

How China Exercised Its International Power?

Shengping Guo

54th Annual Conference of the American Association for Chinese Studies

October 12-14, 2010

Georgia Institute of Technology, Atlanta

China's rise in the age of globalization is one of the great dramas in the world (Ikenberry, 2008). Since the onset of the reform in the early 1980s' rural land system (Chin, 2005), China's explosive economic growth has largely changed its importance on the international stage economically and politically. China has achieved its international power.

Based on Susan Strange's discussion of the international power in her essay, "What is economic power and who has it?"(1975), this paper argues that, China has gained its economic and political power for its labourer sources, market opening, economic relationships with other countries, and wide transaction in the world. China's rising global profile can be described as follows: a large rise of multinational investments in its southeast coast, establishing the export-oriented township and village enterprises in the rural areas with the huge floating population of labourers; Beijing's sophisticated relationships with the main Western countries and the coalition with the global south in the bargaining of international fora; China's formulation of its national rules affecting its large domestic market – an important part of world market, its trade agreements with Hong Kong and with Taiwan, and its investment in the worldwide range.

### **I. Susan Strange's Power Theory**

In the paper "What is economic power and who has it?" Susan Strange advanced her economic power theory. Her main ideas were as follows: a state's power can be defined as another state recognizes that it cannot be ignored that specific state when issues have to be determined in the international system (F. S. Northedge, ed, as cited in 1975). Economic power is the form of power which is derived from an economic relationship. No "purely economic" or "purely political" power in the international level. They are together, so both

are both (J. Pen, as cited in 1975). There are two kinds of power, relationship power and structural power. "Relation power...is the power of A to get B to do something they would not otherwise do" (1994).<sup>1</sup> Economic power includes market power, bargaining power, domestic rules power, and transaction power. Specifically, economic power is exercised in the international system at four different stages: one is market power on the structure of the world market economy which means the pattern of investment, production, trade, and consumption; one is bargaining power on governments acting together and after political bargaining to erect framework of minimum rules for the maintenance of stability, order, and justice in the world market economy; one is domestic rules power on the national government's formulation of national rules governing access to factors of production, credit, security, and knowledge affecting economic enterprise and economics transactions; another is transaction power on every actual economic transaction at the operational level to both sides, buyers and sellers, creditors and debtors (1975, 1994). This essay will demonstrate the linkage between Strange's power theory and the reasons why China achieved its international power.

## **II. Market Power and Floating Population, TVE Exports**

The story of the People's Republic of China's (PRC) rising power on global stage began in its rural area because the market match of foreign investment and domestic labourer. After two years of one of the PRC's main founders, Mao Zedong's death in 1976, in Post-Mao and Deng era, China started to connect with world market through changing its

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<sup>1</sup> Susan Strange, *States and Markets* (2nd ed.), London: Continuum, 1994, pp.24. In this book Strange also discusses the structural power as a power of making the game rule in the world economy based on the security, production, finance, and knowledge structure.

course of socialism with two significant features: one was to introduce the rural household contract responsibility system (Chin, 2005) permitting the peasants to cultivate their own field (*zeren tian*, 责任田) and to exchange their surplus agrarian products in the trade market, the another was to open its door to the Western countries importing the foreign investment, advanced management and technology.

The two strategies got success rapidly. In rural areas, before the reform the majority of Chinese population resided and some people didn't have enough food to feed themselves, but after reform the surplus production was sold and bought in the market, and the surplus labourers were floating according to the market's call. As the market's penetrating to the segregated city and countryside, young peasants were "streaming into the market town" in 1984, and 12.8 million rural migrant labourers (*nongmin gong*, 农民工) were holding temporary jobs in state owned enterprises (*SOEs*, 国有企业) in 1993 (*China Daily's Business Weekly*, as cited in Solinger, 1999)<sup>2</sup>. Even though their range of occupational options was outside the state, they didn't belong any state unit (*danwei*, 单位) and didn't have an officially registered household (*hukou*, 户口) in cities, towns, or even in the new developing villages, but they were urban "villagers" and they were following to the big labourer market (Solinger, 1999).

On the other hand, the opening policy connected the world market and China's economy by establishing the township and village enterprises (*TVEs*) (*xiangzhen qiye*, 乡镇企业) in the rural areas of the southeast coast. China got the *TVEs'* market opportunity to entry the international power stage.

*TVEs* were export-led joint ventures, which were actually managed by the alliance

of private investors and local Chinese Communist Party (CCP) officials (Zweig, 1995). The investors of TVEs preferred the low-price labourer, cheap land, and deducted taxes by China's governments, selling their products to world market through the foreign trade system which was controlled by the China's governments. By 1991, there were over 7,000 rural joint ventures, about one-fourth of the joint ventures in China (Zweig, 1995); TVEs had attracted some \$5.85 billion in overseas fund (*Foreign Broadcast Information Service, China Daily Report*, as cited in Zweig, 1995); rural industry, excluding the rural service sector, accounted for over 26.6 per cent of China's industrial production; and TVEs, including the service sector, employed 96 million workers and surpassed SOEs which employed 60 million workers (*Xinhua Overseas News Service*, as cited in Zweig, 1995).

TVEs' market pattern of investment, production, trade, and consumption in the costal rural areas matched China's comparative advantages of labourer and land, shaped its market-oriented structure, linked the world market with China, thus according to Strange's theory of market power, China achieved its power in the international level, and obtained more market power when its economy growing more fast and getting bigger size.

### **III. Bargaining Power and China's Speedy Growth,**

#### **Beijing's Coalition in International Fora**

China also strengthened its economic and political power from its consistent fast growth. Focused on economic cooperation and absorbing massive foreign investment, China changed its sophisticated relationships with the main Western countries and developed a coalition with the global south, thus achieved its bargaining power.

According to Peter Nolan & Wang Xiaoqiang's article "Re-organising Amidst

Turbulence” posted in 1998, China’s average annual growth rate of GDP was 10.2 per cent in 1980-90 and accelerated to 12.8 per cent in 1990-95; China’s average annual growth rate of export was 11.5 per cent in 1980-90, and speeded to 15.6 per cent in 1990-95; in 1994-96 for three successive years China was the second largest recipient of foreign direct investment after the US (*Financial Times*, January 9, 1997); in 1995, the US’s directed investment in China approved to \$3.1 billion, the Sino-US trade surged to \$42.8 billion, and China’s trade surplus with the US rose to \$23.1 billion from \$2.5 billion of 1979 (*Financial Times*, March 13, 1997); by 1996 around 200 of the world’s largest 500 companies had invested China (*Business Weekly*, June 29, 1997) and around 52 per cent of China’s total sales of sedan car was accounted by the giant joint venture, Volkswagen Shanghai (*Business Weekly*, January 5, 1997); by 1997 around 26.6 per cent of Coca-Cola’s total soft drink sales was in China.<sup>2</sup>

With huge size and the most continued period of explosive growth seen by any economy, China stimulated a massive capital inflow. China became one of the main traders or business partners with the US, the EU including Germany, France, Great British, and so on, Japan, Russia, and Southeast Asia, and obtained its bargaining power Strange mentioned.

According to Stern Halper (2010), focusing on economic and trade advantages, Beijing has forgiven billions in loans to African nations and helped them with infrastructure projects. Beijing has already built a coalition of countries – many of them in Africa – large

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<sup>2</sup> According to Nolan & Wang’s research in Coca-Cola Company’s *Annual Report* of 1997, Coca-Cola’s share of carbonated soft drink in China is even higher. Also, this paragraph’s data are all cited from the two authors’ article which mentioned the origin of data from World Bank’s *World Development Report* in 1996 and 1997, *Financial Times* and *Business Weekly* I noted, *Chinese Economic Yearbook* (Zhongguo tongji nianbao 中国统计年报) of 1996 by the State Statistical Bureau of the PRC, and the statement in the article, “On Sino-US Trade Balance,” by the State Council Information Office of the PRC in *Beijing Review* (Beijing zhoubao 北京周报), Vol.40, No.14, April 7-13, 1997.

enough “that can be trusted to vote China’s way in an increasing clogged alphabet soup of international fora,” which include the World Trade Organization (WTO) and the United Nation (UN). Beijing paid particular attention on Venezuela, Kazakhstan, and Nigeria, which own large oil and natural gas reserves. Beijing also actively developed friendly relationship with “failed” countries from Western viewpoint without conditions, such as Zimbabwe, Sudan, Myanmar, and Yemen, which for the West were a problem, but for China, they were treated as an opportunity (Follath, 2010).

To increase its bargaining power, China has become a main host of smaller multilateral organizations which didn’t invite the United State of American to join, like the East Asian Summit and the Forum on China-Africa Cooperation. Under China’s “de facto leadership” the Shanghai Cooperation Organization includes Russia and most of the Central Asian Countries (Follath, 2010). Following the strategy of “peaceful development,” China has reached a record of more than thirty years no attacking any other country. “China’s blend of a market economy and Leninism, economic diversity and strict one-party control as an attractive alternative to democracy” is increasingly eyed by the developing countries (Follath, 2010). Through the accelerated growth and capacity of bargaining and coalition, China increased and practiced its bargaining power with other countries.

#### **IV. Domestic Rules Power and China’s National Policy**

With the large domestic market as a part of the world market, the nation as a home state of the multinational enterprises for global strategies, China controlled its national rules power “through the formulation of national rules governing access to factors of production, credit, market” (Strange, 1975), security, and knowledge (Strange, 1994). For example,

during 1992 to 2003, China had established six agencies as independent regulators - China Securities Regulatory Commission (CSRC, 中国证监会), Ministry of Information Industry (MII, 信息产业部), China Insurance Regulatory Commission (CIRC, 中国保监会), Civil Aviation Administration of China (CAAC, 中国民航管理总局), State Electricity Regulatory Commission (SERC, 国家电力监管委), and China Banking Regulatory Commission (CBRC, 中国银监会), regulating its six strategic industries. However, considering its national security, the state still controlled these “commanding heights” (*jingjin mingmai*, 经济命脉) - the infrastructure industries of telecommunications, electric power, civil aviation, the financial services industries of securities, insurance, and banking, because these regulators still possessed four salient features until 2003: state ownership, dominance of the state and the CCP, origins of the former ministers, and the fragmented and ambiguous authority (Pearson, 2005).

Beijing also dominated the formulation of its cross-area trade and international investment policy. For instance, in 2003 China signed the Closer Economic Partnership Arrangement (CEPA) with the Special Administrative Region (SAR) of Hong Kong. In 2010 mainland China signed the Economic Cooperation Framework Agreement (ECFA) with Taiwan, to cut tariffs on a number of items and promote closer cross-area investments. As the bilateral commercial agreements, CEPA and ECFA were based on a more opening market of the PRC. Their benefits and influence to both Hong Kong and Taiwan are considerable. Also, under the guide of China’s national regulations of international investment, China was investing in minerals, oil, and other raw goods world wide. According to the statistics of Derek Scissors, between 2005 and 2009, China had invested in billions of dollars to Africa

\$62.6, North America \$59, Australia \$58.5, EU \$53.1, Middle East \$49.5, Asia \$44.9, and Latin American \$19.2 (as cited in Halper, 2010). China was buying not just minerals, oil and other goods, but “diplomatic favors and loyalty” (Halper, 2010). In a summary, some of China’s domestic rules power has achieved the world stage.

### **V. Transaction Power and Conclusion**

As showed above, China’s financial aid and investment in African might been exchanged with the China’s benefits of voting within the WTO or the UN. We can’t count the economic accounts or political accounts. Also, we can’t count China’s power over the market, trade, investment, bargaining coalition, and formulation of domestic policy, but we did know that, at operational level China exercised power on every actual economic transaction, either as the buyer or seller, the creditor or debtor. According to Strange’s power theory, China achieved market power, bargaining power, domestic rules power, and transaction power. China thus achieved its economic and political power because its comprehensive complexity of abundant labourer sources, opening huge market, continuous speedy growth, strong economic relationships or coalition with other countries, and wide investment in the world. China’s successful practice on power provided a vivid example to examining Susan Stranger’s power theory in today’s world market and political economy.

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