

The Beijing Consensus

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"DEALING WITH CHINA"

The Beijing Consensus: Notes on the New Physics of Chinese Power

Introduction: The New Math

The first thing most people noticed about the Danish scientist Tycho Brahe was the metal tip on the end of his nose, an expensive attempt to undo some of the damage from a vogue in German universities of the 1500s for saber dueling. But Brahe's silver nose was a symbol of sorts too. He was a man who was good at sniffing out holes in the theories that were supposed to explain how the world worked. He looked, for instance, at the predictions by the best scientists of his time of where exactly the planets were supposed to be on a certain day. What he saw over and over was that the predictions failed. Funny things happened in the sky: Mars appeared to move backwards in its orbit, comets crashed through the celestial domes that were supposed to hold the planets in place, the moon skipped a long-predicted eclipse. This was because the primary theories of Brahe's day were based on occasional, imperfect observations of celestial bodies that were in constant motion. The theories were great, as a result, at predicting the previous' nights planetary movements, the scientific equivalent of forecasting yesterday's weather. So Brahe devoted most of his life to the obsessive study of the actual movement of the planets. He lived with the planets, the stars and other heavenly bodies every night, meticulously recording their every perturbation at a level of accuracy never before seen. In 1572 and 1577 he made two observations that changed science - the first was of a new star, the second of a comet. Both objects were indisputably higher than the moon, a fact that demonstrated that the heavens were not, as philosophers as far back as Aristotle had argued, immutably divided from the earth. Further, he concluded, if the comets were *in* the heavens, they must move *through* the heavens. That demolished the old idea that the planets moved on invisible spheres. Galileo, Keppler and generations of scientists followed Brahe's observations into a whole new physics. His ideas changed everything. And they could be summarized in a single notion: if you wanted to understand how the sky worked, you should be more concerned about the motion of heavenly bodies than their destination.

It's tempting to think about what destination China might reach in 20 years. Will it be a seething pot of nationalist hate? A rich, super-large Singapore, warlike only in the board room? The common conceit of most non-Chinese policy planners is that in 20 years China will be a "near peer" power, bumping up against the United States in terms of economic and possibly military might. Thus, this logic runs, the next 20 years must be devoted to either engaging China to shape its rise or working to contain the country so it doesn't acquire more power than the current global power leaders. But the fact is that no one knows what China will look like in 20 years.

Such speculation is somewhat helpful, but no basis for theory. And it completely misses the most essential observation: China's rise is already reshaping the international order by introducing a new physics of development and power. The things that have always made policymakers think that China is a 20-year-away-problem are not the essential components of China's blossoming power. To measure Chinese power based on the tired rules of how many aircraft carriers she has or on per-capita GDP leads to devastating mis-measurement.¹ China is in the process of building the greatest asymmetric superpower the world has ever seen, a nation that relies less on traditional tools of power projection than any in history and leads instead by the electric power of its example and the bluff impact of size.

What is happening in China at the moment is not only a model for China, but has begun to remake the whole landscape of international development, economics, society and, by extension, politics. While the US is pursuing unilateral policies designed to protect United States interests, China is assembling the resources to eclipse the US in many essential areas of international affairs and constructing an environment that will make US hegemonic action more difficult. The point of this piece is not to judge China's rise as good or bad. I will leave the discussion about how to handle China's rise to the ideologically electric engagement/containment debate, though I will show in a moment why ideas like engagement and containment are outdated in regard to China. Rather what I wish to do here is simply to outline the shape of China's new power basis and solidify the claim that when measured in terms of comprehensive national power, China is already a rival of the United States in many important areas. I will also briefly address the potential implications of this approach if allowed to continue. In global community terms, the person who walks around rattling locks, checking alarms and catching the bad guys is called the policeman. The person who worries about everything else is called the mayor.

To the degree China's development is changing China it is important; but what is far more important is that China's new ideas are having a gigantic effect outside of China. China is marking a path for other nations around the world who are trying to figure out not simply how to develop their countries, but also how to fit into the international order in a way that allows them to be truly independent, to protect their way of life and political choices in a world with a single massively powerful centre of gravity. I call this new physics of power and development the Beijing Consensus. It replaces the widely-discredited Washington Consensus, an economic theory made famous in the

¹ See for two diverse examples of this approach, Nye, Joseph S. Jr and Owens, William in "America's Information Edge", *Foreign Affairs* March/April 1996 or Roy, Denny, "China's Reaction to American Predominance" in *Survival*, Autumn 2003. See also the U.S. 1997 *Quadrennial Defense Report*, which asserts a "strategic competitor" to the US will emerge after the first 15 years of the 21st century.

1990s for its prescriptive, Washington-knows-best approach to telling other nations how to run themselves. The Washington Consensus was a hallmark of end-of-history arrogance; it left a trail of destroyed economies and bad feelings around the globe. China's new development approach is driven by a desire to have equitable, peaceful high-quality growth, critically speaking, it turns traditional ideas like privatisation and free trade on their heads. It is flexible enough that it is barely classifiable as a doctrine. It does not believe in uniform solutions for every situation. It is defined by a ruthless willingness to innovate and experiment, by a lively defense of national borders and interests, and by the increasingly thoughtful accumulation of tools of asymmetric power projection. It is pragmatic and ideological at the same time, a reflection of an ancient Chinese philosophical outlook that makes little distinction between theory and practice. Though it is decidedly post-Deng Xiaoping in structure, the Beijing Consensus still holds tightly to his pragmatic idea that the best path for modernisation is one of "groping for stones to cross the river," instead of trying to make one-big, shock-therapy leap. Most important, it is both the product of and defined by a society that is changing so fast that few people, even those inside China, can keep up with it. Change, newness and innovation are the essential words of power in this consensus, rebounding around journal articles, dinner conversations and policy debates in China with mantra-like regularity. Though much of the thinking reflected here was under discussion in Chinese think tanks and government centres in the post-Asian crisis period, it has only begun to be implemented in the last 12 months. My analysis of that process is based on more than one hundred off-the-record discussions with leading thinkers in Chinese universities, think tanks and government.

The Beijing Consensus is as much about social change as economic change. It is about using economics and governance to improve society, an original goal of development economics that somehow got lost in the Washington-consensus driven 1990s. China's path to development and power is, of course, unrepeatable by any other nation. It also remains fraught with contradictions, tensions and pitfalls. Yet many elements of the country's rise have engaged the developing world. Some of that engagement is rooted in China's growing commercial influence, but some of it reflects the appealing spirit of the new Chinese physics. This has two important implications. The first is that whether China's reform succeeds or ends in a tragic failure, the Beijing Consensus is already drawing a wake of new ideas that are very different from those coming from Washington. The second fact is that the emergence of a Beijing consensus for development marks an important change for China, a shift from a reform process that was young and susceptible to externalities to one that is now self-fulfilling, cranking like a chain reaction and more determined by its internal dynamics than by the external pushes and pokes of things like WTO accession, nuclear proliferation rules or even mass viral epidemics. China is writing its own book now. The book represents a fusion of Chinese thinking with

lessons learned from the failure of globalisation culture in other places. The rest of the world has begun to study this book.

The Beijing Consensus, like the Washington Consensus before it, contains many ideas that are not about economics. They are about politics, quality of life, and the global balance of power. Inherently, this model sets China and its followers off against the development ideas and power needs of the status quo. As Indian economist Jayanta Roy observed after a recent trip to China, "I was happy to see that there is a hope for a developing country to outstrip the giants, in a reasonably short period of time." Or, as one summary of Chinese thinking explains, "The present world is plagued by serious problems such as the widening gap between the North and South, a worsening environment, international terrorism and international drug trafficking. A shift from power politics to moral politics should be expedited." Continuing U.S. failure to meaningfully address these problems will only accelerate the acceptance of a Beijing Consensus. Chinese leaders have called the next twenty years a period of "great strategic importance," (*zhongyao de zhanlue jiyuqi*)². This is not to say that the Chinese government has some master plan to challenge the United States for hegemony and is using this ideological doctrine to finesse that power shift. In fact, many Chinese leaders now argue that what China needs most is a "Peaceful Rise" (*heping jueqi*). But even this will demand a shift in the physics of international power. That shift is now underway.

² "The Choice of China's Diplomatic Strategy", Mar 19, 2003 People's Daily, Also Jiang Zemin's Report to the 16th Party Congress, at http://news.xinhuanet.com/english/2002-11/17/content_633685.htm

Some Useful Axioms of Chinese Development

The Heisenberg Society

The error of most China analysis is that it races far too fast from observation to theory, from fact to hope or fear. "China will blow up," or "China is a future enemy." Even the Chinese fall into this trap, "China will never be a threat to the U.S." they say. "Taiwan must not be allowed to be independent." This kind of conclusion-driven policy analysis leads inevitably to mis-calculation. Thus, because no one knows where China is headed, the louder the debate about China becomes, the less sense it makes. The United States might, as it did a few months ago, welcome a Chinese trade delegation to the States on a multi-billion-dollar buying spree and then, days after the delegation leaves town, snap out at Beijing with sanctions. The U.S. Secretary of State can describe U.S.-China Relations as "the best in memory," even as Washington pushes plans to cast a missile defense shield over Asia that Beijing promises will seed a new arms race.³ Congressmen legislate to tax Chinese goods as a way of creating a forced appreciation of the Chinese renminbi; businesses in their districts grow profitability by shipping jobs to China. Leading-edge U.S. tech firms lobby the hill for more visas for Chinese engineers to come work in their

³ Colin Powell speech at George Washington University, September 4, 2003 "Today, I would submit US relations with China are the best they have been since President Nixon's first visit."

labs to develop technologies whose export to China will later be banned by Washington. The engineers, however, return home eagerly. China's complexity, its impenetrability, its more than occasional protective dishonesty all conspire to condemn most analysis to the fate marked out by Einstein's dilemma: our theories shape what we observe.

During a private chat with Alan Greenspan in the late 1990s he explained to me what he felt was the essential difference between the policies he, Bob Rubin and Larry Summers crafted and the Regan-era work of economists like Arthur Laffer. "In our case," he said, "our self-esteem, how we feel about ourselves, is based on the quality of our analysis, not on our conclusions."⁴ Laffer blindly believed the conclusions of his tax curve - which suggested that cutting taxes would actually increase tax revenue - even as they led to deficit oblivion. In China, research is often forced into this trap of conclusion-first analysis. This is not always an error of bad-intentions. Rather, these failings represent the intellectual carnage of dealing with a society that is changing faster than any society in history has ever changed. People fall back on what they think they know. But it is no wonder that decades-old rhetoric about China makes no sense in a country where two-week old maps are out of date.

If it makes you feel any better, the Chinese themselves are often confused. In fact, the single thing that is most characteristic of China at this moment is simply that it is changing so fast that it is almost impossible to keep track of what is underway. This situation, more than any other thing, drives the need for a new physics for China. Jiang Zemin, in his farewell to the 16th Party Congress in the fall of 2002, used the word "new" ninety times in a ninety-minute speech.⁵ There is simply no other word to describe what is happening in China - and what must continue to keep happening to prevent a tragedy. Jiang's point was that most likely what we think we know about China is wrong or over-simplified to the point of irrelevance, blasted away by the shock of the new. This "fog-of-change" befuddles the Chinese too, the leadership as much as the peasantry. But the most successful Chinese have learned to adapt. They work along and in the margins of this change; they invent new rules even as they peer at and prod their new social order to try to figure out just who fits where. Confronted with such rapid change, the Chinese constantly listen for the sounds of change. Sometimes, they have discovered, it is the absence of sound, the silence that is the tip-off of the biggest changes.

⁴ See, "The Committee to Save the World", *TIME* Magazine. Feb 15, 1999.

⁵ Jiang Zemin, Report to the 16th Party Congress at www.people.com.cn

The very language used to talk about China no longer works. The debate about whether to "engage" or "isolate" the country is reminiscent of the debate a decade ago about whether to engage or isolate the technological consequences of Moore's and Metcalfe's law even as those laws remade the rules of life⁶. As recently as 1999, *Foreign Affairs* could publish an article called "Does China Matter," that seriously suggested the nation was globally irrelevant⁷. China's rise is no more avoidable or engageable than the Internet was. It is a fact of life. And no matter what happens in the end, the rise itself is enough to remake the physics of our world.

But if there is a theme to China relations at this moment, it is that ideas that once made sense in regard to the mainland now feel clumsy and ill-fitting. In some cases, like the long-practiced strategic ambiguity towards Taiwan, these crusty old ideas are actually dangerous, turning "strategic ambiguity" into strategic liability. Would anyone consider building an airplane while leaving certain questions of physics "ambiguous?" The farther you move from China, the more the thinking is oversimplified. While Chinese intellectuals and policy makers are wrapped in nuanced debates about what their society should look like and how it should fit into the world, outside scholars are still generally driven by the antiquated dualism of "engage/contain". The Washington line that the U.S. supports "the emergence of a China that is a prosperous, secure, open society that is a constructive member of the international community," characterizes this gulf between policy and reality. Chinese leaders (to say nothing of Chinese citizens) have their own very specific ideas about what adjectives like open and constructive mean and they are often not the same as Washington's - and they are not static. Part of the language problem, of course, is that the Old China is still so present in everyday life that it is hard to see the breaks from the past as clean breaks. The country is changing so fast that it has to pull on awkward old language to describe new things, a fact that can confuse outsiders and insiders alike⁸. "There is no socialism without

⁶ Gordon Moore, one of the founders of Intel, postulated in the early 1970s that integrated circuit technology would advance at a pace that allowed chip performance to double every 18 months. Robert Metcalfe, an inventor of Ethernet, argues that every additional user connected to a network adds geometrically to the network's power, not incrementally.

⁷ Segal, Gerald 1999 "Does China Matter?" *Foreign Affairs* 78(5) September/October 1999, pp.24-36. See also the excellent debunking of this article by Harris, Stuart (2003) "Does China Matter: The Global Economic Issues", *Australian National University Working Paper* 2003/1.

⁸ How various institutions and people respond to this language problem is quite interesting. The essential challenge is that there are many phenomenon in modern China for which there simply are no words yet. In the business and personal sphere, people tend to respond with neologisms, creating new words at a pace that must be a linguists delight, although often confusing in conversation. Phrases like "xia hai," literally meaning to jump into the sea, but now meaning to go into business, are quickly taken up and widely used once understood. Government officials, by contrast, tend to react to the phenomenon by taking old stock

democracy, and no democracy without socialism," President Hu Jintao said with unusual passion and force in his voice during a recent European swing, repeating a dusty 1950s line ("*meiyou minzu zhuyi, jiu meiyou shehui zhuyi. Meiyou shihui zhuyi, jiu meiyou minzhu zhuyi*") that is now pregnant with hypermodern significance⁹. China is not yet about clear movement one way or another. .

At its current rate, China is doubling output (and incomes) every 10 years. Since opening and reform in 1979, the World Bank estimates China has lifted 300 million people out of poverty, a historical accomplishment¹⁰. This pace of change means that China is not what it appears; it cannot be reduced to generalities, because it is not today what it appeared to be yesterday. It is, to pick up on an idea of Heisenberg, a place where engagement inherently changes the outcome, where speed interferes with measurement. "The more precisely the position (of an electron) is determined, the less precisely the momentum is known in this instant, and vice versa," he argued in 1927. That is to say that if you can stop something long enough to take its picture you have no idea where it is going next. So with China. The minute you stop something long enough to look at it, the more certain you can be that when you lift your head Chinese society will have moved on. Just as you master the problems of the state owned enterprise reform in China's industrial northeast, government leaders will signal that they're slowing privatisation to focus on rural incomes. There is no *ceteris paribus* in China, and that destroys traditional analysis. We must content ourselves with frameworks inside of which we allow pieces to move around with some unpredictability.¹¹

What is the Beijing Consensus? It is simply three theorems about how to organise the place of a developing country in the world, along with a couple of axioms about why the physics is attracting students in places like New Delhi and Brasilia. The first theorem repositions the value of innovation. Rather than the

phrases and jamming them together in strange ways. The only sign that something is different is in the arrangement of the words.

⁹ Hu Jintao press conference with Jacques Chirac, carried on CCTV; Jiang Zemin has offered an even more suggestive twist on this line. "Where there is no democracy, there is no socialism. Where there is no socialism there is no development," suggesting a link between democracy and development.

¹⁰ Studies suggest a number from 250 to 400 million lifted from \$1 per-day earnings. Most recently see François Bourguignon (2003) "Transition of China's Northeast: The Need for Combining Regional and National Policies," *The World Bank Seminar: A Development Strategy for Northeast China Shenyang, Liaoning Province*, at worldbank.org p. 2 who argues for 400 million.

¹¹ Outcome and intention are rarely the same in this new fast-change world. One essential part of Deng's pragmatic process is that when new policies cause or permit changes, these changes are essentially unpredictable, which is why China often exhibits a "two steps forward, one step back" phenomenon – and why the state is reluctant to give up its coercive "power tools." How could the government halt negative developments, or slow the tempo of change, without them?

"old-physics" argument that developing countries must start development with trailing-edge technology (copper wires), it insists that on the necessity of bleeding-edge innovation (fiber optic) to create change that moves faster than the problems change creates. In physics terms, it is about using innovation to reduce the friction-losses of reform.

The second Beijing Consensus theorem is that since chaos is impossible to control from the top you need a whole set of new tools. It looks beyond measures like per-capita GDP and focuses instead of quality-of-life, the only way to manage the massive contradictions of Chinese development. This second theorem demands a development model where sustainability and equality become first considerations, not luxuries. Because Chinese society is an unstable stew of hope, ambition, fear, misinformation and politics only this kind of chaos-theory can provide meaningful organization. China's new approach to development stresses chaos management. This is one reason why academic disciplines like sociology and crisis management are the vogue of party think tanks at the moment.

Finally, the Beijing Consensus contains a theory of self-determination, one that stresses using leverage to move big, hegemonic powers that may be tempted to tread on your toes. This new security doctrine is important enough that I treat it later in a separate chapter.

China's very emergence is remaking the international order. Chinese officials' interest in the country's Peaceful Rise is rooted in their worry that China's current acceleration to international power may shake the world too much, undermining the country's ability to grow and to maintain a stable internal and external balance.

The internal balance will not be easy to manage as the gravitational forces of change pile on, distorting all the old bands that hold China together. Yet even here the traditional metrics for looking at power in China need adjustment. The often-expressed sentiment or hope in Washington that China's Communist Party is on the verge of collapse because of all the change in China is an example. In fact, the CCP is the source of most of the change in China in the last 20 years. The CCP is creaking and cracking, to be sure, but that noise is not necessarily immediately fatal. Creaking and cracking can also mean growth. The image of a Soviet-style implosion of the party is a possibility, but it assumes a kind of coma-state party, barely interested in change, unaware of the deeper problems it

faces and paralyzed by inaction. If anything, China's party at the moment suffers from ADHD. It is obsessed by its fate, obsessive about tinkering and experimenting. Peripatetic Premier Wen told journalists that in the course of a long career as a geologist and government official he had visited 1,800 of China's 2,500 municipalities. "We are doomed," writes State Councilor Chen Zhili in a recent edition of *QiuShi*, a party intellectual journal, unless Chinese society finds ways to innovate. She argues that science and technology and human resources talent (*rencai*) are the two pillars of China's future. China's problems, she says, are simply too big for old solutions, too tremendous for anything but an army of great ideas and successful implementation.¹² This is particularly true in relation to the binary challenges of rich/poor, urban/rural, old/young eating away at the foundations of Chinese stability. She is right to worry. This is not solid-state physics.

The Uses of Density

The only thing that can save China is knowledge. "Innovation sustains the progress of a nation," Jiang observed in his farewell report. Then, switching to the language of physics to explain what he meant, he added: "It is an inexhaustible motive force for the prosperity of a country and the source of the eternal vitality of a political party."¹³ China's problems are so massive that only exponential improvements in health care, economics and governance can hold China together. This is the old, deadly conundrum of reform: how do you introduce solutions into a society that is shredding itself with hope and growth. The only solution is innovation¹⁴. "A low-income country transforming into a mid-income country has two fates," Ma Kai, director of the State Development and Reform Commission, observed recently. "One is to enter a 'golden age of development' when the economy continues to develop fast for a considerable period of time, the quality of the national economy improves significantly, and the

¹² Zhili, Chen (2004) "Science & Technology and Talent: The Two Pillars of a Well Off Society." (Keji yu Rencai: Quanmian Jianshe Xiaokang Shihui de Liang Da Zhongyao Zhizhu) *QiuShi* issue 374, <http://www.qsjournal.com.cn/qs/20040101/>

¹³ Jiang Zemin Report the 16th Party Congress.

¹⁴ This is not to suggest Deng did not see important links between the party and innovation. In fact, he began very early in his time in power to explore the question of how the party could support innovation, as opposed to feeling the need to create all innovation from within the party. He told an audience in the fall of 1975: "There is an elderly scientist who specializes in semiconductor research. The authorities of Beijing University asked him to teach other courses, which he couldn't do well. [So] he used his spare time to do semiconductor research. There are many people like him who are engaged in a profession unrelated to what they studied. We should be giving full play to their professional knowledge lest the country suffer a great loss. Although this elderly scientist is an academician and well known throughout the country, he has to engage in a profession unrelated to what he studied. Why so?" (See Deng Xiaoping Selected Speeches "Priority Should be Given to Scientific Research" 1975, Sept. 26).

country successfully realises industrialisation and modernisation; another fate is to enter a "problematic stage".¹⁵ A problematic stage is the late night what-if game of China's elites. There are contingencies for a collapse of Chinese growth, but they are not pretty. One lesson of China's growth so far is that innovation and technology can drive super-fast change in some sectors, keeping the country moving fast enough to cure the problems of reform.

Let me pose a physics problem to make this point a bit clearer. Imagine that you have three objects - a ball, a solid cylinder and a hollow cylinder - balanced at the top of a ramp. If you release them all at the same time, in which order will they reach the bottom? The answer - ball first then cylinder, then hollow cylinder - reflects the fact that the mass density of the objects affects the speed at which they move. Innovation is a way to increase the density of Chinese society. It binds people closer together via webs of connections, it cuts time-to-reform, it makes communication easier and faster. And the better the innovation, the greater the density - and the faster the growth. You can see this at work all over China. You can also see it *not* working, in parts of the culture that have been hollowed-out cylinder like by lack of trust, corruption or other problems. This leads to the first Beijing Consensus Theorem: the only cure for the problems of change is more change and more innovation. Innovation density saves.

Knowledge-led change (as opposed to ideology-led change) has always been in the DNA of post-reform China, in the form of rapid growth in what economists call Total Factor Productivity (TFP). TFP, first identified by Nobel Prize winner Robert Solow in 1957¹⁶, is a special source that boosts economies beyond the level of growth accounted for by growth in human capital or growth in financial capital. TFP is defined as "output growth not accounted for by the growth in inputs."¹⁷ Say you increase spending by five percent, increase people by five percent but see 15 percent growth. The extra five percent is TFP¹⁸. TFP is

¹⁵ Ma Kai "Establish and Implement a Scientific Development View Promote Fundamental Changes in Mode of Economic Growth" speech delivered on March 21, 2004 at China Development and Reform Meeting.

¹⁶Solow, Robert (1957) 'Technical Change and the Aggregate Production Function' in *Review of Economics and Statistics* 39 (August) pp. 312-320.

¹⁷ Hornstein, Andreas, and Per Krusell (1996) "Can Technology Improvements Cause Productivity Slowdowns?" *NBER Macroeconomics Annual 1996*. MIT Press. p. 214.

¹⁸ There is a lively debate now among scholars about the degree to which TFP is an exogenous or endogenous phenomenon. The debate is too technical for this discussion, but it is worth noting that the answer to the question has important implications for thinking about how to manage Chinese growth going forward. By and large, Chinese planners seem to have settled on what might be called a "rolling belt" model for TFP in which productivity is initially boosted by outside technology and investment and then fired again by internal, endogenous growth. See Romer, Paul (1990) "Endogenous Technological Change" in *Journal of Political*

to modern economics what gravity is to physics, a well-studied, influential phenomenon that remains at heart mysterious.

The first hints of how well innovation and productivity growth could work came in the first Chinese sector to be marketised: agriculture. In the early 1980s agriculture grew faster than any other part of the economy. Chinese planners would make small, liberalising tweaks to inputs, expecting modest output increases. But these small adjustments triggered non-linear 20 and 30 percent growth leaps. In just five years in the early 1980s, for instance, wheat productivity increased by 60 percent, maize by 55 percent.¹⁹ Chinese farmers, long considered among the most backward and tradition-bound workers in the world, used limited control of their crops and an innovative two-tier price system to optimize output and even, in their spare time, build small businesses²⁰. They absorbed new technology such as better rice stocks and improved field drainage. Today Chinese farmers are among the most innovation-hungry in the world. On average, Chinese farmers completely replace their seed stock for newer, engineered seeds every three years. Maize farmers entirely replace their seed stock every 33 months.²¹

What is clear to Chinese farmers is evident to other Chinese as well. When Intel first began operating in China in the early 1990s, it did so with the belief that the China market would be a perfect place to unload out-of-date chips. But the Chinese only wanted Intel's newest, fastest technology. In China, Moore's law isn't seen as a threat but as a salvation. The conventional wisdom is that Chinese growth is an example of what happens when you let loose lots of cheap labour. In fact, innovation-led productivity growth has sustained the Chinese economy and helped to offset disastrous internal imbalances.

Because of the unique tensions in China at the moment, the country can use knowledge and innovation to "ba huaishi bian cheng hao shi", turn bad things into good, weakness into strength. Mistakes in the system, incompetence or corruption, are seen as chances to change. You can see this in the common view in Chinese circles that the Severe Acute Respiratory Syndrome (SARS) crisis

Economy, Oct. and (1994) "The Origins of Endogenous Growth" in *Journal of Economic Perspectives*.

¹⁹Songqing Jin, Jikun Huang, Ruifa Hu and Scott Rozelle (2001) "The Creation and Spread of Technology and Total Factor Productivity in China's Agriculture", *Department of Agricultural and Resource Economics University of California Davis Working Paper No. 01-014*, p. 7.

²⁰ There is a debate about the sources of the rise in agricultural incomes during this period. Philip Huang argued in the early 1990s that the real driver of 1980s agricultural reform success was farmers expanding into new lines of business, not crop yields. Later data seems to have undermined this argument, though the essential point that there was a link between productivity growth and personal freedom, remains useful.

²¹ Songqing Jin, Jikun Huang, Ruifa Hu and Scott Rozelle (2001) "The Creation and Spread of Technology and Total Factor Productivity in China's Agriculture", *Department of Agricultural and Resource Economics University of California Davis Working Paper No. 01-014*, p. 7.

was beneficial²². SARS demonstrated that China could withstand a massive external shock to its economy, erasing a lingering fear of nearly everyone in China. (Though the country was all but shuttered for eight weeks during SARS, it posted near-record growth for 2003 and crucially passed the \$1000 per-capita income mark laid out by Deng Xiaoping as a development goal in 1978²³.) Moreover, SARS gave the new government of Hu Jintao and Wen Jiabao a chance to establish itself, it helped the Chinese see the cracks in their decrepit public health system in a more urgent light, it led to an overhaul of information reporting inside the government and accelerated the process of media reform. SARS is seen as proof the government can respond to and learn from the kinds of jolts it will inevitably feel in coming years.

With this heavy need for new ideas, Chinese planners are justifiably terrified about the possibility of a "knowledge divide" cleaving the mainland and the rest of the world, or China's coasts and interior.²⁴ The restructuring of state-owned enterprises, for instance, will demand retraining of possibly 300 million workers.²⁵ To combat the gap, China has liberalized visa rules to encourage foreign experts to help lead Chinese industry. Education policy has moved to the heart of reform work. China will award 12,000 of its own PhDs in 2004 and will likely pass the U.S. annual rate of 40,000 a year by 2010.²⁶ Even if the quality of these degrees is half that of U.S. institutions, the volume of students creates a climate of innovation. In Nanjing, the government is supporting the creation of a university complex that will house 120,000 students. This scale comes not only from the pressing exigencies China's size, but from government recognition that "clustering" of smart minds is the growth accelerator that made Silicon Valley or Route 128 become innovation hubs. As Wang Guoqiang observed at a world population forum at the United Nations in early 2003, the goal of Chinese policy is to "turn the burden of the most populous country into an advantage in leading edge human resources."²⁷ Education is the only solution for making scale a source of stability not chaos.

²² Hu Angang 2004, SARS, Beijing Daxue Chubanshe, p. 3-15.

²³ See Speeches of Deng Xiaoping Vol. 2. The \$1000 per capita number fit Deng's definition of a "Xiaokang" society, a phrase that is still in use in China today. Xiaokang means "small well off" and refers to a society free from want, though not rich. It has connections with Chinese philosophical definitions of a good society.

²⁴ This is manifest in the country's hunger for leading technology in areas like semi-conductor manufacturing and in the governmental worry about international standards bodies. The recent fight between the Chinese government and microchip makers over wireless security standards is an example of this. China feels that internationally developed standards allow overseas companies to keep too much intellectual property overseas, out of Chinese hands. "Among the world's 16,000 international standards 99.8 percent are made by foreign institutions," an unnamed expert complained to China Daily, highlighting the intersection of innovation and nationalism²⁴.

²⁵ Bourguignon, 2003, as above.

²⁶ Cheng Li, "Educational and Professional Backgrounds of Current Provincial Leaders" (2003) *China Leadership Monitor* No. 8, p. 4.

²⁷ <http://www.china-un.ch/eng/45862.html>

Intel's Andy Grove has described a not-too distant future where China will have more software programmers working than anyplace on earth, and suggested the result of such a cluster will not only be competitive Chinese dominance but also masses of new innovation.²⁸ And the political effects of clustering 120,000 restless and questioning students together in one place? Nanjing was, after all, a warm coal for the 1989 movement. CCP willingness to encourage innovation in the heart of the greatest recent source of social instability is an indication of both the issues of 1989 (and of the present) less corrosive to stability.

Innovation in China isn't just about e-commerce or fiber optics.²⁹ There has been a head-snapping rise in the education level of China's regional leaders. As U.S. scholar Cheng Li observes, in 1982 only 20% of China's provincial leaders had attended college. In 2002 this number was 98 percent. The number with post-graduate degrees grew from 12.9 percent in 2001 to 29 percent in 2003. Among younger leaders, those "fourth generation" leaders under 54, two-thirds hold masters or PhD degrees.³⁰ This international education has implications for China's political culture. But the overseas education of these leaders has also brought other ideas. Li Rongrong, who runs the powerful State Asset Commission, chastised managers last year with a Jack Welch-like curse: "If you cannot be one of the top three firms in your sector," be prepared to be acquired by some other firm."³¹ This change-or-die approach is as true for the government as it is for individual citizens and businessmen. But if this life of constant shifts sounds terrifying, it is also a state that fundamentally characterizes the modern world. Its appearance in China is a sign of real modernisation.

²⁸ "Grove Says U.S. Is Losing Edge In Tech Sector" October 10, 2003. See <http://www.forbes.com/2003/10/10/1010grovepinnacor.html>

²⁹ This is at the heart of Jiang's "Three Represents," the notional guide for policy in China, enshrining the idea that the work of the party must represent the most advanced productive forces, the most advanced culture and the fundamental interests of the majority of the Chinese people. (Modern China claims links to three philosophies that party thinkers claim are direct descendants of each other and of Marxism Leninism: Mao Zedong Thought, Deng Xiaoping Theory and Jiang Zemin's "Three Represents". One observation commonly made by outsiders about China is that it is not a Marxist state anymore. However state planners and intellectuals do still operate from a perspective greatly influenced by socialism and Marxism. The complex intellectual relationship between modern, market-driven China and five decades of discussion of socialism can be seen in the country's challenge to traditional views of globalisation. In one influential essay, economist Hu Angang, one of China's leading intellectuals and supporters of free markets, lists the three biggest mistakes made in the last fifty years in China. Pursuit of socialism is not among those errors, though the methods of that pursuit are.

³⁰ Cheng Li, "Educational and Professional Backgrounds of Current Provincial Leaders" (2003) *China Leadership Monitor* No. 8, p. 3.

³¹ Naughton, Barry "The State Asset Commission: A Powerful New Body" *China Leadership Monitor* No. 8, p. 5.

This Beijing Consensus model of innovation-led growth, which has been echoed to some extent by India's economic awakening, turns old-style development ideas upside down. It suggests that creating high-growth economic hubs is more important than building sequentially from fundamentals. It is better, in this world-view, to wire some of the country with fiber-optics instead of patiently waiting to wire everything with copper first. An innovative society (just think of Silicon Valley's constant starting and ending of new firms) allows for a climate in which experimentation and failure are acceptable. This leads to a productive dynamism that allows crucial economic sectors to morph, change and survive the shocks of development. Two ideas of Deng are important here. The first is that experimentation and failure are okay. The second is that one of the truisms of development is that the results of policy actions are usually unpredictable. This kind of collective energy for fast, forward-leaning change has, after all, more often than not torn China apart in the past. This argues in favour of some degree of state control so bad experiments can be turned off before they cause too much damage.

"Green Cat, Transparent Cat"

If innovation is at the heart of the first theorem of the Beijing Consensus, the second theorem is about trying to create an environment for development that is sustainable and equitable. The problems that capitalism has created in China in the last 20 years have prompted Chinese planners and leaders to push for a new kind of "coordinated" economic development. The only publicly-released document from the 2003 3rd Plenary Session of the Party Congress carried the unusually revealing title: "Several Issues in Perfecting The Socialist Market Economy." The emphasis being on "Perfecting" not "Market".³²

In recent months party officials can be found giving speeches nearly every week talking about the need to transform China's mode of development, to worry more about sustainability, to reach out to those who've been left behind by reform. Where the front page of *People's Daily* used to be characterized by images of top leaders opening airports in coastal cities, the paper is now more likely to carry a report of a top leader urging reform in some poor rural area. This is not to say the party has left its passion for growth and modernisation behind. The challenge to quadruple GDP by 2020, a goal achievable only with innovation, remains in force. But balanced development is now a central concern. While ten years ago Beijing intellectuals were

³² <http://www.people.com.cn/GB/shizheng/1024/2133923.html>.

consuming books about market economics, a sample of the top three selling books at Beida's bookstore today are about the *quality* of national development: a discourse on poor Western China, an examination of the implications of a weak public health and a discussion of the need for trust in a changing society. "How do your growth plans look," I recently asked a group of planners in Northeastern China. "More complicated than before," they said. "We used to just worry about GDP growth. That was easy. Now we worry about much more."

The arrival of China's fourth-generation leaders Hu Jintao and Wen Jiabao in the fall of 2003 brought with it an end to the agonizing left-right intellectual debate about whether or not to marketise China's economy. (As recently as 1997, government planners had to fight off a rear-guard conservative attempt to slow marketisation, on both stability and political grounds³³). But now that marketisation is firmly in place, transforming the character of China's model of growth has become an urgent concern. This is not only because of the social risks of uneven development. Without a change to a more sustainable growth model, China's economy is likely to sputter out, choked off by a shortage of resources and hampered by corruption and pollution. "If our growth mode is not changed," Ma Kai said this spring, "our growth cannot be sustained."

This new view is apparent in the way Chinese thinkers are starting to measure growth. Tsinghua economist Hu Angang, among others, now disdainfully labels GDP growth, the *sine qua non* of Washington Consensus physics, "black GDP growth." He takes China's impressive black GDP numbers and subtracts off the terrific costs of environmental destruction to measure "green GDP growth". Then Hu nets out China's corruption costs to measure "clean GDP." This, he says, is how China should measure progress. "It doesn't matter if the cat is black or white," Deng Xiaoping famously observed in one of his early speeches on economic reform. "All that matters is that it catches mice." But Hu's GDP tools, which I've heard leaders all over the country begin to talk about, reflects the government's new belief: the color of the cat *does* matter. The goal now is to find a cat that is green, a cat that is transparent.

This approach also highlights the country's ongoing obsession

³³ This attack was strengthened by the United States' negotiating position over Chinese WTO accession, handled in such a way that many Chinese conservatives felt Premier Zhu Rongji had been "humiliated" by the United States when talks broke down in 1999. China's particular sensitivity for issues of national humiliation is an often missed marker by foreigners when dealing with China. This is discussed at greater length in Chapter Four.

with stability, a recognition that pollution and corruption are toxic social forces. If you carve the last 200 years of Chinese history into five-year blocks, you find some kind of massive social upheaval every five years.³⁴ In the mid-1980s a group of Chinese economists commenced a massive study of the most important factors linked to economic growth. They told party leaders that stability was the single most important element for economic growth. When asked in a recent survey where stability ranked as a social value, Chinese ranked it number two. The average position of stability among other nations' citizens was 23.³⁵

The pursuit of stable reform itself now serves as one of the regime's major claims to its monopoly on power, a shift from regime justification based on ideology to one based on competence³⁶. "You know we are often chastised about human rights or democracy," one of the most influential of China's current top leaders told me. "But frankly, if we pull 1.3 billion people up out of poverty, that will be one of the greatest accomplishments in the history of mankind. We will work on the other things. But, really, I have to tell you that I think lifting 1.3 billion people out of poverty is enough for my lifetime." Stability is a prerequisite for this. After the 1989 movement, China's cycle of chaos seems to have been arrested. This focus on stability at all costs explains, to some degree, the government's decision-making around the 1989 Tiananmen incident. However, 1989 also brought the final end of Deng-era experiments with removing the party from the government (*dang zheng fankai*), an effort that has not been restarted and is, even in an era of open discussion of ideas, revealingly considered unfashionable.³⁷

China's market dynamism has brought all sorts of problems. On the macro level these problems include pollution, social instability, corruption, mistrust of the government and unemployment. On a personal level, all but the youngest of Chinese find themselves at least somewhat disoriented by the rapid change in their lives. Opinion polls show a deep vein of hope in Chinese society, but also a persistent sense of worry. In the last 25 years, China's economy has moved from one of the most equitable in the world in terms of income distribution to one of the most inequitable³⁸. "Now that the issue of getting enough food and clothing for over 1 billion people has been

³⁴ I am indebted to Fred Hu for this observation.

³⁵ 2003 Roper Survey of Global Attitudes.

³⁶ See Susan L. Shirk (1993) "The Political Logic of Economic Reform in China" Berkeley" University of CA press, p. 23.

³⁷ Deng Xiaoping, The Selected Works of Deng Xiaoping: 1975-1982

³⁸ World Bank, (2003) Gini Coefficient Study.

solved," Wang Mengkui, president of the Development Research Centre of the State Council said recently, "this has provided a new starting point for China's development...The former notion of development, which advocated pulling out all the stops at whatever cost to provide enough food and clothing for the Chinese people, has to be adjusted accordingly."³⁹

To some degree this desire for balanced development can be seen as a luxury of China's recent macro-economic stability, a perk of 10% a year growth. But it is easy to see why in an era of increasing skepticism about globalisation, a model that talks about balanced growth and self-reliance is appealing to other nations. We are about to turn to a discussion of how the Beijing Consensus is spreading, but before leaving this history of the idea it is worth noting one philosophical implication of the BJC rules of equity and innovation. Chinese "new left" thinkers such Wang Hui have observed that the new Chinese physics can be regarded not simply as a rejection of the "old ways" of development, but more profoundly as a rejection of monopoly control. Monopoly control of knowledge, of innovation, and of ideas is seen as toxic. This raises, inevitably, the question of the future of monopoly control of power.

Globalisation with Chinese Characteristics: The Energy Transfer Problem

Not too long ago I was sitting with the development minister of

³⁹ Wang Mengkui, "China's Policy Options for an All-round, Balanced and Sustainable Development", Keynote speech at "China Development Forum 2004", March 2004.

a South East Asian nation. The country is widely considered a bit of a success story, moving upwards despite some difficult times. As our time together was running down, he put aside his cup of tea and plaintively asked a colleague of mine, a developing economy veteran, "Why is our experience so different from China's? We are like them. We have low cost labour. Our political system is strong. What are we doing wrong?" The question was a familiar one. All around Asia, and increasingly around the world, you stumble on anecdotes of nations examining China's rise and trying to see what pieces of this miracle they might make manifest in their own land. Vietnam, which 25 years ago was at war with China, now has scholars studying Jiang's *Three Represents* theory, hunting for some clues that could help them with development. Hanoi's newly-minted economic mantra could be lifted from one of Deng's late 1970s' speeches: "Stability, development, reform."⁴⁰ The World Bank has convened a Beijing conference on the theme "What other countries can learn from China". And charismatic developing leaders from Brazil's Lula to Thailand's Thaksin approvingly nod towards Beijing, when they are not sending delegations on study and research trips. "China's robust economic performance," explains WTO head Supachai Panitchpakdi, "should be a source of inspiration for other developing countries."⁴¹ China's trade-based strategy of the 1990s to take its businesses global (*zou chuqu*) is now a mission to take its ideas global as well, to bring the Beijing Consensus into the lively intellectual marketplace.⁴² As one Chinese scholar recently observed, "The 'go global' opening-up strategy is not only of significant economic implications but of significant political dimensions. Hegemonism and power politics remain in today's world. Developing nations are the main force of countering against hegemonism and safeguarding world peace." This sort of analysis clarifies why the energy of a Chinese rise inherently changes the international order, as much as many policy makers inside and outside of China might wish it did not.

Before we can turn to the final discussion of how to handle China's rise, we need to discuss what makes Beijing's model attractive to other nations, the intellectual charisma of the Beijing Consensus. You might think of this as an energy transfer problem, a concept familiar from high-school physics ("What happens when two things collide?") and from development economics ("We give them good ideas. Nothing happens."). We've

⁴⁰ Teo Chu Cheow, Eric, "China Lights Vietnam's Path" from the *Japan Times*, January 11, 2004. Accessed at <http://www.japantimes.co.jp/cgi-bin/getarticle.pl5?eo20040112a1.htm>

⁴¹ DG SUPACHAI PANITCHPAKDI, "Putting the Doha Development Agenda Back on Track: Why it Matters to China", WTO and China: 2003 Beijing International Forum, Beijing, 10 November 2003, http://www.wto.org/english/news_e/spsp_e/spsp19_e.htm

⁴² "Zou chu qu" was introduced at the 14th Party Congress.

already examined some of the ideas at the core of the Beijing model of development, ideas based on getting high-leverage power from innovation and equity. Now we'll examine how those ideas are rippling around the world, enhancing China's power even as they provide other nations with ideas for their own development. As we'll see, China spreads its energy in three ways. This first is that as a reaction to old-style Washington ideas about development the Beijing Consensus has a certain kinetic energy of recoil. Second, because of China's unique demands for localisation, China's new physics involves a kind of chain-reaction of indigineous growth wherever it is copied. Finally, China's economic rise, which can make or break the fortunes of other trade-dependent nations, serves like a magnet working on grains of iron to align other nations economic interests with the Middle Kingdom's. The final appeal of the China model - the appeal of the Beijing Consensus security doctrine - is a subject important and complex enough that I tackle it separately in the next chapter. Based on the notion of asymmetric defense and a philosophy that "all nations are created equal, with no distinction between big or small", it offers many nations the hope of true national independence of action.⁴³

For both reasons of national pride and security, China wants to project its model abroad. Passing along the energy of national development is not entirely accidental. "Don't regard China's integration of itself into the international system and its initiative to develop cooperation with Western countries as seeking recognition from the West", Chinese planners have written. "In fact, this is a course of mutual recognition. The process of our contact with the West is a process of trying to let them understand China, as well as a process of influencing them to some extent."⁴⁴ If China wants to follow its own path, to achieve a Peaceful Rise, it is crucially important that it get other nations to buy into the world-view it proposes. Acknowledging this is essential for understanding how to deal with China, a problem we will return to later.

Recoil Energy: The Suitability Test

It is tempting to start an analysis of the Beijing Consensus by simply observing where it rejects Washington Consensus ideas, to assert that it gets its energy, Toynbee-style, in a fierce rebound from the last decade's failed policies. Economist John Williamson's initial 1990 ideas, the ten points that laid the

⁴³ See for instance, "Premier Reiterates Every Country Equal" at english. peopledaily.com.cn/200311/07/eng20031107_127850.shtml

⁴⁴ See "The Choice of China's Diplomatic Strategy", Mar 19, 2003 *People's Daily*.

foundation for the Washington Consensus, included everything from fiscal discipline to deregulation, openness to FDI and competitive exchange rates. Williamson, then working at the World Bank, originally compiled this list as a framework for understanding Latin America's chronically disastrous debt workouts, so it's no wonder it doesn't really apply in China⁴⁵. Williamson was fairly shocked to see his list being applied globally in the 1990s in places as diverse as Indonesia and Kazakhstan. The reason his list, quickly labeled the Washington Consensus, seemed sexy and useful at the time was that it was a perfect guide to making an economy attractive to foreign capital. It was exactly what it was written to be, a banker's list of dream conditions for development. It had little to do with directly improving people's lives. At the end of the day, the model failed a basic test of suitability for most countries.

It is easy to see how in the immediate post-Cold War period countries, used to snapping in allegiance to Washington simply pivoted from cold-war military alignment to millennial economic alignment. It is also easy to see how poor the results have been. The two countries which most pointedly ignored the Consensus - India and China - have economic records that speak for themselves. Washington Consensus diehards like Argentina and Indonesia also have paid social and fiscal bills that show that the idea failed the most basic Newtonian physics challenge: will it work everywhere? Yet, what is most notable about the Beijing Consensus is not its departure from Washington Consensus values, but rather that it begins its analysis of the problem from a whole different place: the individual. Williamson wrote out of empathy with the bankers. Beijing thinks, when it is its best self, out of empathy with citizens stuck in an environment of failed development. You can imagine which approach is more useful and compelling. You can also imagine why Beijing's other instinct, to think in terms of regime preservation and control, is such a noxious problem to citizens who have begun to hope for more.

Creating an environment where testing and failure is acceptable has involved the creation of a new compact between citizen and government. It has involved trying - not always with success - to give more power to individuals, so they can speak up when change happens too fast and so they can take the responsibility for change into their own hands. It's a bit strange at first to think of the current Chinese revolution as one founded in any way on the individual. So it helps to frame the issue more in terms of citizenship than individuality. China, after all, is

⁴⁵ Williamson, John (1990) "What Washington Means by Policy Reform" *Latin American Adjustment: How Much Has Happened?* (Washington, DC: Institute for International Economics,) April 1990.

a famously collective society, a place where individualism is ranked behind a long list of social and family obligations. Yet individualism has a home in Chinese thinking and explains a great deal about the way modern Chinese elites, many self-made men and women who relied on *individual* moral, intellectual and physical strength to withstand the trials of the last fifty years, currently see their country developing.

One Asian head of state told me recently that Chinese scholars who had come to study his country's democratic system had come away with one lesson: to stay in power the party must be close to the people. This has already been expressed in Hu's so-called "san ge tiejin" (three closenesses), a careful refinement of Jiang's "san ge daibiao": to be close to reality, close to the people and close to life. The goal of this new view of citizenship and governance is to liberate millions of Chinese to work, plan and self-organise while still keeping China's massive, turbulent society glued together. And, of course, to keep the Party in power. Party officials have carefully studied the fall of one-party powers like Mexico's PRI and Taiwan's KMT. This is sensible, pragmatic politics. But the idea of creating an environment where bottom-up development can work is far more important. It suggests both the value and the possibility of combining the virtues of self-organising market chaos with sensible, evolving constraints.

The Localisation Lemma: Culture's Chain Reaction

One of the commonplaces about Chinese society is the deep, unshakable strength of Chinese culture. It's a kind of supernatural instance, really, when you consider how well core Chinese values have withstood the fury of the last one hundred and fifty years. Some Chinese values have been shattered, most notably the old arrogance of China's technical superiority - and shattered with incredible consequences, a total reversal of instinct. But other Chinese values, from aesthetic considerations to the complex emotional ties of family and friendship, have survived intense, sustained and direct assaults. China is still struggling with its own recent history. But it reveals something that, among the limited criticism that has emerged, is a belief that in the words of many Chinese, perhaps the greatest error of the Cultural Revolution was that it was a revolution against Chinese culture.

One only need travel around the rest of Asia to see the degree to which Chinese culture has entered into almost every piece of people's lives, from what they eat to how they talk to their parents and children. The power and resilience of China's culture emerges from China's history and Asia's present. Over and over again foreigners have invaded China. And over time the invaders are inevitably infected by China's culture: they begin speaking Mandarin, eating Chinese food, slipping into Chinese

cultural patterns. When Mongols invaded Beijing in 1215, their troops were resolutely intent on not becoming sickened by what they regarded as Chinese laziness. They quarantined themselves by setting up a tent city in Beijing and limiting their interaction with the Han Chinese. They refused to teach their children the local dialect, stuck with the old pagan religion they brought with them and pretended in most respects like they were back home on the steppes. No luck. Within two generations they were fully assimilated into Chinese life. The Manchurians suffered the same fate.

There are many theories about why the Chinese culture is so strong, a subject far too complicated for engagement here. But the implications are not beyond our immediate scope, and they can best be summarized by the Chinese insistence on localisation of ideas, products and ways of life. Nothing can be absorbed in China without localisation. This was why Mao invested years of his life trying to figure out what "Communism with Chinese Characteristics" looked like. Straight Leninist thinking was no more suitable to China than knives and forks. This passion for Chinese flavour is why everything from ATMs (which greet users with little Chinese songs and pictures) to pagoda-like skyscrapers reflect some elements of Chinese culture. It is why Channel V, the local music station which plays mostly Chinese artists, is drubbing MTV's more international programming. China doesn't want to copy the rest of the world. It wants, in Deng's words, to combine Chinese ideas with Western learning. The idea that Chinese are all striving for "the American Way of Life," as Richard Madsen has observed, is a dangerous misconception⁴⁶. They are striving to make "The Chinese Way of Life". As a result, Chinese development has a certain kind of prideful, internal energy that helps the nations' confidence.

This passion for localisation emerges in the most unlikely places. Most countries, for instance, would just be happy to have the technological wherewithal to get a man into space. China's scientists insisted that the country's first orbital mission be flavoured to Chinese taste. In their mission control centre, computers and displays were complimented by Chinese tea cozies, good-luck copper and gold plates and little red fortune strings. As he orbited, *taikonaut* Yang Liwei proudly munched on *yu xiang rousi* (fish flavoured sliced pork). To the Chinese, the intellectual debates of the 1990s on the theme of "Does Culture Matter" are a waste of energy. Of course it does, they say. At times this pride of culture leads to narrowness in Chinese society; at other times it leads to breathtaking breadth of

⁴⁶ Madsen, Richard (2003) "One Country: Three Systems: State-Society Relations in the Post-Jiang Era" in "China After Jiang" eds. Gang Lin and Xiaobo Hu. Stanford University 2003, p. 91.

vision and courage. What it has done most importantly at the moment is to ensure that the Chinese want to control, localize and administer their own global future. This has instinctively set them up against the kind of mail-order prescriptions of the Washington Consensus and distanced them from the whole history of first-world economic advice. Beijing is determined to find its own route.

The result has been a path to development which has not only been very different from the Washington Consensus, but that offers a vision for how technological globalisation changes things that is far more nuanced and frankly useful than much of what is sent out from Washington or Geneva. For China the main point of reference is and has been China itself. You might think of this as an axiom that says: the future begins at home. In China there has always been a deep distrust of globalisation. Political philosopher Wang Hui argues compellingly that the events of 1989 were philosophical cousins of the Seattle protests 10 years later, an expression of concerns about the costs of a marketised economy and the pressures of globalisation.

China, once intent on practicing "Communism with Chinese Characteristics", is now intent on practicing Globalisation with Chinese Characteristics. This helps sell Beijing physics outside of China. When Brazil's President Lula announced plans to visit Beijing, his office pointedly noted that it wasn't only economic ties that attracted him. "An interest in social themes also appeared," a spokesman said of Lula's gaze to China. "In projects that have as their direct object the improvement of people's lives."⁴⁷ Lula's frustration with American and EU trade ideas leads him inevitably to his hope to change the "geografia comercial del mundo," the commercial layout of the world. "Either we believe in ourselves or we keep crying for the end of agricultural subsidies," he says⁴⁸, in his own version of trying to begin reform at home. But this is not a rehash of 1970s era pushes to autarky. Rather, part of the appeal of the Beijing Consensus is that it fits into the prevailing worries about globalisation by offering another path, one where integration of global ideas is first rigorously gut-checked against the demands of local suitability. When this works, it has the effect of making local culture support development. Of course, this still demands that the powerful forces of innovation and equity be brought in as a balance to corrupt, unbalanced and lethargic local cultures. But the dynamic balance between invention and

⁴⁷ Brazil Foreign Ministry Announcement, March 23, 2004, on FinanceOneNet at www.financeone.com.br/noticia.php?prv = afl-paulo&lang = br&nid = 9660

⁴⁸ Various press coverage of Lula address during January 2004 trip to India. See, for instance, <http://archives.econ.utah.edu/archives/marxism/2004w05/msg00053.htm>

tradition is like the stabilised energy transfer between atoms in a reactor. The challenge of managing this balance is immense, but properly handled it can produce the renewable fuel of self-confidence.⁴⁹ China's model of special economic zones, which jammed innovation into hide-bound parts of the country, have been copied around the world as a way to both offset the power of globalisation while taking advantage of new ideas. Mexico, for instance, is now retooling its border development plans, trying to protect the cultural and lifestyle values of citizens even as they engage with the U.S. economy. President Vicente Fox's description of this approach sounds nearly Dengist, like Globalisation with Mexican characteristics.

The Yuan Magnet

If you are the President of Brazil or Chile or any number of other places, you simply would not have economic hope without China. In the first eleven months of 2003, Brazil's exports to China surged 81 percent, to \$4.23 billion. China's EU imports nearly doubled from 1999 to 2002. In Germany, exports to China rose nearly 30% in the first 10 months of 2003 alone - that includes two months of SARS-induced economic coma. Other Asian countries exported 50 percent more to China in 2003. China has become second only to the US as an importer of commodities and goods from Latin America and Asia and the country's growth is supporting global markets for steel, oil and other raw materials. What nations as diverse as Chile and Indonesia now have in common is economic reliance on Beijing. This isn't accidental. China knows the value of its economic power and when, for example, Beijing announces its intention to buy into the Inter-American Development Bank this represents foreign policy as much as economic doctrine.

The implications of this are straightforward. To begin with, these links help create a global economic climate where supporting China's growth is in the interest of billions of non-Chinese. Brazilian farmers working overtime in their fields (to help meet China demand the country added enough soybean crops to cover an area the size of Israel this year), Chilean copper miners (the 71percent profit jump at state-owned Codelco was attributed to China demand), and Singaporean software programmers (exports up 32 percent in 2003) all get paychecks that could just as well be Renminbi-denominated.⁵⁰

⁴⁹ This is not to say it will deliver this. You could make the same arguments about Marxism at any point in history, or about the Washington Consensus itself. This paper is not an efficacy argument. Rather, it is an observation of Beijing's growing power of example.

⁵⁰ Smith, Michael and Prakash, Amit "China Makes New Friends in the Developing World," IHT, Jan 13,

The situation has also helped establish an ever-tighter alignment between the economic interests of China and other developing countries. When US trade talks in Mexico collapsed in 2003, Brazilian president Luiz Inacio Lula de Silva and other Latin American leaders' first call was to China for support in jawboning the US to adjust its agricultural policies. Beijing complied, demonstrating a new willingness to push the values of the BJC on behalf of other countries. China's proposal to create an Asian Free Trade area by 2010 will cement this connection between developing countries in Asia and the mainland. Chinese thinkers have noted the potential of such an area to reduce dependency on the US as a major trading partner.⁵¹ Outside of Asia, Chinese planners are even pushing into Africa. At a recent Addis Ababa conference, they announced hopes of doubling Africa-China trade over the next three years.⁵²

This idea of a "new road" is at the heart of Chinese thinking about their own development path, but only now is it becoming apparent that the new road is attracting other countries. Other nations have tried to forge new paths. Since the late 1990s, Malaysians have been following GEM (Growth with Equity Model); Koreans are pursuing the KBE (Knowledge Based Economy Master Plan). But China's size and success have given it a unique prominence, one that the Chinese themselves may not fully realise. As Ramgopal Agarwala, an Indian sociologist, observed recently, "China's successful experiment should be the most admired in human history. Other countries should respect and learn from her."⁵³ Moreover, he suggested, "China sometimes even seems to believe Western propaganda and credit Western ways for its success. But actually China has its own path, worth studying." The source of this observation, an Indian thinker, is notable given the tensions between the two countries. But the two nations share many things, most powerfully the last piece of the Beijing Consensus puzzle, a desire for control of their national destiny. This is what I will tackle next.

Just Say No, Just Say Yes

China is in the process of building the largest asymmetric superpower in history⁵⁴. Rather than building a US-style power, bris-

2004, page B3.

⁵¹ 12 "ASEAN-China Free-Trade Plan to Create 'Double Win'," *People's Daily*, February 13, 2003, <http://fpeng.peopledaily.com.cn/200202/13>.

⁵² See Ministry of Foreign Affairs report on China-Africa Trade and "Forum on China-Africa Cooperation" at <http://www.fmprc.gov.cn/eng/topics/Second/t57032.htm>

⁵³ Ramgopal Agarwala, (2002) *The Rise of China: Threat or Opportunity*, New Delhi, Bookweel Books.

⁵⁴ As I have noted before, China is still struggling linguistically to keep up with the demands of its new place in the world. One of the examples of this is the trouble Chinese strategists have with the word superpower (chaoji daguo) which they see as having negative connotations. While they are comfortable referring to China as a great power (daguo), particularly when talking historically, they will only concede that, at the moment,

ting with arms and intolerant of other world views, China's emerging power is based on the example of their own model, the strength of their economic position and their rigid defense of the Westphalian system of national sovereignty. This is a surprising development, and one that has taken Washington off-guard, to the extent Washington realises it has happened.⁵⁵ After all, China was supposed to have its hands full with its own development. But China is a more admired moral example in some corners of the world than the US at the moment.⁵⁶ And the country is intent on becoming an ever-larger strategic power as well, in terms of their influence over critical global areas like economics, proliferation and even regional basing of U.S. troops.⁵⁷ Moreover, China's message to other countries is a simple lesson in leverage physics, in the importance of building asymmetric power. The clear moral of the last decade is that if you want freedom of action you must either be irrelevant to the U.S. or have some kind of leverage to pry free the hand of U.S. military might. Not everyone can be a superpower. Not everyone needs to be. The Beijing Consensus, a security revolution that is multi-lateral but also well-defended, at least offers the hope that every nation can be a power in its own right. Perhaps not powerful enough for domination, but at least strong enough for self-determination.

Chinese strategists now feel some kind of strategic leverage is a must for their continued development. Unlike Deng-era foreign policy, which was guided by the idea that China should "hide its brightness", Hu-era policy is already defined by an awareness

China might be a little less powerful than France. I use the term with this problem fully in mind, as a way to draw a line between China's little-power view of itself and the responsibilities and challenges it now faces. Chinese strategists worry that assuming superpower status will detract from the development challenges the country still faces. This is true in some respect, but in fact just creates another policy challenge for Chinese planners who now need to combine the image of an influential nation with a still-developing nation in their own minds.

⁵⁵ White House officials were privately abashed and confused by the difference in the reception of President Bush and President Hu during trips to Australia in the fall of 2003. Hu was greeted with cheers, Bush with protests and jeering.

⁵⁶ Perlez, Jane, "The Charm From Beijing", *New York Times*, Oct. 9, 2003. See Jane Perlez *Times* piece; astonishment of US officials about difference in reception of Hu and Bush in Asia in all tours.

⁵⁷ Chinese strategists increasingly make the distinction between grand strategy (da zhanlue), strategy (zhanlue), operational strategy and tactics. The country remains decades away from being a tactical or operational threat to the U.S. except in very limited combat spaces like Taiwan. Some authors are quick to note that in China the study of grand strategy is relatively new, but that the idea is actually nicely in harmony with traditional Chinese ideas of power balancing. The Jiang school's recent attempts to bring "Three Represents Theory" to the world of foreign policy demonstrates how awkward this still is for many Chinese thinkers. However this attention to grand strategy is a notable development because of the legendary Maoist focus on tactics to the exclusion of worry about grand strategy that still operates in some corners of Chinese military thinking.

of China's place in the world. This is yet another increasingly well-discussed part of the Beijing Consensus. While Mao worked under a strategic assumption of *zhanzheng yu geming* (war and revolution), Deng generally avoided conflict in favour of development, with a foreign affairs doctrine of *heping yu fazhan* (peace and development). Jiang had an evolved version of Deng: *zengjia xinren, jianshao mafan, fazhan hezuo, bu gao duikang* – (build trust, decrease trouble, develop cooperation and avoid confrontation.) Yet Chinese strategists clearly feel a new doctrine is necessary, one that gives them tools of self-determination without the political or economic costs of a massive buildup. The goal for the Chinese is not conflict, but the avoidance of conflict. This is a doctrine that sometimes confuses U.S. thinkers, who are looking for signs of a China "threat", but it reflects a deeply held Chinese belief that armed conflict is an indication of failure. True success in strategic issues involves manipulating a situation so effectively that the outcome is inevitably in the favour of Chinese interests. This emerges from the oldest Chinese strategic thinker, SunZi, who argues that "every battle is won or lost before it is ever fought."

It is essential to think of the Chinese asymmetric strategic and military push as an attempt to acquire the power to avoid conflict. This can be done with different tools than a power base that is situated, as the expensive U.S. military apparatus is, on using violence to handle dangerous exigencies as they emerge. China's goal is to tackle problems before they arise. This is clear, for example, in the Chinese instinct towards multilateralism, a sense that good relations with many other big countries will make it harder for the U.S. to treat China as an enemy and will also let China have more influence in stopping conflicts before they emerge. A study commissioned in for the CPC in the fall of 2004 examined the rise and fall of great powers over the last 500 years. The conclusion: the best way to ensure a continued rise is a peaceful international environment. So how does building an asymmetric super power fit this idea? Why not just enjoy a "peaceful rise", as Zheng Bijian, one of China's most important policy thinkers, calls China's vision⁵⁸? In fact, without these security guarantees, a peaceful rise would be difficult. (Even with them, it may be challenging.) China needs a stable local environment for growth, and this can only be achieved through engagement.

The desire for the power for self-determination also lies partly in Chinese uncertainty about U.S. intentions. On a long list of issues China and the U.S. have fundamental conflicts. There is a sharp debate inside Chinese policy circles about whether or

⁵⁸ *New Path for China's Peaceful Rise and the Future of Asia*, speech by Zheng Bijian to Boao Forum for Asia Annual Conference 2003, Nov 3, 2003.

not the U.S. will "allow" China to rise. Official Chinese policy will try to mask these conflicts in the interest of good Sino-U.S. relations, but behind that façade, lies this calculation: It is important, Chinese planners write, "for us to master the art of keeping a proper distance and propriety in U.S.-China relations."⁵⁹ And, they warn, "We should not place unduly high expectations of the economic interdependence between China and the United States. There is an area of misunderstanding which makes it seem that China's vast market has a very big holding force to US policies, and which holds that as long as we emphasize economic cooperation and exchange, we can sleep in peace. In fact, the economic interdependence between China and the United States is not reciprocal."⁶⁰

China U.S. relations are complex, but they are no longer the absolute centre of China's foreign relations, as they were under Jiang Zemin's leadership. This is another sign of how quickly China is changing its own sense of the world. To some extent this reflects Beijing's desire for a more "comprehensive" global security strategy. What researcher Chu Shulong has called "the Chinese search for its own security strategy and the structure of Asia-Pacific regional security for the long-term future."⁶¹ Yet this broader view also has roots in increasing ambivalence by Chinese planners about U.S. intentions.

In some quarters the U.S. war on terror is seen as a threat to China, with the U.S. regional military build up labeled as Washington "pretending to advance along one path while secretly going on another," a classic Chinese military tactic.⁶² The war on terror, from this vantage, is simply a screen for the establishment of a more global, more limber and more lethal U.S. force posture that increasingly encircles and constrains China. An alternative view is that the War on Terror is good for China in that it distracts the U.S. from the anti-China planning that filled U.S. military conversations pre-9/11.

China's desire for a peaceful rise depends of course on the U.S. willingness to cooperate with that plan. And to the extent a more powerful China challenges the status quo - not least through the spread of its influence and the Beijing Consensus - it represents a threat to realist U.S. thinkers. Chinese planners are already positing a new world order. The country's so-called New Security

⁵⁹ "The Choice of China's Diplomatic Strategy," as above.

⁶⁰ "The Choice of China's Diplomatic Strategy," as above.

⁶¹ Chu Shulong, "China and the U.S.-Japan, U.S.-ROK Alliances in A Changing Northeast Asia," (unpublished paper presented at a conference on America's Alliances with Japan and Korea in a changing Northeast Asia, Stanford University, 20-22 August 1998) p. 12.

⁶² See "The Choice of China's Diplomatic Strategy", Mar 19, 2003 *People's Daily*.

Concept, introduced in 1997 at an ASEAN meeting and refined in 2002, formalizes this Sino-U.S. difference⁶³. Chu Shulong calls the heart of the NSC, which was endorsed publicly by Hu Jintao in April of 2004 "the Four No's," which read like a manifesto for multi-polarity: No hegemonism, no power politics, no alliances and no arms races. It's like a Chinese Monroe Doctrine⁶⁴. Notably, of course, the US model fails every single one of these tests. Some Chinese strategists openly discuss the model as an alternative to "Cold-war thinking" that they see coming from the U.S. A suggestion to revise U.S. aims to fit the Chinese model might seem absurd to U.S. planners, but the idea is appealing to other nations. That alone may force Washington to re-examine its policies.

An Uneasy Decade

To the extent that security issues like these took a back seat to pure development in the 1990s, it was a reflection of the noble hope that the end of the Cold War had brought a moment at which the answers to the great problems that both gird nations and divide them from one another had arrived. They had not. Implicit in the Washington Consensus were the heartily debatable values of democratic peace theory, which argued that the universal presence of democratic capitalism was a salve for conflict. So the focus of international security thinking - much to the discomfort of constituencies as diverse as the Burmese government, foreign policy experts in Beijing, Osama Bin Laden and the European right-wing opposition - shifted to the idea of openness and marketisation.

A U.S.-dominated millennial paradise, marked by a disdain for international agreements, never had much appeal in Beijing. Starting with the first Gulf War, Beijing's military and international affairs establishment began to be quite nervous about the problem of Chinese security. It was clear that China had emerged from the Cold War with a military apparatus vastly

⁶³ The formal elements of the NSC, introduced by Jiang Zemin in a speech to German policy leaders are: "Cold War-era views should be abandoned. Confidence building is the foundation of security. Economic and trade cooperation should enhance security and vice versa. A regional collective security system should be established to fight international terrorism and crimes. A fair and reasonable international order should be established." See summary in Ling, Xing-guang 2002 "China's New Peace Strategy", *Japan Times*, Nov. 17, 2002.

⁶⁴ The comparison with the Monroe Doctrine here is meant to evoke the idea of the doctrine as a guiding foreign policy theory. I make this observation here because Chinese planners and scholars severely dislike any comparisons to the Monroe Doctrine, which they regard as a tool of U.S. hegemony. A New York Times article that suggested China was worrying about its regional area with a Monroe-like approach elicited a furious response. See Pang Zhongying, 2003. "Developing an Asian partnership" 2003-11-04 China Daily Accessed at www1.chinadaily.com.cn/en/doc/2003-11/04/content_278069.htm

inferior to that of the United States. The kinds of high-tech combined-arms tactics the Chinese saw on CNN in the early 1990s were both mystifying and not a little worrisome. Some of the ideas contained in U.S. battle doctrine did not even have descriptions in the Chinese language. The implicit message of Gulf I and later the U.S.-led Balkans wars was that military intervention in the internal affairs of other countries was one of the dividends of a world without a dynamic superpower balance. The revolution in military affairs that made this power-projection easier than in the past highlighted again the link between technology and power. Gulf II only solidified this sense. This was worrisome to Beijing. It reflected CCP leaders' worst fears about national defense and touched on the deepest strains of nationalism, a sensitivity to foreign military superiority that reached back to the Opium Wars.

Chinese strategists and officials will often tell you in conversation that the heart of all Chinese strategic thinking, and even Chinese development goals, is rooted in the humiliation of the Opium Wars, when China found itself helpless in front of British battleships. In a way, the Opium Wars are the prototypical moment of modern national military humiliation, and though leaders like Kim Jong Il and Muamar Kadaffhi may not explicitly recognize it, the Opium War experience is what they are trying to avoid. Beijing, however, does recognize this painful fact. Opium War-style conflicts - one sided, massive, overpowering and in the interest of one nation's aims - are the terror of a unipolar world. China has been obsessed with border control since before the time of the Great Wall. Even recent debates about the Internet in China are construed and discussed in terms of border security. But having watched the Soviet Union spend itself into implosion in the 1980s, Chinese security strategists also were quite aware that a sustained symmetrical arms race with the U.S. was an impossible and probably suicidal approach to self-defense. But if true national power relies not only on wealth, but also on an ability to defend yourself, how can China compete? The fact that China is trying to answer this question, one that vexes most of the world's nations, is another reason for the rising power of their example.

Security Step Changes

In the west there are generally three schools of thought about Chinese military modernisation, and to the extent that the military has been the most-watched instrument of security guarantees, these ideas provide a useful filter for looking at Chinese strategic doctrine. The first school of thought is that China's military modernisation is really of a third-order importance to Beijing's leadership. This argument says that the

country cannot afford to modernize its military to world-class standards and therefore will not make more than a token effort. Among the evidence cited by this school of thought is the overwhelming current emphasis on economic development in China, and the sense that in the absence of massive, imminent external threats, Chinese leaders make a cost-benefit calculation that every dollar spent for domestic stability is a far better investment for their ultimate goal of regime preservation. This idea is difficult to justify in practice. Not only has spending on the military in China steadily increased in the last few years of the reform era, but anyone with even a passing familiarity with recent Chinese history recognizes how intolerable military weakness is to Chinese leaders⁶⁵. The country is in the midst of a very rapid and massive military modernisation that many argue is out of proportion to its real defense needs. The often-quoted line that in traditional Chinese values military leaders are not respected, mistakes the role of the military and the importance of security in Chinese thinking. It is no accident that the most powerful job in the country is head of the state military commission, the one job Jiang Zemin retained after giving up the presidency and chairmanship of the Chinese Communist Party during the 2002-2003 power transfer to Hu Jintao.

The second school of thought argues for a limited Chinese revolution in military affairs. In this situation, the Chinese are seen as selecting a very specific goal to help push military modernisation. In this case, the government is viewed as using the potential of a conflict over Taiwan as a way to help modernize the People's Liberation Army. This school of thought argues that while China cannot afford a complete military modernisation, it can at least try to build a tactically sound army for a limited regional conflict. Given the importance of Taiwan to the regime and the people of China, this model of military development aims to create an armed forces capable of achieving 72-hour conventional-weapons dominance over Taiwan, faster than a U.S. Taiwan defense mobilization could take place. Some Chinese planners say that if China can find a way to strike quickly and secure control over the island before the U.S. is effectively engaged, they will be able to prevent U.S. engagement in the conflict short of non-conventional means: namely, the use of nuclear weapons, a step that the Chinese feel is extremely unlikely. This belief is rooted in the PRC's idea that it retains some nuclear retaliation capability and first-strike survivability⁶⁶. As one Chinese military officer explained heatedly

⁶⁵ China's Military Power, *Council on Foreign Relations Study*, May 23, 2003.

⁶⁶ See, for instance, Tompkins, Joanne (2003) "How U.S. Strategic Policy Is Changing China's Nuclear

to U.S. Ambassador Charles Freeman at the height of the 1995 Straits crisis, "You do not have the strategic leverage that you had in the 1950's when you threatened nuclear strikes on us. You were able to do that because we could not hit back. But if you hit us now, we can hit back. So you will not make those threats. In the end you care more about Los Angeles than you do about Taipei."⁶⁷

Ideally, in Chinese eyes, the establishment of 72-hour conventional superiority would remove the need for any sort of war, cold or hot, nuclear or not, since it would demonstrate to the Taiwanese that they have no choice but to submit to the policy Beijing has in mind. Thus the real aim of so called "local-war under high-tech conditions," is the rapid use of innovation to "war-proof " the immediate environment around China⁶⁸. (This is also an aim of China's "Good Neighbourliness" policy, which I will address below.) This is consistent with the larger strategic aims of the Beijing Consensus, i.e. assuring independence of action. It would establish new cross-straits power balance. It would, Beijing believes, manipulate the situation so that the outcome was inevitably in Beijing's favour. Taiwanese planners who discuss this theory suggest that China may have unquestioned 72 hour dominance in about 2010-2012, though they say that there is some evidence they may have a limited ability to achieve serious control over the straits and parts of the island by 2005. Avoiding being manipulated in this way is now a key tenet of Taiwanese pro-independence thinking. Chinese strategists who believe pro-independence forces in Taiwan will idly wait for that date to arrive may be guilty of wishful thinking.

What is appealing about this sort of targeted military strategy to Beijing is that it uses a particular objective, i.e. Taiwan, as a way to modernize the PLA. This is a common Chinese development tactic. In Beijing, for instance, the 2008 Olympics are seen not only as a gesture of national pride, but also as a vehicle for modernizing the city. Saying that you are doing a project so the 2008 Olympics runs smoothly removes many layers of bureaucratic friction. Saying that you are making a military

Plans" *Arms Control Today*, Jan/Feb 2003. I won't address here the fascinating question of the development of a Chinese nuclear use doctrine. Suffice it to say that the general consensus of both Chinese-based analysts and foreigners is that China's current nuclear doctrine is badly limited.

⁶⁷ Freeman, Chas (2001) "Did China Threaten to Bomb Los Angeles?" *Carnegie Proliferation Brief*, March 22, 2001, Vol 4. No. 4.

⁶⁸ An excellent summary of the three schools of Chinese military thought, though grouped in a slightly different fashion than mine, can be found in Li, Nan. 2002 "11 September and China: Opportunities, Challenges and Warfighting," *Singapore Institute of Defence and Strategic Studies Working Paper*, Number 32, September 2002, p. 17. "War proofing" is my term.

change to better cope with the Taiwan imbalance may have a similar effect. Moreover, all the things that would be necessary to meet the objective of 72-hour conventional control will be useful for the PLA in other spheres. Since the new capabilities would presumably include some amphibious assault tools, an enhancement of the PLA Air Force for offensive operations and an establishment of rapid-deployment brigades, a 72-hour compliant PLA would incidentally be a good match for whatever permanent U.S. assets are left in the region. Additional tools that are targeted to take out force-projection weapons like carrier battle groups represent another high-leverage investment, capable of forcing the U.S. to re-think its Asian military posture.

Another advantage of using the screen of preparing for Taiwan is that it allows the Chinese to continue to refine and develop their military without posing a direct threat to Japan, whose remilitarisation remains a concern in China⁶⁹ or the U.S., whose presence in Asia remains a source of real concern. As one scholar warily observed of the U.S.: "Even in 2002, when China supported the U.S. counter-terrorism war in Afghanistan, *The National Security Strategy of the United States* still said that China, with the purchase of advanced military capability, would threaten its neighbors in the Asia-Pacific area."⁷⁰ China's suspicions about US troop presence in Asia are well-documented, including comments by President Hu to the effect that China is "surrounded on four sides" by US forces⁷¹. Some Chinese analysts suggest that one of the ways that China is worse-off because of the U.S. war on terror is that it has led to increased deployments of US troops in and around central Asia, an area the Chinese see as their sphere of influence. (Other strategists, however, suggest the U.S. presence has been useful for stabilising two turbulent Chinese neighbors: Afghanistan and Pakistan.)

The third school of thought about the Chinese Revolution in Military Affairs (RMA) is quite different. It is also quite new, having emerged since September 11th and been given a boost towards credibility only since Gulf II⁷². The logic runs like this: China, as demonstrated by the study of both Gulf Wars and the Kosovo conflict, will be unable to develop military

⁶⁹ U.S.-Japan military relations are also widely watched in Beijing. This is particularly true as Chinese strategists think about the issue of U.S. basing rights and other problems in Asia. See Wang Xinsheng "Ri Mei Fangwei Hezuo Zhizhen' Xiangguan Faan He Yingxiang" (The relative acts and their effects regarding 'Guideline of US-Japan Relations' " http://cass.net.cn/chinese/s30_rbs/files/kycg/wangxinsheng.htm.

⁷⁰ Yan Xuetong 2004, p. 4.

⁷¹ Andrew Nathan and Bruce Gilley, *China's New Rulers: The Secret Files*. New York: New York Review Book, 2002. p. 207-209.

⁷² Chinese reaction to September 11th at the time was quite fragmented, but anecdotal by researchers such as Guo Liang suggest a strong popular sentiment in some circles of the U.S. having gotten its due. See Guo, Liang "September 11th: A study of Chinese Reaction on the Internet" Privately circulated paper.

resources to compete symmetrically with the United States for a long time, perhaps as long as 50 years. This realization comes after a decade of serious examination of how the country could try to find a military modernisation programme that would allow them to leap ahead faster than the slow timetable real RMA involves. But while there is no royal road to an aircraft carrier, Chinese planners have increasingly started to believe that it is possible to develop enough tools of asymmetric power projection to place both political and military limits on US action in Asia. Thus for them the lesson of 9/11 has not only been about the power of terrorism to harm China, but about the power of asymmetry to tackle a unipolar state. Moreover, some Chinese theorists are already arguing that the refinement and development of Chinese asymmetric power is the only way to achieve regional and global stability.⁷³

For China, asymmetry represents the most efficient way to deal with the incredibly complex security environment China inhabits. Asymmetry is a classic tool of choice for a great-power on a budget. The great virtue of the technology-obsessed society of China at the moment is that an innovative society, possessed of smart engineers and defined by infotech, is at a huge advantage in asymmetric warfare, in much the same way that the US had a huge advantage in WWII because of its massive industrial base. It hollows out suggestions, for instance, that the U.S. can bankrupt China with nuclear missile defense in the same way that Star Wars bankrupted the Soviet Union. China will innovate around any conceivable system (or simply be content to have the 200 or so MIRVed missiles needed to overcome it.)⁷⁴ There is absolutely fascinating work being done by Beijing and PLA researchers in the area of denying superiority to a more powerful opponent using asymmetrical techniques using what Chinese planners call an "assassin's mace" or "acupuncture warfare" that hits at precise, vulnerable spots⁷⁵. To cite a couple of examples, the PLA is working on technology that can simulate hundreds of radar signals at once, a way to overwhelm US anti-radiation missiles, whose use is an essential feature of US air superiority doctrine. This approach of developing "obscurants" and other technologies is notable not only because it is a natural

⁷³ Yan Xuetong (2003) "A Decade of Peace In East Asia" (Privately circulated paper).

⁷⁴ A fascinating indication of this sense of doing what it takes to hobble a multi-billion dollar system like NMD is given in Chinese discussion of MIRVing warheads with dummy warheads as a way to save money.

⁷⁵ This is an important linguistic observation that reflects traditional Chinese values about warfighting, i.e. a desire to move quickly and with stealth and surprise, as captured in Deng's statement that the Chinese military should be flexible. But it also has a practical, tactical effect which is that a slow build up for a non-secretive strike, think of it as Bully Taunting instead of Assassin's Mace, would likely force the U.S. into a public display of support for Taiwan and would give the ROC military a chance to build up its own force. It would also allow the international community to become engaged in a situation China would rather maintain control over.

combination of China's growing innovation superiority and its defense needs but also because it is easily exportable. Singaporean researcher Nan Li has compiled a list of many of the Chinese asymmetric innovations, which range from technologies to deny air access to cyber attacks. In almost every case, asymmetric weapons technology is far less expensive than weapons system or platform it is designed to offset.

Of course, China's strategic thinkers know that in the face of a full U.S. onslaught these systems would be of limited help. Should a massive engagement occur, the country would pivot back to an old Maoist vision of a people's war, fought in a new "battlespace". Even this evokes a new asymmetrical flavour, spiced by globalisation. As analyst Nan Li has written:

The "alternative battle space" concept smacks of the Maoist notion of people's war in two major ways. One is that such battle space may be dominated by the civilian actors, but not the military professionals. Second, this battle space may be less restricted by the rules of engagement and therefore more informal and non-conventional. This new, modified "people's war under globalisation conditions," however, is also different from the old people's war in two significant ways. One is that rather than the mobilised peasants, the "people" now range from the computer programmers, the journalists, to the financial speculators. Second, unlike the old people's war where the enemy would be lured deep into the familiar territory of the homeland, the new 'people's war' can be extended into the territory of the adversary.⁷⁶

This is, of course, where globalisation meets hegemony. For Beijing the benefits of a truly globalized, multi-lateral world include far more robust security guarantees, not simply in the form of loose strategic partnerships that might fracture under the stress of conflict, but through technology- and network-led force multipliers. Beijing's \$400 billion of U.S. currency reserves could do more damage to the U.S. than \$400 billion worth of aircraft carriers. These "assassin's maces", are an important part of the new Beijing Consensus on security. Not because Beijing is ambitious for territory or hegemony, an issue I will leave for others to debate, but because they provide the chance for true self-determination.

⁷⁶ Li, Nan. 2002 "11 September and China: Opportunities, Challenges and Warfighting." *Singapore Institute of Defence and Strategic Studies Working Paper*, Number 32, September 2002, page 21.

They offer environmental security. As such, they will be increasingly sought by other nations. A world full of countries copying Chinese asymmetric tactics presents a very different picture for the United States. Thus, the Beijing Consensus and the tired view of a "China Threat" are only reconcilable if you think that national self-determination is a threat to the U.S.

Command of the Commons

Another method of asymmetric force projection that emerges from the Beijing Consensus is an attempt to challenge the rigorous control of what U.S. strategist Barry Posen has called "The Commons": sea, space, and air. "The U.S. military currently possesses command of the global commons," Posen writes. "Command of the commons is analogous to command of the sea, or in Paul Kennedy's words, it is analogous to "naval mastery."⁷⁷ This command, Posen argues, is unlikely to be challenged for several decades.

Chinese strategists have different ideas. At the strategic level they are intent on making it more costly for the U.S. to control the commons. An essential element of the New Security Concept, for instance, is using ASEAN and other multi-lateral gatherings to lock-in guarantees against permitting military forces from outside the region access to basing rights during times of crisis.

But China is also working to build a peaceful local environment to assure its growth. This new doctrine places far less emphasis on China-U.S. relations than in the past, worrying instead about countries nearer to China. For the first time, the foreign ministry's 2003 year-in review noted, the country has an explicit Asian policy. China is now engaged in more than 40 regional and sub-regional Asian security and economics forums. Vice Foreign Minister Wang Yi labels this doctrine by recalling the Chinese phrase "Yuanjia buru jin leng": a far-away relative is less helpful than one living nearby.⁷⁸ The most obvious example of this is the country's engagement on the North Korean proliferation problem, but there are other examples. China, for instance, took an active role in mediating an increasingly difficult dispute between Cambodia and Thailand. "Thus China broke its traditional pattern," one Chinese summary of 2003 foreign affairs observed, "by actively reconciling two other nations."⁷⁹

⁷⁷ Posen, Barry R. (2003) "Command of the Commons: The Military. Foundation of U.S. Hegemony" *International Security*, Vol. 28, No. 1 (Summer 2003), p. 8.

⁷⁸ Wang Yi "Neighbourliness and Partnership" *Quishi* 2003 4/2.

⁷⁹ Xinhua, (2003) *Foreign Policy Review*.

This is China's new "Good Neighbourliness" policy, which is the tactical implementation of the New Security Concept. China, as Wang Yi and others have pointed out, faces the most complex surrounding geographical area of any major nation, with diverse economic, political and security situations and complex historical ties to China. So keeping the local environment tranquil is an essential pre-requisite for China's continued rise. The importance of this was highlighted by Wen Jiabao's linkage of China's rise and Asian development this past fall, his comment that China hoped to build a "prosperous neighborhood."⁸⁰ The Shanghai Cooperation Organization (SCO) shows this new strategy - and the tactics for bringing it alive. Step one for the SCO was to build the group, the first multilateral group China had started on its own Step two: expand it to discussions of trade, economics and energy. Step three: begin dialogue on more substantive security partnerships. The SCO has gone so far as to conduct its own joint-military maneuvers, in China's Xinjiang Autonomous region⁸¹. This approach of deepening regional multi-lateral ties will likely be repeated in other forums, such as ASEAN + 3 grouping (ASEAN plus Japan, Korea, and China).⁸² China has tried to engage its neighborhood on every front. To the north it has the Shanghai Cooperation, to the southeast with ASEAN + 1 and + 3, to the southwest through rapprochement with India and Pakistan, and to the northeast with its Korean efforts. These agreements are all framed by the goal of "Mutual Trust, Mutual Benefit, Equality and Coordination" (huxin huli, pingdeng xiezou), which again compares strikingly with current Washington practice.⁸³ It also compares strikingly with Beijing's distrust, as recently as 10 years ago, of multilateral organizations.⁸⁴ China is becoming far more adept at playing within the international system than the U.S., a lesson it took Beijing 150 years to learn, but one that it now is executing with alacrity.

There is hope in China that these sorts of moves have ensured that the "China Threat" theory has "lost its market," having been replaced by the "China Opportunity" theory.⁸⁵ Former foreign minister Qian Qichen said in one interview recounted by CASS scholar Wang Jisi that in ten years' time, when China is more developed, there will be no market for this theory. These optimistic views fail to reflect profound uneasiness in some

⁸⁰ China's Development and Asia's Rejuvenation, Speech at ASEAN Business & Investment Summit by Mr. Wen Jiabao, Premier of the State Council of the People's Republic of China, 7 October 2003.

⁸¹ John Pomfret, "A New Direction for Chinese Diplomacy" *Washington Post* August 16, 2003, p. A17.

⁸² Wang Yi "Neighbourliness and Partnership" *Quishi* 2003 4/2.

⁸³ Wang Yi "Neighbourliness and Partnership" *Quishi* 2003 4/2.

⁸⁴ Xinhua, (2003) *Forerign Policy Review*.

⁸⁵ *Peeps Daily* 2003. 12. 24 Year in Review.

quarters about China's rise. Paul Wolfowitz, now Deputy Secretary of Defense, began what has been a long argument about the degree to which China's rise echoes the threatening emergence of Wilhelmine Germany before World War One. "China is an emerging major power, but it has not yet become one," he fretted as recently as 2000, extending an analogy he developed in a 1997 essay: "In the case of China...the obvious and disturbing analogy is the position of Germany, a country that felt it had been denied its 'place in the sun', that believed it had been mistreated by other powers, and that was determined to regain its rightful place by nationalistic assertiveness."⁸⁶ That China is rising in the context of a security environment dominated by U.S. power is self-evidently true. But a key distinction between Wilhelmine Germany and China is that Germany was trying to develop a symmetric capability to deal with existent British power. China is going asymmetric. China is also making friends with its neighbours, not enemies. There are other places this analogy breaks down, not least on the issue of what a "place in the sun means to China," but Wolfowitz was certainly correct that a power mismatch between China and the United States is likely to become an increasing problem, even if Beijing's planners hope to avoid it. In Washington and other places there are plenty of people who see China's rise as very Wilhelmine. This is a solvable problem, but it will take efforts from both sides. Creating a framework for this is what I will address next.

⁸⁶ Wolfowitz, Paul "Bridging Centuries – The Fin De Siecle All Over Again" Spring 1997 page 7 and "Remembering the future", *The National Interest*, Spring 2000, page 42.

"Dealing with China"

It is perhaps the most common question as western policy makers look east: "How do we deal with China?" Yet, the basic premise of the question seems flawed, as if China were some inanimate object to be moved from place to place, furnishing someone's idea of an international order. "Let's try it over in the corner," someone might say. "No, maybe by the window would be better." It suggests that a kind of easy manipulability of China and Chinese policy. Dealing with China, however, is not about moving around a nation in isolation from other factors. As we have seen, China is ever-deeply woven into the international order as an essential part of many nations' hopes and livelihoods. In the late 1990s, when China was seeking WTO accession, it was probably still possible to manipulate China with broad moves like denying trade access. But those days have passed. China is both self-propelled and increasingly part of the international community. So the "pressure points" where China can be helped or harmed are not surprisingly different. What is not different yet, is much of the thinking about what that means.

There are really only two points I want to make in this essay and we are on the verge of the second. The first was that China is pioneering a new route towards development that is based on innovation, asymmetry, human-up development and a focus on the balance of individual rights and responsibilities. The second is this: China's weaknesses are its future. In "dealing" with China, no matter what your aim, the secret is to go after China's liabilities, not its strengths. This is indisputably true from an efficacy standpoint, as I will show in a moment. But in thinking this process through, I reached a somewhat surprising conclusion: no matter where you fall in the China debate, which "side" you are your range of truly effective policy areas are the same. Trying to push or pull China in areas of great national strength, like currency issues or territorial questions like Taiwan or Tibet is more or less a waste of time. Say, hypothetically you would like to see China implode. Going after the country on currency matters is not going to work. China's leadership is far too well-prepared to deal with this and is migrating to liberalized currency at its own pace. Similarly, if you want to support China's rise, working to press Taiwan out of international institutions may get you limited gratitude in Beijing, but not as much as what I am about to discuss. If you want to be able to "deal" with China, you should choose the most efficacious route. And that is to go after the country at its

joints. If you want to destroy China or support it, the joints are where the action is.

This is very different from the traditional views of China, which see the country either as a market to be exploited or a country to be contained. It explains why almost all of current U.S. policy towards China is dominated by questions like trade, currency, military affairs, Taiwan and human rights. I have tried in this essay to stay away from the debate about whether or not China's rise is a threat and to present a view of China that would be helpful no matter what your opinion on that difficult question. But since I am about to make a set of arguments that will outline the right policies to help China or to destroy China, I think I would like to make one observation before continuing. If you do happen to fall into the camp of people who would like to contain or constrain China, you should be clear that the ultimate impact of that policy, if it succeeds, will be to condemn hundreds of millions of people and perhaps more, to lives of poverty and perhaps chaos. Effectively "isolating" China or treating it as "threat" as some offensive-realist policy makers suggest, would have huge human consequences. Choking off growth in the PRC could lead to instability and chaos. China's history is a fragile one and though growth in China at the moment is robust, a real effort to topple China into chaos would probably succeed. So policy makers who argue for containment, as Paul Wolfowitz did in 1997, should be direct about what they are really arguing for: the collapse of China.

The flip side of this, however, is that there is amazing work to be done in supporting China's rise. And much of that work can rebound back with tremendous returns. It is essential to see China not as a solid-state society, but as a country that is in perpetual dynamic tension. This means that for every strength (booming economy) there is a weakness (energy shortages). China's strengths will take care of themselves. It is the weak areas where the country needs help. And it is at the weak points where the country remains manipulable.

This approach also offers some guidelines for how to "deal" with China. The best policies will be based on building a shared basis for the future, to aligning forces so that China sees the inevitability of cooperating with outside powers. This is not to say that persuasion shouldn't be used from time to time (particularly when the situation can't be manipulated for some reason). But this approach is worth keeping in mind when dealing with Beijing. Trying to convince China to do something is

difficult. Manipulation is much easier.

Effective China policy must be guided by the idea of trying to create an environment for action, not trying simply to engage on specific issues. The nature of Chinese society and politics at the moment is such that it can be difficult to get things done directly; it is far more efficient to do things indirectly. You can manipulate the environment to achieve the outcome you have in mind. This can often be aggravating for foreigners trying to operate with and in China, people accustomed to proceeding directly to what they want to do. But the system is not only appropriate for China but also quite efficient in its own way. The idea of environmental decision-making is essentially that a whole host of things determine the outcome of something you want to do in China. It is not dissimilar from the current vogue in physics for what is called String Theory, an approach to explaining sub-atomic action that involves operating at the very least in ten dimensions at once. Because of its complexity, string theory has been called "a piece of 21st century math that fell into the 20th century." If one were to take Henry Kissinger's observation that every century has a new great power, it might be possible to suggest that the complexity of managing effective China relations might offer a lesson in 21st century power.

This environmental approach to policy and decision making comes from many places in Chinese culture, but it's simplest to draw a line from the military theories of SunZi, which suggest that the complete environment - the landscape, the morale of the troops, the weather, the attitude of the General, the state of the nation - determines the outcome of any battle. Thus when trying to achieve something in or with China (or anywhere, for that matter) it helps to think about the entire context of action. How does what you want to do fit with the government needs? Who is threatened by what you intend and how much power do they have? How can you enlarge the question you are tackling so as to bring many powerful resources to bear?

For example, a traditional Western way to try to be helpful with China's growing HIV/Aids problem would be to go directly at the issue: organising conferences about HIV in China, sending in doctors, talking to the government about prevention strategy. This approach would fail. (It has failed.) Chinese officials recognize HIV is a problem, but they also face tremendous political and resource constraints in dealing with the problem. A far more effective way to help China on HIV is to help the country its general health care environment. Trying to help China create a world-class health care programme for its citizens is something that is massively in the interest of the

government and is seen as having nothing but political upside. Of course part of such an effort will be creating an HIV programme - the goal you started out with. But when packaged in the environment of national health care, it becomes much more saleable.

New China policy needs to be shaped therefore by these three pillars: focus on China's weak spots, remember that at times you will have to manipulate not persuade, and build a complete environment for relations. The flavour of Beijing Consensus physics adds a particular spice to this problem. As China's power and influence grows, countries race to be of help to China. So engaging China should no longer be a question of attacking China with policies aimed at shaping its behavior on particular issues. Rather nations wishing to succeed in China policy should create a broad agenda for interaction with Beijing, an agenda that covers China's strengths and weaknesses. This should lead to the creation of a new approach to U.S.-China relations, for instance, one that creates an environment of cooperation on China's weak spots so as to build leverage and trust for work on China's other areas. Joint U.S.-China efforts on energy security, for instance, or Science and Technology policy would create a collaborative environment that would naturally spill over to other areas. Already China's foreign policy works to stress similarities between U.S. and Chinese aims, even going so far as to find ways in which the two countries are in agreement about the Taiwan issue. So creating a climate of cooperation is essential. Perhaps the best way to do this - and counter long-standing Chinese worries about the vagaries of U.S. politics - would be to create a New Framework that would allow the two nations to engage on issues of mutual interest that will endure outside of the American political cycle. A New Framework that included formalised cooperative efforts on counter-proliferation, energy security and other issues would be a way to escape the false "China threat"/"China opportunity" binary paradigm and instead begin to build a more environmental approach to relations between the two countries.

China itself has new responsibilities in a world where Beijing Consensus physics are becoming more popular. And though it is tempting for Chinese officials to continue to pretend that they are still a struggling nation, they need to recognize that their struggles are part of what makes their example so compelling to others. Chinese officials should embrace their own tradition of holding opposites together in harmony to see that it is possible to both be a developing nation and a powerful one at the same time. I will not use this space to address the full complexities of Chinese policy vis-à-vis the Beijing Consensus, but I will note in passing that in the next five years China has an important opportunity to shape how it is viewed internationally. Currently, international polls show that most of the world still finds China mysterious and a frightening. Chinese policy makers will hopefully begin to see that more transparency is an essential part of the country's future development, a way to let Beijing's

example and its internal problems become known at the same time. This is a very difficult problem for a country that is unaccustomed to showing problems to the outside world. But as China continues to look for innovative solutions to the massive challenges of development, transparency will increasingly become an aid to stability, not its enemy.

The Beijing Consensus offers hope for the world. After the collapse of the Washington Consensus, the breakdown of WTO talks, the implosion of Argentina's economy, much of the world was uncertain what a new paradigm for development ought to look like. The essential ideas of what is happening in China - innovation, asymmetry, a focus on equality, the exploration of new ideas of citizenship - are appealing to nations that have ambitions for development and security but have seen hundreds of years of failure of development models that rely too much on developed nations for assistance. When Deng first "opened" China in 1978, he said that his hope was that at a per capita income level of \$1000, China would finally be able to turn its attention to helping other countries, to using China's force for good to remake the world into a safer, more equitable place. In 2003, China passed that \$1,000 per capita mark. The country finds itself now not only in possession of the economic tools to help the world, but the tool of its example as well. It was, perhaps, exactly as Deng might have imagined it.