.8 trillion dollars in 2017, thus reversing the negative growth in 2016. However, while a series of

investment promotion policies have been introduced, some countries have strengthened restrictive policies for foreign investment, such as unilateral termination or reassessment of international investment agreements, so the increase of global transnational direct investment is likely to be small in 2018. The downturn in global direct investment activities has been associated with slow progress in promoting investment access and openness, as well as the policies of advanced economies that encourage manufacturing to go back to home countries.

Additionally, the continued rise of global debt levels has not only increased the vulnerability of financial markets, but also slowed recovery of consumption, hindering economic recovery. During the GFC, to eliminate liquidity panic in financial markets, central banks did not reduce their debts. Instead, they injected liquidity into the market and expanded the debt scale. After the GFC, central banks continued to use an expansionary monetary policy, including quantitative easing to stimulate economic recovery. Monetary expansion does not lead to a decline in debt levels. Rather, it created higher debt levels.

The uncertainty of global economic recovery and sustainable development will form the background of China's participation in the international division of labour in the future. Over the past three decades, China has relied on the international competitiveness of its labour-intensive and export-oriented manufacturing industries to meet the growing demand in the global market. Consequently, China has developed into the world's largest exporter. However, demand in the global market has been sluggish and the traditional comparative advantages of China are diminishing. Long-term structural problems with the Chinese economy have become prominent. Thus, China must adapt to the 'new normal' of slow global growth and vigorously promote technological innovation and structural reform. In the highly integrated global economy, national structural reform policies have significant spill-over effects. In addition to promoting supply-side reform, China should also actively promote coordinated reform among countries. At the G20 Hangzhou Summit in 2016, China proposed 48 guiding principles in nine priority areas, including boosting trade and investment liberalisation, promoting labour market reform, encouraging innovation and promoting fiscal reform. China provided the other G20 member states with guidance for these reforms.

Income distribution inequality leads to the rise of anti-globalisation forces

Economic globalisation is the most obvious trend since the Cold War. Globalisation is conducive to expanding the world market and improving the efficiency of global resource allocation. It is also conducive to developing the international division of labour and global production capacity. Global prosperity and development depend largely on the advance of globalisation. China has become a significant beneficiary of globalisation through its reform and opening up policy by participating in the global division of labour. However, since the GFC, discussions about globalisation have changed direction. 'Globalisation', as a frequently used word after the Cold War, has begun to be replaced with 'de-globalisation' or 'anti-globalisation'.

An important reason for the rise of anti-globalisation forces is the growing imbalance among countries and the widening gap between the rich and poor within countries. The imbalance between developed and developing countries is still an important issue that the international community must face. According to the IMF, the per capita GDP of developed countries based on purchasing power reached US\$49,111 in 2017, equivalent to 4.2 times the average level of developing countries (IMF, 2017).

Meanwhile, economic globalisation has widened the income gap between individuals within countries. The failure of governments to implement effective redistribution and social security policies has aggravated income inequality. Although the US has always been the largest beneficiary of globalisation, its domestic wealth distribution gap is expanding significantly. The net gainers and net losers in US society are highly divided. The richest families, which account for only 0.1 per cent of the total population, have accumulated ever-increasing amounts of wealth. Today, they own 22 per cent of the total wealth in the US; that is, 0.1 per cent of the US population holds roughly the same amount of wealth as 90 per cent of the US population (Saez & Zucman, 2016). In *Capital in the Twenty-first Century* (2014), French economist Thomas Piketty showed (through statistical data) that income inequality is evident in all nations that have participated in globalisation. The continual widening of the gap between rich and poor has become a global phenomenon. In developed countries, scepticism has emerged around economic globalisation, with some commentators complaining that their

country's trading partners have taken local jobs. Calls have been made for governments to adopt protectionist trade policies. The inequality of wealth distribution caused by globalisation is eroding the domestic social basis of global economic integration.

It is natural that such dissatisfaction can result in attributing unemployment to economic opening. However, the idea of free trade will ultimately prevail, because the global division of labour brings massive trade benefits. No country can bear the cost of trade protectionism or achieve economic growth on its own; rather, countries must remain in an integrated global system. Although income inequality is not a sufficient reason to reverse economic globalisation, it has exposed problems with the current process. We need to make globalisation more inclusive.

Deepening economic interdependence continues to change the connotation of opening

Global economic integration can promote optimal allocation of production and increase in global, as well as national, welfare. Thus, along with intensified economic interdependence, the construction of an open and free international economic system has become a common interest of all states. As the core of economic globalisation, the free flow of goods, services and capital without discrimination demands institutional support. A free and open economic system should be based on international rules negotiated and agreed to by all states. At the domestic level, the market economy demands a system that protects property rights and ensures contracts are enforced. At the international level, a free and open international economy requires all states to negotiate, cooperate and forgo 'beggar-thy-neighbour' policies, such as trade protectionism, competitive devaluation and lack of coordination of financial regulatory policies. In the meantime, with globalisation, the spill-over effect of nations' policies is enhanced, which necessitates increased coordination of macroeconomic policies. As a result, with increasing interdependence, all states must make a collective effort to protect a multilateral trade system, construct an open global economic system and promote the free flow of production factors globally.

Currently, with the development of information technology and deepening of global value chains, mankind has entered a highly interdependent period. China's dependence on the rest of the world is also at the highest level in history, especially in relation to technology, market

and resources. In the 1990s, global exports totalled US\$5.7 trillion per year. This rose to US\$14.6 trillion between 2000 and 2012. At the same time, the scale and speed of global capital flows have increased. In the 1990s, the global FDI outflow was about US\$400 billion per year. This has increased to about US\$1.5 trillion over the past 10 years. Against this background, economic integration has moved across borders, requiring countries to coordinate public policies and regulatory standards. In the current trade pattern, the global value chain has been normalised. Integrated transnational production needs all states to shift from conventional open measures, such as tariff concessions, to cross-border measures and regulatory coordination. The profound integration of the global economy has given opening up a new connotation. Some countries are trying to upgrade their systems, build up new competitive advantage, promote innovation and explore new approaches to opening. China should steadily press for reform through opening, build an open economy and push forward reform in 'deep-water' areas such as financial services and public services. China should enhance the level of opening of the financial industry; steadily promote RMB internationalisation; expand the scope, method and scale of cross-border RMB use; and accelerate RMB capital account convertibility with caution. Additionally, China's opening strategy should not only focus on itself, but also coordinate with other countries through actively preserving and developing multilateralism. This will create a stable and open environment for its reform and development.

Emerging economies emulating the development patterns of developed countries are restricted by resources and environmental factors

Resources and environmental factors place constraints on long-term economic growth. Human beings have consumed too much and have begun to 'pay' for the excesses.

There are two types of emerging economies: resource importing and resource exporting. The former is represented by China and India, and the latter by Russia, Brazil and South Africa. Resource-importing countries do not have enough resources to meet their development needs, so they are very constrained by resource availability. Resource-exporting countries are rich in resources, but their economic development is seriously affected by international energy and resource prices; as such, they are prone to resource dependence or the 'resource curse'.

Resource-importing countries face two types of risks. One is availability; that is, whether the country can obtain the necessary energy and raw materials from the international market. The other is price; that is, the impact of energy and resource price fluctuations on the international market. Take China as an example. With a great demand for energy and resources, China possesses increasing bargaining power in the international market. However, China must work hard and maintain strategic patience to alleviate the energy and resource bottleneck when considering such factors as the rise of economic nationalism in resource-rich countries, obstruction from multinational corporations, containment by strategic competitors and lack of capacity to protect waterway safety.

For resource-exporting countries, an economic model that relies heavily on resource exports renders their domestic economies vulnerable to fluctuations in international commodity prices. In a time of declining prices, the economic growth of these countries is generally slower. Russia and Brazil even experienced negative growth between 2015 and 2016. Conversely, when domestic capital and technology are concentrated on resources, other industries develop slowly. Due to an overdependence on gold, coal, iron ore and other resources, the economies of Russia, Brazil and South Africa were significantly damaged when global commodity prices plummeted in 2013. This led to a sharp decline in government revenue, and some departments, such as education and energy, have become seriously underfunded as a result.

With global warming, environmental pollution, rapid population growth and other issues becoming global problems, environmental issues have become a common constraint on both resource-importing and resource-exporting countries. China, Russia and South Africa are significant producers and users of coal, and China has the highest carbon dioxide emissions of any country. The key to reducing the proportion of coal consumption in emerging economies (and, thus, reducing carbon emissions and the irreversible damage caused by environmental pollution) is to promote the use of alternative renewable energy and clean energy; accelerate large-scale production of shale gas, nuclear and other new energy; and upgrade the energy industry's structure. Emerging economies and developing countries remain at a stage of high population growth. This rapid growth places much pressure on economic development and the natural environment. In China and India, population growth rates have dropped significantly, but due to the large population base, tens of millions of people are still added each year.

Resource and environmental constraints made it impossible for emerging economies to replicate the growth and consumption models of developed countries without regard to ecological factors. The development models of emerging economies have been adjusted, but the transformation will be difficult and take a long time. Development will still be a priority for China in the foreseeable future, but with the country's development moving into a new stage, the goals are being upgraded. China should no longer simply pursue GDP growth, but should instead seek 'green', inclusive and sustainable development.

Part 3: International strategic environment: A global governance perspective

In an era where global interdependence has reached an unprecedented level, humanity is facing a series of increasingly pressing global issues. These issues are characterised by their cross-border nature, great externality and spill-over effects, among other things. During the process of economic globalisation, problems such as trade protectionism, turbulent financial systems, environmental pollution, infectious diseases and terrorism have had a stronger spill-over effect, threatening the interests of various global actors. Resolving these issues is beyond the capacity of one or even several countries. These problems must be solved through broad global cooperation. Since the end of World War II, with the joint efforts of the international community, the global governance system has been continuously improved and perfected. However, due to continuously emerging global issues and changes of national strengths, the existing system has encountered severe problems in relation to its legitimacy, validity and representativeness, showing a lack of ability to adapt to the ever-changing situations. Therefore, the international community must reform this system urgently.

The dilemma of collective action has aggravated the global governance deficit

In his speech at the opening ceremony of the Belt and Road Forum for International Cooperation in May 2017, Chinese President Xi Jinping acknowledged that global governance deficit was one of the most serious challenges for humanity. The deficit is manifested mainly in the following two aspects. First, the contradiction between the growing demand for

global governance and the inadequate supply of global governance or global public goods is becoming increasingly prominent. Second, flaws in the current governance mechanism have become increasingly serious, while reform of the system is uncertain.

Global public goods have a non-exclusive feature. Maintaining world peace, global trade and financial stability and promoting sustainable development is costly, while all the countries can have access to these products. In other words, even if a country does not contribute to the provision of these products, it can still enjoy the benefits. This gives countries an incentive to let other countries bear the costs of providing public goods while becoming 'free riders' themselves. As a result, the supply of global public goods is impeded. Therefore, a core issue to be addressed is how to coordinate the different players in the international community to increase the supply of public goods as much as possible.

In addition to the inadequate supply of public goods, there are cases of ample or excessive supply of some other types of public goods, such as biased international trade and investment rules. This can be explained by Mancur Olson's 'logic of collective action'. With a lack of incentive and the absence of a global government, a small number of players who are willing, capable and highly concerned with their own interests will form small action groups operating according to cost-benefit calculations. These groups will participate actively in the supply of public goods that can bring the maximum interests or minimal loss. Once a narrow interest group driven by selective incentives gains a dominant position, the resulting global governance will be biased and non-neutral. Through using non-neutral global public goods, group leaders will enhance their own interests, even at the expense of most other stakeholders. In some ways, global public goods in the form of international organisations or global order have been 'privatised' and become the tools of certain interest groups to achieve their goals.

The current global governance mechanism was mainly established by developed countries after World War II. To a certain extent, this mechanism has maintained a peaceful and stable world and a free and open international economic order. However, it should be noted that conflicts in some 'hot spots' still arise. Various forms of trade, investment and financial protectionism remain prevalent. There are increasing challenges in new areas such as climate change, cyber security, polar region and space issues. In particular, the GFC in 2008 exposed, in a profound manner,

many weaknesses of the current global governance mechanism. Due to the lack of effective collective action, some traditional mechanisms have been unable to adapt to new situations.

Changing distribution of global power stimulates reform of global governance

As the comparative strengths of the world's major players have changed drastically, it is increasingly necessary to engage emerging economies in solving global issues. They have become important stakeholders in the current system and their awareness about maintaining and expanding their own interests through the global system is also growing. In this context, a need to adjust the existing order and make the global system more unbiased has emerged. However, at the same time, countries with vested interests in the current system wish to maintain their dominant positions.

Emerging economies should enhance collaboration through platforms such as the BRICS (Brazil, Russia, India, China and South Africa) cooperation mechanism and G20 to promote representation of the rights and voices of emerging market economies and developing countries in relation to global governance. However, the structures of some global governance mechanisms have not been improved for a long time and have been obstructed by countries (or groups of countries) with vested interests, especially the US and European countries. Even if a consensus on reform is achieved, it is often difficult to realise such consensus in a timely and effective manner due to the national interests of involved countries. For example, the US Congress did not approve the IMF's 2010 quota and governance reform program until December 2015, and further attached a condition of greater supervision over the IMF. Besides obstructing emerging economies from increasing their voices in international institutions, developed countries have begun to worry about the trend of developing countries catching up through multilateral rules and international division of labour. Some countries have used a unilateral strategy to stimulate reform of the multilateral system to preserve their advantages.

China will play an active role in the historical process of global governance reform. First, development is the key that China will provide to the international community to solve various global problems. China's greatest contribution to global governance has been its exploration

of a development path of reform and an opening with Chinese characteristics. The country has been a role model and led the world in development. Second, China will adhere to the principle of achieving shared growth through discussion and collaboration and strive to build a more inclusive international order. In the face of global governance reform, China should always retain its mission of maintaining world peace and promoting common development. China does not seek to overturn the current system, but will actively promote its reform and improvement. China will firmly uphold the international order with the United Nations Charter as its core. It will also promote the reform of unjust and unreasonable arrangements in the global governance system, striving to make the system more balanced, beneficial and reflective of the will of most countries.

The waning of ideology in global governance ideas

Globalisation has brought about significant economic and cultural shocks to countries. Trump's populism highlights the division between income, social class, racial groups and cultures in US society. The social foundation for anti-globalisation is thus further strengthened. Trump's campaign promises and policies are largely against multilateralism. Some researchers even claim that Trump has subverted the post-war values of the US and is likely to put an end to the 'liberal international order' created by the US. However, Trump's hit on the multilateral system focuses on the idea of liberalism instead of the multilateral coordination system. Trump is trying to change the tradition of US liberalism and cultural pluralism in various realms such as immigration, climate, democracy and human rights; he is also challenging the basis of US foreign policy values.

The shock instigated by Trump's election reveals that the norm of international order, which has long been dominated by Western countries, is being challenged. This challenge originates from the complex problems of Western countries and is related to the social split caused by economic globalisation. It is also caused by the competition of different development modes and paths in emerging economies.

The GFC in 2008 gave people a chance to reflect on the effectiveness of the policy framework based on the 'Washington Consensus' and to appreciate the experiences of emerging economies. Under the leadership of the G20 Group and the Financial Stability Board, Basel III, which emphasises both macroprudential and microprudential measures,

replaced the Anglo-Saxon model that was centred on relaxing financial regulation.⁴ The IMF, an advocate of capital account liberalisation, has also begun to recognise the validity of capital flow management measures.⁵ The principles advocated by emerging economies, such as sovereignty equality, inclusive development, diversity of development models and culture, and ‘common but differentiated responsibility’, are becoming core values of the international community and mainstream norms of global governance. The success of the Chinese model, which discards ideological differences and concentrates on development, provides sharp contrast to the US model, which has become inflexible and less effective. The influence and appeal of China’s model has also significantly increased worldwide.

The world has expected and demanded China to participate in global governance

After 40 years of reform and opening up, China’s economy and society have undergone unprecedented changes. China has developed into the world’s largest trading nation, second-largest economy and second-largest investor. The biggest change has been the rapid growth of the Chinese economy and the substantial increase in China’s overall strength. In other words, China’s development has brought enormous shock and made the world order increasingly complex.

China’s impact on the international order is manifested mainly in the following four aspects. First, is the impact at the physical level. This mainly refers to the significant increase of China’s demand for energy and resources. Second, is the impact at the monetary level. The process of RMB internationalisation has already begun. In the next 30 years, the RMB is expected to become a currency for international trade and reserves, and a key currency in the international monetary system. If this goal is achieved, the international monetary and financial system will be significantly altered. Third, is the impact at the institutional level. Although a fundamental change in international rules is not possible in the short term, the rapid increase of China’s national strength will enable

4 Basle III relies mainly on market discipline, self-regulatory hedge funds and financial derivative trade to join the international regulatory framework. See Helleiner and Pagliari (2010).

5 In February 2010, the IMF released a report on the regulation of international capital flow, recognising the appropriateness of capital account management and setting a guide for how to use it effectively. See Ostry et al. (2010).

and require China to seek fairer international rules. Fourth, is the impact at the conceptual level. At this level, China's impact on the contemporary world is reflected mainly in the country's development mode. Therefore, the certainty of China's future development is an important background for the interaction between China and the rest of the world.

The long-term rapid growth of China and other emerging economies has given the US and its Western allies a difficult choice. The latter wishes to place China and other emerging economies in an open trade and investment system with higher standards and stricter enforcement. As such, they will be able to use biased rules that are more favourable for them to constrain China. Additionally, they fear that China and other emerging economies will seek to establish a new set of international institutions in parallel to those dominated by the US and its allies. To prevent China from using its increasing influence to change the international order, Western countries—in particular, the US elite class—will more actively seek to have China accept the various international rules or institutions designed and dominated by developed countries. However, these rules are biased and favour developed countries.

When developed countries shift their focus to domestic issues, the international community raises its expectations for developing countries, especially China, in addressing global issues. Although quickly becoming a key player in the global arena, China is still a developing country. It should safeguard its own interests while taking on more international responsibilities. As the country's reform and opening up enters their later stages, its goals are also changing significantly. This has a profound impact on China's relations with the rest of the world. The Chinese economy is becoming increasingly dependent on the international system, while the US's leadership and support for a free and open international economic order is diminishing. International economic and trade rules are being restructured, and an open economic system urgently needs new momentum. This calls for China to shoulder more responsibility in developing a free and open multilateral system.

Part 4: China's strategic options for shaping the future global landscape

Engage in cooperation to disperse external pressure

The pressure China currently faces mainly relates to international rules. China should establish new platforms to address this. For example, it could strengthen cooperation among the BRICS countries and the Shanghai Cooperation Organisation, and promote negotiations on the China–Japan–South Korea Free Trade Agreement.

Shoulder appropriate responsibilities and participate in economic globalisation

Along with China's rapid economic development and rising global impact, there is a growing call for China to be a leader in the international order. An emerging economy like China should take on international responsibility according to its own conditions. The responsibilities must be in proportion to its national strength and development level. In doing so, China should follow three principles. First, responsibilities must correspond to rights. The principle of parity of responsibility and authority is commonly recognised in international law. In the current system, global governance rules and mechanisms were established under the auspices of developed economies, which are the major beneficiaries of the system, while the majority of emerging and developing economies do not enjoy fair treatment, nor can they wield influence commensurate to their power. Although China became the world's second-largest economy in 2010, its power of discourse is far weaker than that of the US and other developed economies. Second, China must take on responsibilities based on its own conditions, capabilities and needs. China will continue to be the world's largest developing country for a long time. According to the IMF, China's per capita GDP in 2017 was US\$8,677, ranking 75th in the world. The number rose to more than US\$9,580 in 2018, ranking 72nd. Third, China should properly balance short-term and long-term interests, as well as localised and national interests.

Strive for inclusive development

China should seek not only peaceful development, but also inclusive development, which means one country's development will benefit the entire world, and all countries will share the opportunities for welfare improvement. Inclusiveness is an important part of China's commitment to international responsibility. China's development has both positive and negative externalities. Compared to peaceful development, inclusive development emphasises strengthening positive externalities while minimising negative externalities.

Inclusive development also means China participates in global governance based on the principles of 'extensive consultation, joint contribution and shared benefits'. Consultation means that all participants form consensus on the basic principles, key areas, mechanisms and development planning of global governance based on discussion and consultation. Joint contribution means all members of the international community give full play to their advantages and potential to jointly promote reform and innovation of the global governance system. Shared benefits means that all countries have a fair share of the benefits of global governance. These principles embody openness and inclusiveness in global governance and conform to the global trend of democratic development. In practice, they actively involve all members of the international community, especially developing countries, heeding their concerns, better safeguarding their legitimate rights and ensuring they share in the benefits of global governance. The practice could enhance the trust between China and the rest of the world, and is a reliable path for burying doubts and achieving expectations.

Promote gradual reform of global governance

As an expanding country, China is a taker, rather than a maker, of existing international rules and institutions. Previously, interactions between China and international institutions were mostly conducting coordination under the current system and internalising the rules. As the legitimacy and effectiveness of the global governance system face more challenges, and as China plays an increasingly important role in the global economic system and security affairs, China has become a major force in promoting reform of global governance. In this regard, some may have unrealistic expectations that the increase in China's national strength will

bring fundamental changes to international rules and the international order. In fact, the evolution of the international system is a long-term process. It is not realistic or necessary to make revolutionary changes to unreasonable international order or rules, especially those that favour vested interest country groups.

In its participation in global governance, China does not wish to establish an entirely new system or instigate a revolution of the existing system. Rather, it seeks modest reform of existing multilateral mechanisms. In doing so, China should take a cooperative path and emphasise the rise of emerging economies and developing countries and focus on complementing, not replacing, the current mechanisms (i.e. improvements, rather than revolution). To deal with mechanisms in various areas, China should employ differentiated approaches based on its own conditions, national interests and the characteristics of those mechanisms. China should promote the concept of inclusive development to improve the current system. The system is influenced by Western values and institutional patterns and does not adequately acknowledge the diversity of development paths and national conditions.

As China grows, it may seek reform of rules and institutions. In the next decade, China should seize opportunities and work with other emerging economies to make improvements to the current system and exert a larger influence.

Rationally respond to external challenges

China is on the road to 'great rejuvenation'. A peaceful global environment is critical to accomplishing this mission. While defending its territory and marine rights, China should exercise care and take appropriate actions. China should also be aware of the harmfulness of extreme nationalism and the danger of falling into an arms race trap. In addressing global issues, China must be patient and properly identify priorities.

In terms of foreign relations, China has two priorities. First, is the establishment of a new major power relationship based on mutual respect, mutual benefits and win-win cooperation. This is a new way of dealing with conflicts and contradictions between emerging countries and existing powers. The major obstacle to China's long-term development is the US, which intends to bring China into the existing system using the rules dominated by and favourable to itself. In engaging with the US,

China should consolidate risk management to avoid a lose–lose situation and promote win–win cooperation to establish a new major power relationship.

The second priority involves creating a stable peripheral environment. Peripheral instability is still a threat to China’s security. Pressing issues in relation to islands, seawaters and resources in surrounding areas will continue or become worse. China should prioritise establishing a new regional security mechanism with Northeast Asia. While protecting its national sovereignty and core interests, China could enhance its influence in the region and explore new ways to solve disputes, break deadlocks and create new and favourable situations.

Specifically, China should reconsider the practicality and feasibility of some foreign policy objectives and respond to changes in the external environment in a flexible manner. China should improve weak links in foreign policymaking—for example, improving coordination among government departments, information sharing, intellectual support and personnel training mechanisms—to enhance the effectiveness of decision-making. Multiple policy instruments and contingency plans should be employed to respond to uncertainties in the external environment.

Actively seek support from the international community

As developed countries currently dominate international public opinion, China should enhance communication with other countries, actively express its voice and create an atmosphere beneficial to the dissemination of China’s ideas of ‘peaceful development’ and ‘inclusive development’. In particular, it is necessary for China to articulate how its rejuvenation contributes to the welfare improvement of all countries, so that the international community accepts China’s development.

The Chinese Government should enhance the impact of its communication with the rest of the world, equip itself with modern communication technology and make full use of communication resources. This can be achieved by using new media tools and adopting multiple perspectives and narrative forms to shape China’s international image more vividly. At the domestic level, China should promote cultural prosperity by establishing institutions and creating a favourable cultural environment. At the international level, the government and the public

should actively use multilateral and bilateral communication channels to conduct cultural diplomacy. China should also leverage its position as the host country of global conferences to raise Chinese topics, concepts and plans and shape the agenda. Additionally, in the process of promoting international economic cooperation, China should disseminate knowledge of Chinese enterprises that have met social obligations and promoted people's livelihoods abroad, and tell success stories of the Belt and Road Initiative.

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