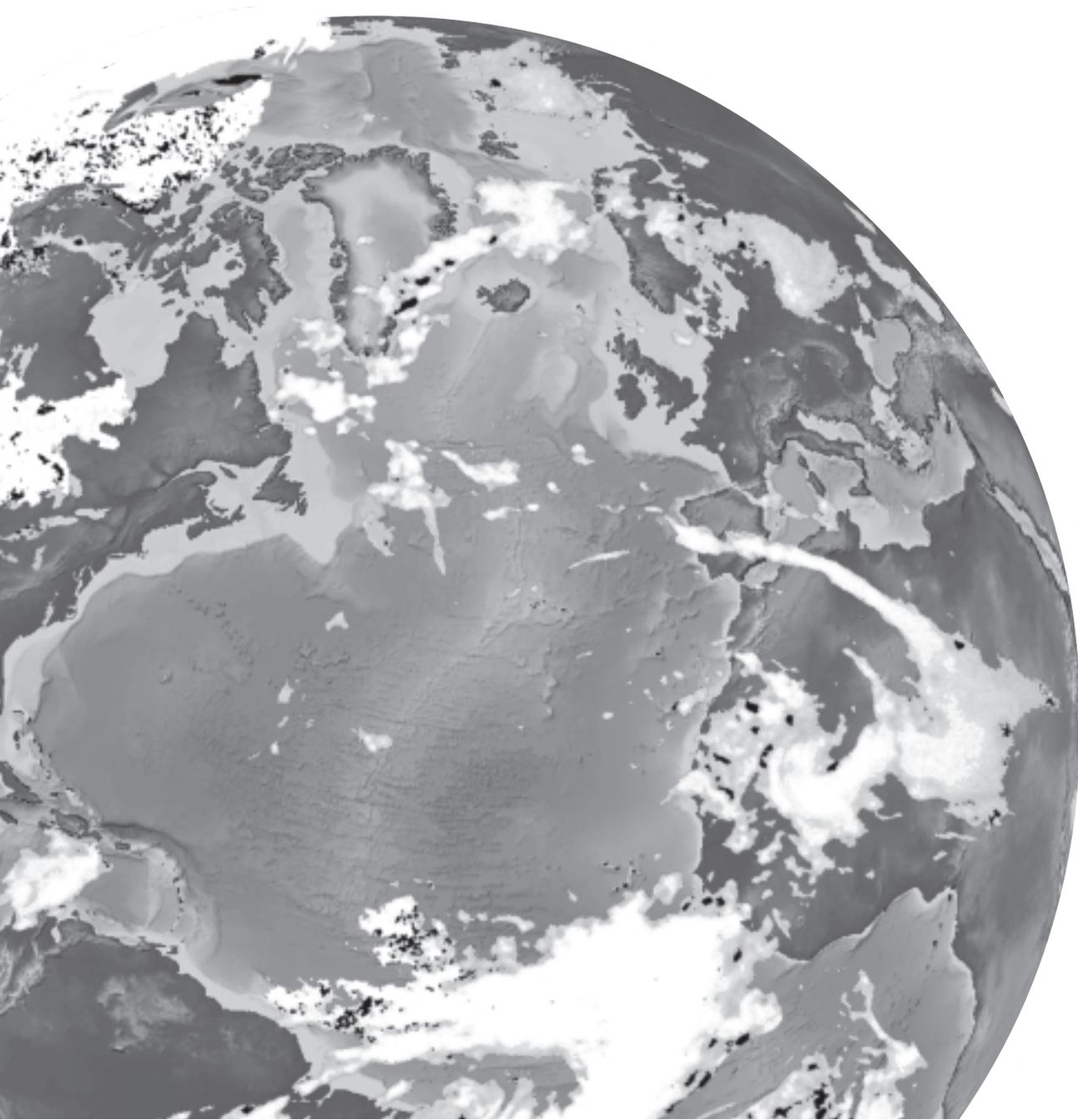


China Confronts the Challenge of Globalization

Implications for Domestic Cohesion
and International Cooperation

PROJECT ON WORLD SECURITY
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I. INTRODUCTION

During the two decades since 1972, China has shifted from an insular, autarkic state to one which has assumed a prominent role in global affairs. Its growing military and economic power, coupled with its ability to affect the well-being of humanity on issues as diverse as drug trafficking and the environment, have further granted it influence well beyond its borders. Yet the world remains unsure how the People's Republic of China (PRC) will elect to exercise this influence. Will it be an active and engaged member of the international community and contribute to resolve the myriad threats and challenges of the twenty-first century? Or should the world anticipate a PRC committed to only the narrowest set of domestic priorities with little interest in advancing a broader set of global goals and interests?

Chinese interest in participating constructively in international efforts to respond to global challenges, moreover, represents only one-half of the equation. Equally, if not more, important is the capacity of the PRC to fulfill the international obligations it assumes. Such state capacity is directly dependent on the evolution of China's domestic political and economic institutions, which are currently in the midst of a dramatic transition. This transition is not only a function of domestic decisions and concerns but also a reflection of China's increased integration into the international community. To a degree unprecedented in the years since 1949, China is now subject to international trends and forces: the globalization of the economy, the communications revolution, and environmental degradation. The complex way in which the domestically engineered economic and political transition is interacting with international forces to transform the country leaves both the Chinese leadership and the international community grasping for an adequate sense of the PRC in the twenty-first century.

Thus, for the international community, these processes of change in China raise two especially important issues. First, how will they affect Chinese leaders' *interest* in participating in international efforts to respond to the myriad transnational and global challenges that the world faces? Second, how will these processes affect Chinese domestic stability and the leadership's *capacity* to address the range of domestic and international challenges that it confronts?

This paper reaches four tentative conclusions with regard to these issues:

- First, while China has become a far more engaged participant in international organizations and accords, its general approach to international regimes remains at best cautious and at worst suspicious. Ideals of interdependence have yet to gain widespread currency in Chinese political thinking. Thus, Chinese participation in regimes is still constrained.
- Second, China's capacity to fulfill its international obligations is also diminishing. The nature of the economic and political reform process in China has contributed to increasing difficulties in implementing both domestic and international laws. Moreover, international trends—globalization of the

economy, the communications revolution, and environmental degradation—have exacerbated preexisting economic and societal cleavages that further constrain the ability of the leaders to take action on a number of issues.

- Third, at the same time, these international trends present opportunities for the Chinese leadership to enhance state coherence and stability, albeit in the context of a more decentralized political and economic system. China's leaders, however, have yet to resolve the tension between their relatively new-found belief that they have much to gain from embracing forces of globalization, and their traditional fear that these processes will undermine the security of the state and their capacity to govern and maintain social cohesion and stability. (Different Chinese leaders, of course, have different proclivities.)
- Fourth, the Chinese leadership generally attempts to counter the threats it perceives to its authority and the stability of the state through traditional central mandates. The current political and economic situation makes this approach increasingly ineffective. However, in some arenas, such as environmental protection, the leadership is engaging new local actors in efforts to counter negative trends; this process holds some promise of enhancing the capacity of the state to fulfill both its domestic and international obligations.

II. HOW DOES CHINA APPROACH INSTITUTIONS OF INTERNATIONAL GOVERNANCE?

Before considering China's capacity to participate effectively in efforts to respond to transnational and global threats, it is important to understand China's traditional outlook on international cooperation. What values and orientation do Chinese decision-makers bring to efforts to coordinate an international response to a common threat?

China is key to any effective international response to the full range of emerging global threats. Already, China is a major contributor to these challenges, and there is little evidence to suggest that change is in the offing. A quick overview of China's contributions in five important arenas—nuclear arms proliferation, drug trafficking, crime, environmental degradation, and infectious diseases—underscores this point.

Nuclear Arms Proliferation: China is the third-largest nuclear power in the world after the United States and Russia. It has long had a substantial program of nuclear technology transfer to other developing countries such as Pakistan and Iran. While China has pledged to halt such practices, recent reports suggest that enforcement will be, at best, spotty.

Drug Trafficking: Chinese criminal elements have become very active and important players in drug trafficking worldwide. There are reports of large opium fields in the Chinese provinces of Yunnan, Sichuan, Guizhou, Inner Mongolia, Guangxi, Hunan, and Qinghai. Drug cultivation is an especially important source of income for rural, ethnic minorities,¹ who have been largely left behind in the wave of prosperity enjoyed by other segments of the Chinese populace.

Crime: Chinese gangs have a long history: some can date their origins back 2,000 years.² They have ties throughout Asia, North America, and increasingly the rest of the world. Their operations span a wide range of criminal activity, including heroin smuggling, money laundering, alien smuggling, and gun running, among others.

Environment: China is one of the world's most significant contributors to the full range of global environmental problems, including ozone depletion (18 percent of the world total); climate change (the second largest, and by 2020 likely the largest emitter of greenhouse gases); trade in endangered species; and biodiversity loss. Moreover, with an annual increase in population of roughly thirteen million, and a pattern of largely unrestrained economic growth, there are no signs that these trends are abating.

Infectious Diseases: The World Health Organization has commended China for its contribution to communicable disease control in Asia. Still, cholera and malaria, sexually transmitted diseases, and HIV/AIDS remain regional problems. Beijing is especially concerned with the growing problems of illegal drug use, prostitution, and economic migrants in contributing to the spread of HIV/AIDS.³

The traditional means of regulating state behavior in such issues is through formal treaties, organizations, and regimes.⁴ Haggard and Simmons note that a regime may be taken to mean a "multi-lateral agreement among states which aims to regulate actors within a given issue area."⁵ Increasingly, as evidenced by the "emerging

¹ Stephen E. Flynn, "Asian Drugs, Crime, and Control: Rethinking the War on the Far Eastern Front," in *Fires Across the Water: Transnational Problems in Asia*, ed. James Shinn (New York: Council on Foreign Relations Press, 1998), p. 21.

² *Ibid.*, p. 24.

³ "China: Meeting Backs Regional Links to Fight Diseases," *China Daily* (October 31, 1997).

⁴ The discussion that follows regarding China's approach to regimes has been adapted from a draft paper, Elizabeth Economy, "The Impact of International Regimes on Chinese Foreign Policy Making: broadening perspectives and policies...but only to a point" (prepared for the Project Conference "The Making of Chinese Foreign and Security Policy in the Era of Reform," Westfields-Chantilly, VA, February 27–March 1, 1998).

⁵ Stephen Haggard and Beth Simmons, "Theories of International Regimes," *International Organization* 41, no.3 (1987): pp. 491–517.

threats” noted above, the actors requiring regulation are non-state actors. As Oran Young has noted, “Because the members of international society are states, the rules or conventions of regimes apply in the first instance to the actions of states. Yet the parties engaging in the activities governed by regimes are frequently private entities such as multinational corporations, banks, fishing companies, etc.”⁶ This raises a secondary, but critical point. When considering how best to address several of the “emerging threats” such as drug trafficking and crime, noted above, traditional regimes may not be adequate to the task. In these cases, the actors are not typically legitimate entities such as those described by Oran Young, but rather actors traditionally engaged in illegal activities, far more adept at evading domestic law enforcement, and organized in ways that make them more difficult to penetrate.

Despite this caveat, traditional regimes still serve several important purposes. Resources are transferred between international and domestic actors. Such resources might include: the exchange of data on complex environmental issues, arms, or drug trafficking questions; knowledge about the causes and consequences of a particular problem or technical know-how in the form of computer models or monitoring technology; financial assistance; and more abstract ideas or values such as interdependence, sustainability, and so forth.

The very process of this transfer of resources may also help to establish or enhance a domestic expert community with shared values. In the case of China and other developing countries, international experts may also be instrumental in identifying Chinese experts (or potential experts) and drawing them into the international discourse on the regime issue. In the trade arena, for example, Harold Jacobson and Michel Oksenberg find strong evidence that the World Bank and International Monetary Fund contributed not only to deepening the expertise of trade and foreign policy analysts in China but also to reconfiguring the balance of power among various individuals and groups among the Chinese economic experts.⁷

In addition, the demands of entering into a new regime often place wide-ranging requirements on participating countries. Data collection, monitoring the implementation of the accord, and reporting the results of implementation efforts typically necessitate the establishment of new bureaucratic linkages and even permanent institutions. These institutions also provide a means by which actors become inculcated into the values of the regime. In turn, these actors may become advocates for deeper and broader reform in Chinese foreign policy and attitudes.

China’s traditional attitude and approach toward these institutions of international governance have evolved significantly over the two decades since 1972. China now seeks to participate in the full range of debates that govern relations among sovereign nations. China’s membership in international governmental organizations, for example, increased from twenty-one in 1977 to fifty-two in 1997.⁸ Moreover, in virtually every policy arena, China has joined or is seeking to gain entrance to key accords and treaties that regulate states’ behavior.

Increased activity is only one measure of participation, however, and many analysts believe that despite an overall reorientation toward more active participation in global regimes, China remains ambivalent toward or suspicious of global governance. For example, Thomas Christensen argues in a recent *Foreign Affairs* article, “Chinese elites are suspicious of many multilateral organizations, including those devoted to

⁶ Oran Young, *International Cooperation: Building Regimes for Natural Resources and the Environment* (Ithaca, NY: Cornell University Press, 1989), p. 13.

⁷ Harold Jacobson and Michel Oksenberg, *China’s Entry into the Keystone International Economic Organizations* (Ann Arbor, MI: University of Michigan Press, 1991).

⁸ Union of International Associations, ed., *Yearbook of International Organizations 1997/1998*, vol. 2 (Munich, Germany: K.G. Sauer, 1997), p. 1747.

economic, environmental, nonproliferation, and regional security issues. In most cases, China joins such organizations to avoid losing face and influence.... Chinese analysts often view international organizations and their universal norms as fronts for other powers.”⁹ Harry Harding and David Shambaugh similarly suggest that while China may now be far more integrated into the international community than previously, its “ambivalence toward cooperation has not been completely resolved.” They further argue, “Chinese leaders will continue to view international regimes with suspicion, especially those whose rules they did not help write.”¹⁰

To a significant extent, there is an entire set of seemingly enduring foreign policy values that the PRC brings to the international negotiating table. In their historical analysis of China’s outlook on international relations, Harding and Shambaugh suggest several such values, including: protection against infringements on “territorial integrity and commercial viability,” “limiting foreign cultural and intellectual influences on their society,” and maintenance of a “monopoly of organized political power such that all politically active organizations would be sanctioned by and loyal to the central government.” These same points are largely echoed by Alastair Iain Johnston in his study of Chinese thinking on nuclear weapons: “... the preferred ends have predominantly remained the preservation of territorial integrity and foreign policy autonomy, the defense of political power by the communist leadership in Beijing, and the growth of China’s influence commensurate with its self-ascribed status as a major power.”¹¹

A recent Council on Foreign Relations report on Chinese behavior in international regimes further illuminates the extent to which these values have become embedded in Chinese thinking and strategy concerning international cooperation. For example, the report concludes that with regard to the maintenance of sovereignty, Chinese leaders remain vigilant against the potential incursion of unwanted foreign influence in areas as disparate as telecommunications, human rights, and the environment. Thus, while embracing the technological advantages of participating in the telecommunications regime, Chinese leaders engage in a continuous battle against the “spiritual pollution” that such technology invites. In the realm of human rights, China has generally “defied the efforts of international organizations and individual governments ... to judge China’s performance and impose international standards on its political system.”¹² And concerning the environment, China’s consistent refusal of formal monitoring of its implementation of environmental accords on grounds of maintenance of sovereignty also has earned it a reputation for advocating agreements that “have no teeth.”¹³ Similarly, in peacekeeping, M. Taylor Fravel reveals that while China has overall adopted a more positive outlook toward peacekeeping since 1981, “[a]s peacekeeping norms have evolved from traditional to non-traditional (e.g., don’t have consent of all parties), China has maintained a traditional view by stressing the importance of sovereignty and emphasizing consent and impartiality.”¹⁴

Along with a defense of Chinese sovereignty, Chinese leaders place a top priority on protecting national security, but only through the most traditional understanding of what constitutes national security. For example, in their negotiations in the arms control arena, they operate from a state-centered, balance-of-power approach. Johnston and Swaine conclude that China’s growing involvement in arms control negotiations has “primarily taught it to use the arms control arena more effectively for its state-centric purposes rather than promoting a reconsideration of how best to

⁹ Thomas J. Christensen, “Chinese Realpolitik,” *Foreign Affairs*, vol. 75, issue 5 (September/October 1996): p. 37.

¹⁰ Harry Harding and David Shambaugh, “Conclusion” (unpublished manuscript on file with author), p. 2.

¹¹ Alastair Iain Johnston, “China’s New ‘Old Thinking’: The Concept of Limited Deterrence,” *International Security* 20:3 (winter 1995/96): p. 7.

¹² Michel Oksenberg and Elizabeth Economy, *Shaping U.S.-China Relations: A Long Term Strategy* (New York: Report of the Council on Foreign Relations, April 1997).

¹³ Elizabeth Economy, “Negotiating the Terrain of Global Climate Policy in the Soviet Union and China: Linking International and Domestic Decision-making Pathways” (University of Michigan, Ph.D. diss., 1994).

¹⁴ M. Taylor Fravel, “China’s Attitude Toward U.N. Peacekeeping Operations Since 1989,” *Asian Survey*, vol. 36, no. 11, pp. 1105-6.

attain security. China has been slow to adopt any cooperative concepts of security and to accept the need to place real restrictions on Chinese military capabilities.”¹⁵ Johnston additionally notes that for China “the world is, in the main, a threatening place where security and material interests are best preserved through self-help or unilateral security.”¹⁶

A third value that China brings to the negotiating table is protection of economic growth and stability. As has been well documented, since the opening of the reforms in the late 1970s and early 1980s, the legitimacy of the Communist Party has been premised primarily on the twin pillars of economic growth and nationalism. To the extent that international economic organizations are viewed as supporting the leadership’s goals in this direction, integration has proceeded relatively smoothly. However, as China has begun the more tortuous process of negotiating to join the World Trade Organization (WTO), a far more painful set of economic and political adjustments is required. At least some members of China’s leadership remain convinced that currently the economic and political costs of accession outweigh the economic benefits.

At the same time, China’s concerns over its international image and/or desire to play a constructive role when possible, have occasionally engendered a more proactive stance in its participation in international regimes. For example, as the Council on Foreign Relations report notes, “China’s decision to accede to the CTBT resulted in large measure from pressure from the developing world. In addition, China relinquished some of its claim on International Development Agency loans so as to leave more money for loans to disaster-stricken Africa, thereby making itself look good to the developing countries and demonstrating a commitment to internationalist values.”¹⁷ Nonetheless, image is probably a secondary concern to other core values. In the case of the Framework Convention on Climate Change, for example, despite substantial pressure from some developing countries for China to limit its production of greenhouse gases that contribute to climate change, Chinese leaders’ concerns over infringements on Chinese sovereignty from monitoring requirements, and the potential that the treaty would place limitations on economic development, outweighed their interest in fostering a more positive international image.

The same set of core values is also clearly reflected in China’s behavior in regional economic and security affairs. China has bolstered its international image since the mid-1990s by playing a stabilizing role in key regional economic and security crises: the Asian financial crisis and the future of the Korean peninsula. In the case of the financial crisis, China continued to maintain the value of its currency, the renminbi, and provided one billion dollars to the economic rescue package for Thailand. In the case of the Korean Peninsula, China has reportedly been a positive force in consultations with the North Koreans. Still, China has not demonstrated a consistent commitment to respecting the norms of behavior shared by other regional actors. China’s perceived national security interests, for example, have led to military confrontations in the South China Sea and Taiwan Straits and have defied the efforts of other regional actors to temper such aggressive behavior.

Overall, therefore, the picture that emerges from China’s history of participation in international regimes has been a mixed one. While Chinese leaders acknowledge that there are compelling reasons for them to participate in regimes — both for good

¹⁵ Michael Swaine and Alastair Iain Johnston, in Oksenberg and Economy, *Shaping U.S.-China Relations*, p. 19.

¹⁶ Johnston, “China’s New ‘Old Thinking,’” p. 7.

¹⁷ Oksenberg and Economy, *Shaping U.S.-China Relations*, p. 19.

international citizenship and for access to the resources that regimes offer—they also perceive an equally compelling set of factors—centered on a loss of control over decision-making—that argue against a more proactive approach. Even assuming that the Chinese leadership is committed to the goals and values of a given regime, the question of whether China can be an effective participant is increasingly in question. Does the leadership have the capacity to implement its international agreements? How strong are China’s domestic institutions of governance?

III. THE CHINESE STATE IN TRANSITION: DOMESTIC AND INTERNATIONAL SOURCES OF INFLUENCE

In acceding to, and participating in, international regimes, Chinese leaders exert great care to control the degree to which they permit the international community to impinge on PRC sovereignty. Similarly, the leaders have attempted to limit sharply the extent to which a set of key international trends that affect all nations—globalization of the economy, the communications revolution, and global environmental degradation—affect the coherence of the state and thus the leadership’s capacity to govern. In spite of these efforts, however, preliminary evidence indicates that these international trends are having a profound effect on China’s political and economic system, especially as they serve to exacerbate current tensions and hasten longer-term domestic challenges.

GLOBALIZATION OF THE ECONOMY AND DOMESTIC DEVELOPMENT

China has received international acclaim for its exponential rates of growth—averaging more than 10 percent since 1981. Moreover, Deng Xiaoping’s decision during the late 1970s and early 1980s to liberalize the economy and open the doors to foreign investment and trade has resulted in annual per capita income levels increasing from 500 yuan (U.S.\$60) to 2,500 yuan (U.S.\$300) during this same two-decade period.

However, this essentially unrestrained economic development has left the Chinese leadership confronting a host of new challenges that threaten the very success it has achieved. While Beijing recognizes many of the problems that its particular path of development has engendered and has raced to redress them through campaigns, exhortations, and laws, thus far it has not proved willing to undertake the difficult steps necessary to effect real change. Moreover, its initial opening to the outside world has left it increasingly vulnerable to the potentially destabilizing forces of the globalization of the economy.

Chinese leaders continue to perceive a number of important advantages to embracing the globalization of the economy. China holds foreign currency reserves of approximately \$135 billion (which makes it one of the world’s two or three largest foreign reserve holders)¹⁸ and is one of the world’s largest trading partners. As one U.S. analyst has noted, “In 1978, China’s global two-way merchandise trade was \$20.7 billion, making the PRC the world’s 27th largest trading economy. In 1995, China’s global two-way merchandise trade rose to \$277.9 billion, and the PRC became the world’s 10th largest trading economy.”¹⁹

One important component of this trade, and a major engine of Chinese economic growth, has been the freer flow of foreign capital into the Chinese economy. Foreign-funded enterprises—the majority of which are supported by overseas Chinese based in Hong Kong, Taiwan, and other countries in Southeast Asia—account for more than one-third of Chinese exports.

¹⁸ Daniel Burstein and Arne de Keijzer, *Big Dragon China’s Future* (New York: Simon & Schuster, 1998), p. 86.

¹⁹ Robert P. O’Quinn, “Integrating China into the World Economy,” in *Between Diplomacy and Deterrence: Strategies for U.S. Relations with China*, ed. Kim R. Homes and James J. Przystup, (Washington, D.C.: The Heritage Foundation, 1997), p. 56.

The tremendous level of enthusiasm of foreign investors— attracted by the cheap labor force and potential size of the Chinese market— has also contributed to additional important changes in the structure of the Chinese economy. First, China has used foreign enthusiasm as leverage in negotiating the terms of joint ventures and imports. It demands and receives a high level of technology transfer for capital and knowledge-intensive industrial goods such as aircraft and automobiles. Thus, it has made substantial strides in developing its own domestic industries. Second, foreign investment has brought significant training and educational opportunities to the Chinese labor force. Moreover, China has sought to capitalize on its closer ties to the international community by sending hundreds of thousands of Chinese to be educated or trained in the West. Finally, China has utilized its comparative advantage in cheap labor to become a leading exporter of labor-intensive, light industrial goods such as toys, textiles, and electronics. However, as its labor force has become more educated—in good measure through the foreign training noted above— China also has become a major producer of higher-end products such as computers.²⁰

Nonetheless, globalization of the economy has clearly exacerbated a number of preexisting tensions in the Chinese economy that diminish state capacity. These include: the bankrupt system of state-owned banks and enterprises; severe economic inequities between coastal and inland provinces and urban and rural areas; migration from poorer to wealthier regions; and the decentralization of authority within the Chinese economy that has left Beijing scrambling for adequate resources to perform its necessary public welfare functions.

Bankrupt State-owned Enterprises and Banks

The state-owned enterprises (SOEs) in China have become as notorious as their Soviet predecessors for their economic inefficiencies and poor product quality. The Chinese state has subsidized these money-losing enterprises for almost fifty years and protected them from foreign competition. A core sector of the Chinese economy, they employ over 100 million people, or two-thirds of the urban workforce. Yet, they are a devastating drain on the resources of the state. They are accountable to no one for their profits or losses—and they manufacture goods that do not sell (an estimated 10 million watches, 20 million bicycles, and 120,000 cars sit unsold in warehouses). One prominent Chinese economist estimates that approximately 40 percent of the SOEs have chronic deficits.²¹ Perhaps most important, the SOEs threaten the very basis of China's economic success: the system of state banks. Over 20 percent of banks' portfolios in China consist of non-performing loans to money-losing SOEs.

The international community has long pressed the PRC to open both its financial-services sector and the protected SOEs to foreign competition; and the process of Chinese accession to the World Trade Organization (WTO) has placed the PRC under additional pressure. However, the Chinese government, understandably, has been reluctant to subject this already financially crippled sector of the economy to additional international pressure. While both President Jiang Zemin and Premier Zhu Rongji have made dramatic announcements over the past year concerning plans to reform the SOEs and banks, change is likely to be extremely slow. The leadership is overwhelmed by the prospect of mass layoffs and worker demonstrations and thus far has no comprehensive plan for managing the expected millions of newly unemployed workers. Chinese labor officials have suggested that during 1997–98 alone, 5.5 million workers will be laid off in urban areas. (Currently, in 1998,

²⁰ Ibid.

²¹ Burstein and de Keijzer, *Big Dragon*, p. 197.

unemployment in the PRC is officially at about 7 percent; however, it is expected to go much higher if SOE reform is successful.) Already, worker demonstrations involving tens of thousands of laborers in Sichuan, Hebei, and Gansu provinces protesting late pay-checks and layoffs have led to a backtracking in the implementation of the reforms.

Reform of the SOEs is also likely to yield important changes in the nature of the Chinese labor market, with which the Chinese leadership may not be entirely comfortable. There will likely be greater freedom to negotiate one's job, residence, and pay. No longer dependent on the state for their personal welfare, enterprise workers will search for new avenues of political representation, and China's dissident labor movement could be infused with thousands of disaffected workers eager to ensure adequate protection under the new economic system.

Growing Regional Inequities

A second tension exacerbated by the globalization of the economy has been the growing inequities among different provinces in China. China initiated its domestic economic liberalization two decades ago in 1979 with a set of priority "special economic zones" to attract foreign investment and capital. This process eventually led to a two-tier system of provinces in which the coastal region experienced growth rates and income levels more than twenty times those of the interior provinces, where poverty is still rampant. Despite some minor steps by the central government to rectify the situation, foreign investment has continued to flow to those provinces where education levels are highest, infrastructure most well developed, and political power most concentrated. Moreover, while the wealthier provinces in theory pay taxes to the center to compensate the poorer provinces, in practice this "trickle down economics" has failed, as corruption has flourished, and power has been decentralized from Beijing to local authorities.

Not surprisingly, such inequity has contributed to serious political tension between the "haves" and "have nots." Combined with resource pressures in rural China and increased freedom of movement, economic inequity has engendered wide-scale migration from rural to urban areas and from poorer to wealthier provinces. In major cities, this "floating population" is estimated to constitute 10 percent to 33 percent of the population. Chinese officials in the poorer inland provinces explicitly encourage such migration to the wealthier coastal regions: these workers remit substantial sums of money back to their families. On average, the migrant population earns ten to twenty times as much in urban employment as in farming. Chinese estimates indicate that by the year 2000, as many as 300 million laborers will move to the cities to look for jobs.²² Within one province of Inner Mongolia, recent reports are that 25 million people have migrated simply because of water shortages.

While thus far migrant workers have integrated with relative ease into the burgeoning economies of the coastal cities, it is less certain that the economies similarly can absorb the potential tens of millions of unemployed workers from newly merged or closed-down SOEs.²³ Thus if not managed properly, the combination of migrant laborers and unemployed workers could trigger serious conflict in urban areas. Already, urban residents blame these migrants for declining living standards, growing pollution, and rising crime rates; and one Shanghai-based social scientist has suggested that tension over job competition with migrants is already emerging.^{24 25}

²² Elizabeth Economy, *Reforms and Resources: The Implications for State Capacity in the PRC* (Cambridge, MA: American Academy of Arts and Sciences Occasional Paper, May 1997), p. 19.

²³ In an interesting twist, some analysts have suggested that China's success in its birth control policy in major cities such as Shanghai has led to a "graying" of the population in which there will be urban labor shortages. Expectations are that one in four Chinese will be elderly in 2020. See Joseph Kahn, "Low Birthrate Force Two-Child Rule in Some Areas," *Wall Street Journal* (October 20, 1997).

²⁴ Author discussion with Shanghai Academy of Social Sciences Official, Council on Foreign Relations, New York, NY, 24 March 1998.

²⁵ Somewhat paradoxically, some Chinese leaders have begun to fear that China's population control policy has been too effective in key urban areas and will affect China's competitiveness in the global economy. In Shanghai, for example, the mayor has argued that Shanghai will not produce enough talent to compete economically in the next century and that migrant workers are not a suitable substitute. Thus, while Chinese leaders decry the fact that China continues to add more than 10 million people to its population annually, they are simultaneously moving to reverse the one-child policy in some urban areas to permit couples to have two children. While this may or may not have positive ramifications for the Chinese economy, it will likely place an even greater burden on the already overwhelmed natural resource base and environment of many Chinese cities.

These regional inequities have also correlated closely with broader problems of inequity—perceived and real—between the majority Han Chinese and ethnic minorities that may have far-reaching consequences for regime stability. While Chinese officials have attributed separatist-based unrest and violence in Xinjiang province to Islamic militancy among the Uighur population, for example, Western experts believe that the real source of conflict is economic. Improvements in the local standard of living—fueled in large part by investment from foreign oil companies—appear to benefit primarily the local Han Chinese rather than the Uighur population.²⁶ As Dru Gladney has noted, “The economy is a rising tide that will make all boats rise. But Uighurs do not feel their boat is rising. In fact, they are being flooded.”²⁷ Statistics further support the Uighur sense of economic disenfranchisement: their income is fifteen times less than in southern or eastern China.²⁸ Perhaps even more important than localized unrest or violence in Xinjiang is the potential for the Uighur population to become more closely tied to a regional Islamic movement including the former Soviet republics of Kazakhstan, Kyrgyzstan, and Tajikistan. Already, the Uighurs in Xinjiang have been armed by weapons from the war in Afghanistan.²⁹ Thus far, Beijing has attempted to manage the problem through arrests and purges of local leaders; however, such repressive action does not contribute to a long-term solution.

Decentralization of Decision-Making

Globalization of the economy has also interacted with a third process of domestic economic reform to produce a challenge to state capacity. The decentralization of power from the central to local levels has had far-reaching implications for the ability of the Beijing leadership to enforce its mandates.

While decentralization of economic decision-making has been a defining characteristic of the reform process since the late 1970s, increasingly the central leadership appears concerned about the long-term implications of its loss of authority. In January 1998, for example, then Vice-Premier Zhu Rongji delivered a scathing attack against the leaders of two highly prosperous regions—Guangdong and Shenzhen—for their failure to follow central directives regulating banking and business practices. Moreover, Beijing has had grave problems collecting revenues, such as local taxes or profits from grain, from local officials. As two U.S. experts have noted, “Since 1985, the State budget has been in deficit; the 1996 budget deficit reached \$6.3 billion... local officials have taken advantage of the confusion in lines of fiscal authority to advance their own interests. The tax sharing accommodation worked out between central and local authorities has given the local governments considerable freedom to determine how to use their revenue. Economic regionalism has grown to the point of threatening overall economic structural reform.... This economic regionalism is a ‘new warlordism.’”³⁰

International economic actors have further contributed to this process by colluding with local officials to avoid time-consuming and potentially costly reviews by central agencies on issues such as the size of a joint venture, environmental standards, and rates of return. Such workings further enhance the strength of local actors and constrain the ability of Beijing not only to access needed financial resources but also to implement its policies effectively.

²⁶ Charles Hutzler, “Despite Crackdown, Ethnic Tensions Persist in China’s Northwest,” *Associated Press* (12 March 1998).

²⁷ [Http://www.abcnews.aol.com/sections/world/uighur611/index.html](http://www.abcnews.aol.com/sections/world/uighur611/index.html)

²⁸ *Ibid.*

²⁹ *Ibid.*

³⁰ James V. Feinerman and James M. Morita, “The Give and Take of Central Local Relations,” *China Business Review* (January/February 1998): pp. 18–22.

Thus, Beijing's development path, coupled with the globalization of the economy, has produced both record rates of economic growth as well as serious challenges to Beijing's authority and capacity to govern. Taken together, all of these changes have clear implications for Beijing's capacity to implement its international agreements. As international actors demand that Beijing bring its practices up to world standards in areas such as financial services or intellectual property rights, the growing decentralization of economic power, rising unemployment, and the potential for serious economic dislocations all make such adherence increasingly difficult and unlikely.

THE POLITICS OF CHINESE GOVERNANCE: INSTITUTIONS, INFORMATION, AND IDEAS

China's leadership has paid significant attention to the country's economic performance, believing that this is the key to political stability within the country. It has, however, largely ignored the political context in which the economy has flourished; thus, official corruption and abuse of privilege are rampant. The leadership has failed to develop effective central or grassroots oversight capabilities.

The ramifications of this corruption extend far beyond engendering a general societal malaise. Not only is Beijing unable to guarantee effective implementation of its mandates (and international accords as well), but also the very stability of the state is at stake. In 1993, there were at least 830 incidents of rural uprisings which involved more than 500 people, and twenty-one cases in which over 5,000 people became involved. In a number of instances, these conflicts have been deadly. Most recently, in July 1997, over 200,000 peasants in two counties in Hubei province demonstrated against local officials who had used the state grain procurement funds to purchase cars, homes, office buildings, and travel abroad. The peasants were left with IOUs. In Jiangxi Province, the same situation became even more violent when peasants from fifteen counties demonstrated, torched government offices and took local Party secretaries hostage.³¹

The Chinese Communist Party views this corruption as the single greatest threat to its legitimacy (along with the threat of a stagnating economy). It has sought to improve the situation through anti-corruption campaigns, prison terms, and capital punishment for the most egregious offenders. Nonetheless, many within the Party elite believe that the effort has not been sufficient. At the March 1998 National People's Congress, 45 percent of the nearly 3,000 deputies refused to accept the procurator general's progress report on the fight against crime and corruption, arguing that not enough had been done.

In order to combat this threat to Party legitimacy and social stability, Beijing also has undertaken a number of limited political reforms. First, since 1988, it has experimented widely with open village elections in order to enhance accountability among local officials. Not surprisingly, a number of non-Communist officials have been elected on platforms that promise to root out corruption, raise the local standard of living, and improve official responsiveness to local needs. Thus far, however, China's leaders, aware of the fragility of their positions, have resisted widening democratic reforms. Many perceive such an opening of the political process as a recipe for chaos. Nonetheless, senior political advisors to President Jiang Zemin

³¹ *China Focus* vol. 5, no. 10 (October 1, 1997).

have publicly advocated extending the elections throughout the government, which leaves the door open to real change in the future.

Second, the Chinese government has permitted the establishment of genuine non-governmental organizations (NGOs). While these non-governmental organizations must be officially registered with a particular central-level Ministry, they have assumed a degree of real autonomy. They are especially prominent in the realm of environmental protection, legal studies, and women's issues; and while they are careful to circumscribe their activities to avoid challenging central policy, they have become active as a watchdog over local officials' practices.

Perhaps one of the most dramatic changes in political institutions has been the emergence of the National People's Congress (NPC) as a forum for open discussion and debate concerning Party leaders' mandates. Since the early 1990s, the NPC has become a more participatory body: leaders' decisions are not automatically rubber-stamped by the deputies to the Congress, but rather are discussed, debated, and on occasion (almost) rejected. At the local levels, the people's congresses have exhibited even greater political boldness, rejecting the nominations of senior provincial officials in favor of their own write-in candidates.³²

Finally, one of the most critical developments with regard to China's ability to maintain stability domestically and participate effectively in international regimes is the implementation of rule of law. The number of commercial litigation cases, lawsuits against the government, and civil lawsuits has increased exponentially throughout the 1990s.³³ Moreover, in the past few years, class action suits against local officials have become a popular means of attaining redress against corrupt local officials. Still, judgments—both domestic and international—are less often enforced than not.

Certainly, it is not necessarily the case that greater participation produces more effective implementation of domestic mandates and international laws. The transition of the former Soviet Union to Russia may well be a case in point. The degree, however, to which official abuse of power has undermined both popular support for the regime, especially at local levels, and China's capacity to fulfill a variety of international commitments, demands that the state both enhance the efficacy of its law-making and implementing bodies, as well as offer greater opportunities for public participation, to ensure that corruption does not continue to grow and undermine the legitimacy of the Party.

The Communications Revolution

At the same time as the Chinese Communist Party is attempting to maintain stability and legitimacy through this set of limited political reforms, it must contend with pressures from the international community for more rapid change. Whether through attacks on Chinese human-rights practices or efforts to enhance the transparency and efficacy of Chinese institutions of governance by advancing legal reform, the activities of the international community provoke a degree of fear and consternation within the Chinese leadership.

The greater challenge, however, stems from the less "controlled" forces of international change such as the communications revolution. As U.S. National Security Adviser Sandy Berger has stated, "The fellow travelers of the new global economy—

³² Pei Minxin, "Is China Democratizing?" *Foreign Affairs* (January/ February 1998): p. 75.

³³ *Ibid.*, p. 76.

computers and modems, faxes and photocopiers, increased contacts and binding contracts—carry with them the seeds of change.”³⁴

Such an analysis presents a dilemma for the Chinese leadership, which has promoted telecommunications as an essential aspect of its plans for continued economic growth. In his recent study on China and the information revolution, Fred Tipson notes, “The Chinese leadership has repeatedly emphasized the central role of telecommunications and information technologies in building its modern economy. Yet the policies pursued by those same leaders contain an inherent contradiction: on the one hand, actively promoting a modern communications infrastructure of lightning speed, scope and flexibility, while on the other hand, repeatedly trying to control the content and uses of the information which pulses through it.”³⁵ As with the process of globalization of the economy, the Chinese leadership is exerting tremendous energy to access selectively what it considers to be helpful to its authority and to limit that which it believes to be detrimental.

Tipson notes that the advent of telecommunications technologies into a society can have deep impacts on at least four dimensions of political culture: personal identity, economic value, individual and national security, and deference to authority. Thus, individuals revise their conceptions of who they are and what is important to them, and they develop new expectations as to what their values and interests are, as a result of their exposure to new possibilities and capabilities, which is facilitated by these technologies. Perhaps most important, Tipson concludes that the communications revolution will diminish the “need or inclination of most Chinese to defer to central authority or to accept routinely the government’s characterizations of reality.”³⁶

Clearly, the Chinese government has already recognized the implicit challenges to its authority that Tipson identifies. In late 1996, the government blocked access from China to more than 100 Web sites that it referred to as obscene or politically dangerous. These included the *Wall Street Journal*, Amnesty International, and *Playboy*. It also has attempted to ban the use of satellite television by private households. Moreover, for reasons of both potential economic gain as well as political control, in 1996 the government issued an edict attempting to assert central control over foreign financial news operations. While the international outcry as well as the sheer technical difficulty of implementing these decisions led the government to backtrack on all of these efforts, the tendency to try to manage this phenomenon of unrestricted access to information remains strong within the political culture of the Chinese elite.

The real threat to the Chinese leadership, however, may not be so much in access to the types of information offered on the various Web sites, but rather in the “capability to access huge databases and displays of information which, in itself, is politically neutral but which provides a rich picture of alternative social, commercial, and cultural possibilities.”³⁷ Such activity already appears to be taking place. Dialogue among scholars and non-governmental organizations within China and abroad involved in environmental issues, economics, and even politics, occurs extensively via the Internet and permits the Chinese far greater access to all forms of information that might be used to challenge official government policy.

³⁴ Peter Beinart, “An Illusion for Our Time,” *The New Republic* (October 20, 1997): p. 20.

³⁵ Frederick S. Tipson, “China and the Information Revolution,” *China Joins the World: Progress and Prospects*, Elizabeth Economy and Michel Oksenberg, eds. (New York: Council on Foreign Relations Press, forthcoming 1998).

³⁶ *Ibid.*, p. 8.

³⁷ *Ibid.*, p. 32.

Finally, one of the greatest challenges that telecommunications poses to central control is the ability of disenfranchised groups to establish linkages among themselves. Religious leaders, human rights activists, labor leaders, and even peasants (who eventually will be able to access the Internet)—all could gain political strength from the ability to identify like-minded persons in distant locales. For example, in the case of peasants, the opportunity to trade information concerning similar problems of local corruption across township, city, and provincial borders would be transformative. Localized mass demonstrations would be many times more powerful and threatening to the state, were they to blossom into a series of well-orchestrated, perhaps simultaneous, uprisings throughout the country.

In addition to the impact that telecommunications exerts on the explicitly political aspects of Chinese governance, it contributes further to the economic challenges described in the previous section in two important ways. First, it exacerbates problems of regional competition and economic differentiation. Provinces and cities with a more advanced telecommunications infrastructure undoubtedly will leapfrog ahead of those not as well endowed, in terms of the types of industry that they can support, their ability to compete in the international community, and their ability to attract foreign investors. Second, Chinese leaders' efforts to control the content of, and access to, the Internet perpetuates corruption within the system. As the noted Chinese dissident Liu Xiaobo has commented, "Monopoly leads to privilege, privilege leads to unfair competition, and unfair competition leads to corruption."³⁸

ENVIRONMENTAL DEGRADATION MEETS GLOBAL ENVIRONMENTALISM

While the Chinese leadership has clearly identified a number of challenges posed by the globalization of the economy and the communications revolution, it has been far slower to recognize and respond to the threat of global environmental degradation. In fact, China has only recently begun to organize a serious effort to combat its domestic environmental problems. However, the confluence of domestic challenges, global environmental degradation, and most importantly the rise of global environmentalism is producing a number of significant changes in the evolutionary path of Chinese political and economic decision-making in the environmental arena.

Domestic Environmental Trends

China's growing population and economic development have contributed to a range of serious environmental challenges for the Chinese leadership.³⁹ Levels of water pollution and scarcity, arable land loss, and air pollution are among the highest in the world. Further, the economic losses from this pollution and environmental degradation are substantial, estimated to range from 8 percent to 12 percent of annual GNP.

China's reliance on coal for its energy needs has made its air quality among the worst in the world. Five of the world's ten most polluted cities are in China: Beijing, Shanghai, Xi'an, Shenyang, and Guangzhou. Moreover, in many cities, coal combustion has resulted in concentrations of total suspended particulates of more than twelve times that of the World Health Organization standard. This has serious ramifications for the physical well-being of the Chinese people. U.S. analysts report that particulates in China caused 915,000 premature deaths during 1992–95.

³⁸ Ibid.

³⁹ Much of this description of China's domestic environmental trends is abstracted from Elizabeth Economy, "China and East Asia," in *Consequences of Environmental Change—Political, Economic, Social* prepared for the Consortium of International Earth Science Information Network (January 1998).

In addition, acid rain resulting from sulfur dioxide (SO₂) emissions now affects over one-fourth of China's territory, including 30 percent of China's agricultural land.

Economic development has most clearly impinged on China's already scarce water resources. Industrial and household demand has skyrocketed more than 70 percent since 1980 and will only increase as personal income levels and China's economy continue to grow. Water pollution also poses a serious and growing threat to water reserves. The major source of this pollution is industrial waste from paper mills, printing and dyeing factories, chemical plants, and other small, highly polluting and largely unregulated township and village enterprises. Overall, China dumps approximately 80 percent of its 36.7 billion tons of industrial waste-water and domestic sewage untreated into rivers and lakes. Not surprisingly, the most recent National Environmental Protection Agency (NEPA) report, published in August 1997, indicates that water quality in every one of the major river systems has deteriorated from the previous year; fully 86 percent of the water in rivers flowing through China's urban areas is considered unsuitable for drinking or fishing. These problems of water scarcity and pollution are compounded by water prices that do not reflect demand, poor water conservation efforts, and inadequate waste-water treatment facilities.

The implications of these trends are clear. About 60 million people find it difficult to get enough water for their daily needs; there have been serious outbreaks of water-borne disease; and in several provinces, factories are forced to shut down because of lack of water.

Environmental trends suggest that by the year 2020 resource degradation and scarcity will only continue to grow, as will the cost to the Chinese economy. A conservative estimate is that there will be a 35 percent loss in arable land, a 40 percent increase in emissions, and a 150 percent increase in SO₂ emissions.

Global Environmental Degradation

Global environmental degradation also clearly has an impact on China's economic and social well-being. Ozone depletion, climate change, biodiversity loss, and desertification have implications for the full range of socioeconomic activity in China. For example, desertification already is consuming valuable arable land for agricultural production. The World Bank estimates that among its many negative ramifications, global climate change would lead to a rise in the sea level in China that would devastate the most productive coastal industries and force the resettlement of 90 million people. Ozone depletion would contribute further to agricultural loss and rising health costs associated with increased cancer risk.

Of course, the nature and scale of China's economic development has made it a major contributor to all of these environmental problems.⁴⁰ Notably, China is a land rich in animal and plant biodiversity, yet its patterns of economic development have led to the wholesale devastation of a number of species and, in some cases, to the exploitation of resources outside its borders, such as tropical deforestation in Myanmar and Africa.

Despite growing Chinese understanding of the implications of both global environmental degradation and domestic environmental trends for continued

⁴⁰ On an annual basis, China is now the second largest emitter of greenhouse gases in the world and one of the largest contributors to ozone depletion.

economic prosperity and public well-being, Chinese leaders have been unwilling to invest the necessary resources in environmental protection. Chinese environmental scientists, for example, have stated that investment in environmental protection must be at least 2 percent of GDP merely to prevent the situation from worsening. Chinese leaders, however, continue to invest only .85 percent of GDP in environmental protection (which places China squarely in the middle of all developing countries). Moreover, fees for polluting enterprises are set so low that many firms prefer to pay fines year after year, rather than retrofit their factories with costly pollution-control equipment. Still, while global environmental degradation exerts a strong negative impact on China's economic and social well-being, the international community also has had a powerful positive influence on the politics of China's environment. The 1972 United Nations Conference on the Human Environment (UNCHE) and the 1992 United Nations Conference on Environment and Development (UNCED) raised the consciousness of Chinese officials and the public concerning both domestic and international environmental issues. Both conferences also paved the way for significant institutional innovations in environmental protection in China. China's National Environmental Protection Agency (NEPA)⁴¹ was a direct outgrowth of the UNCHE; while China's first genuine non-governmental organizations emerged in the wake of the UNCED, which celebrated the role that non-governmental organizations could play in environmental protection.

Within one year following the UNCED, China became the first country to develop its own plan for sustainable development, *China's Agenda 21*, which was based on the global *Agenda 21* that emerged from the UNCED. Since the UNCED, non-governmental organizations have flourished. The Chinese have been quick to perceive the international desire to support non-governmental organizations in China; in one case, a village in Inner Mongolia set itself up as a non-governmental organization and received funding from the Conference of Parties on Desertification. In addition, the SEPA has aggressively used a variety of institutions, such as the media, courts, and banks to advance its goals. For example, it supports *Huanjing Bao (Environmental News)*, a monthly publication that explores environmental issues and exposes environmental wrong-doing, and develops television and radio programs to educate Chinese citizens on environmental protection issues. Moreover, local environmental protection bureaus have taken polluting enterprises to court (and most recently, Chinese citizens, themselves, have launched class action suits against polluting firms that have caused them economic or physical harm). While not many cases have been brought to trial, there have been some in which polluting firms have paid their fines or been shut down because of a court order. At least in theory, SEPA also cooperates with banks to refuse credit to firms that do not pay their fines or meet environmental standards.

This dramatic political opening in the environmental realm also provides numerous opportunities for cooperation with international actors. The Chinese government generally supports such linkages because, as in the economic realm, they offer opportunities for training, funding, and technology transfer. International non-governmental environmental organizations are increasingly active in cooperative ventures with Chinese actors at all levels of government, and with their non-governmental organization counterparts in China. China is also the largest recipient of environmental aid from the World Bank, the Asian Development Bank, and Japan. Conservative estimates suggest that one-third of all financing for Chinese

⁴¹ In the wake of the 1998 National People's Congress, NEPA was elevated in bureaucratic rank to the State Environmental Protection Administration (SEPA).

environmental protection derives from foreign sources. Moreover, these organizations have had an important, albeit still limited, role in environmental policy reform in China, in areas such as coal pricing.

What is perhaps most striking in the case of Chinese leaders' approach to the environment is the extent to which they have permitted political activism to substitute for economic reform. Again, however, this activism is carefully monitored and contained to ensure that it does not serve as a catalyst to challenge the regime's legitimacy, as in Eastern Europe. Thus, for example, according to one Chinese environmentalist, the Ministry of Public Security prevents non-governmental organizations from establishing affiliate organizations in other cities and provinces. Still, the environmental arena reflects a degree of political reform and autonomy for political actors that is not evident in any other realm.

IV. CONCLUSION

The international community seeks to engage China as a partner in meeting the emerging threats of international crime, drug trafficking, nuclear proliferation, and environmental degradation. Both China's historical outlook on international cooperation and its current domestic challenges suggest that this will be a long engagement, fraught with tension and conflict as China's leaders discern the level of commitment they are prepared to undertake.

Chinese leaders remain troubled by even the slightest loss of sovereignty, such as permitting external monitoring of their activities. Advocates of true interdependence and notions of collective responsibility are few. Thus, in many cases, China must be cajoled, bribed, or embarrassed into participation. Yet, Chinese interest in participating in international regimes has clearly grown over the two decades since 1972, and increased involvement has engendered pockets of new thinking and the emergence of new actors with strong linkages to the international community. This trend holds the promise of real change in the future.

If China's interest in participating in international cooperative efforts is at best mixed, its capacity to fulfill its international obligations is even less certain. There are at least two underlying reasons for this uncertainty.

First, as China's leaders attempt to cope with the pressures of a political and economic system in transition, they are simultaneously being buffeted by international forces over which they have little control. As the previous discussion suggests, they are uncomfortable with this loss of control yet not willing, or in some cases able, to reassert their authority. In each of the three areas discussed—economics, politics, and the environment—they have let the genie out of the bottle and cannot yet persuade him to get back in. Moreover, the international trends—globalization of the economy, the communications revolution, and the mixed blessing of global environmental degradation and global environmentalism—in many ways reinforce this loss of central authority.

Second, one could argue that in any case a more decentralized system of authority, relying on responsive local officials, non-governmental organizations, and an independent local judiciary, is necessary to respond effectively to transnational threats. In this regard, the international trends enhance the capacity of China to play a positive role in international cooperative ventures: globalization of the economy demands the rule of law, the communications revolution enhances the transparency of political institutions, and global environmentalism heightens the role of non-governmental actors. And, indeed, Beijing has supported the development (within bounds) of all of these. Yet the trend toward enhanced state capacity, in a highly decentralized form, is countered by decades of corruption which continues to undermine the legitimacy and efficacy of local authority (and implementation of international agreements); a raft of economic and social welfare issues that genuinely could threaten the stability of the central government (mass demonstrations by laid-

off workers coupled with widespread migration and resource pressures suggest that Beijing's fear in this regard is not entirely misplaced); and a leadership which is reluctant to expand the arena for genuine public participation, for fear that ultimately its own legitimacy will be undermined.

Thus, the potential for China to be an effective, responsible, and committed participant in international regimes exists and, in fact, is likely to grow. However, the process will be a tortuous one that will proceed in fits and starts, as Beijing attempts at once to chart a new path into unfamiliar territory while continuing to rely on old maps.