China's Economic Multilateral Diplomacy

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China entered the world as a communist state in 1949, after a century of imperial occupation, Japanese conquest and colonisation, civil strife with warlords, and bloody struggle between the nationalist forces of Chiang Kai Shek and Mao's Red army. The China that was won by Mao was in ruins. Not only that, it was immediately ostracised by much of the world. The US recognised the rump nationalist regime that had fled to Taiwan as the government of China, and denied Beijing diplomatic recognition and a seat in the United Nations. This also meant exclusion from the UN Security Council, and therefore a place at the 'top table' of global diplomacy. Insofar as the Security Council comprised the victors of World War II it could be argued that Chiang's forces did more of the fighting against the Japanese than Mao's – and this was true. But it is not that the communist forces did not engage the Japanese at all. There were very bloody battles. However, as an expression of global power, the Security Council was incomplete without Beijing – although, here again, it could be said that the China that was won by Mao was hardly powerful in 1949. Even so, the issue became the first serious politicisation of the UN structure – where a government of a vast territory was denied a place because of the emergence of Cold War politics. The problem for China was that it was also excluded from a lot more.

The Chinese 'Three World' theory, discussed earlier in this book, was part of a political response in the mid-1970s to exclusion. It proposed the formation of China's own political alliances and blocs, in the face of exclusion or marginalisation from others. Even after the *rapprochement* with the US in 1971 and 1972, and the assumption of its UN Security Council seat, Chinese suspicions of the superpower world were high. However, it took the Chinese even longer to gain entry to the world's global economic institutions. The US, in particular, were reluctant to allow this. And, even with eventual entry, China's almost default foreign policy strategy kicked in with plans to form its own very alternative global economic structures. It was prepared to do this at great cost – but it hoped for very great long-term returns, not only economically, but it terms of the political leverage that economic hegemony would bring.

Excluding architecture

The post-World War II architecture included institutions for cooperation (e.g. the UN), for close quarter collaboration (e.g. what became the EU), for what was called 'harmonisation' (e.g. the Organisations for Economic Co-operation and Development (OECD)). This was apart from the financial institutions (e.g. the World Bank and IMF) which were formed for highly constrained but effective forms of economic regulation to accompany the facilitation of capital flows. Here, the circulation of capital became more important than its mere accumulation. As long as it was a circulation dominated by the West, all was well with the World Bank and IMF. We shall return shortly to that. The practice of 'harmonisation' in the OECD was one where capitalist countries, by consultation and research, did not develop too far apart from one another, and each was able to remain fiscally in touch with the others at all times. In many ways it was the OECD that furnished the post-war triumph of global capitalism and prevented it from being a house that could have fallen apart.

Its political counterpart, comprising the most economically powerful countries, was the G7 – sort of like a political Security Council of the OECD. The developing world, in the form of the NAM, established its own counterpart to the G7, the G77, which campaigned for a more egalitarian global economic order. The entire late 1970s and early 1980s quest for what was called a 'New International Economic Order', aided and abetted by high-level expert groups such as the Brandt Commission,[1] was a key agenda item of the G77. China, however, was not included in the World Bank, the IMF, the OECD, or the G7 – and it was not even invited to join the G77, which was founded in 1964, until 1981. China might have wanted to lead the developing world, but was still to an extent distrusted by it.

The G77 was the developing world's response to the exclusive nature of the G6, as it first was, founded in 1975. The G6 included France, Germany, Italy, Japan, the US and the UK. It became the G7 with the addition of Canada in 1976. These were the world's richest capitalist economies and were part of the Cold War architecture which seemed dated when the Cold War died down after the fall of Communism in 1989. Even so, it took until 1997 before Russia was added to the group and it became known as the G8 – although the G7 has met without Russia since its annexation of Crimea in 2014. This expressed the continuing use of the group as a political as opposed to a purely economic device. No invitation has ever been extended to China.

It was only in 1999, with the establishment of the G20, that China secured a seat at an expanded top table. The G20 included Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the UK, the US and the European Union. Its establishment recognised that global capital and its artefacts – production and trade – were no longer at the command of only the great post-war powers. The G20 disposed of 85% of the world's gross product, 80% of world trade, and contained two thirds of the world's population. But this means that, as late as 1999, the exclusionary practices of world politics had kept China from full membership of the global economic system's summitry. The UN's Security Council was well and good, but China's economic outreach needed the friends and partners it found within the G20.

China's inclusion in the world's financial and economic organs has been uniformly slow. The World Trade Organisation (WTO) was established in 1995, but China only gained membership in 2001. The World Bank Group was established in 1944, but China gained membership only in 1980. However, the real issue at stake with Chinese membership of the World Bank is voting strength. It was only in 2010 that China's vote rose from 2.77% to 4.42% – based on capital made available to the group. The strongest vote in the World Bank is that of the USA with 15.85%. Japan's is second with 6.84% and this leaves China in third place, ahead of all European powers, Russia, India and Saudi Arabia. But the gap between 15.85% and 4.42% is a huge one, leaving the US as still the dominant player in the World Bank, and reluctant to allow the Chinese any further increase in capital subscription and voting strength. The US Congress has also been reluctant to ratify the 2010 agreement on expansion of Chinese strength in the IMF. Even former Federal Reserve Chairman, Ben Bernanke, on 2 June 2015, blamed Congress for the Chinese banking initiatives discussed in the next section of this paper.[2]

But 2009 also saw agreement that the G20 would replace the G8 as the main economic summit of the world's wealthiest nations. In a sense, the limit to Chinese strength in the World Bank only added to the determination of China to use the G20 as a springboard and kind of unifying device for its own plans towards global economic strength.

It is in this light that we can see the rise of Chinese interest in the foundation of other banks, and of a sort of 'Security Council' within the G20 – one that this time, in a reversal of its own Cold War exclusion, excludes the Western powers. By that I mean the BRICS consortium is well placed to assume a commanding role in the G20. All the policies and strategies involved will likely come together in a visible global vision at the 2016 G20 in the beautiful lake city of Hangzhou, China.

It will have taken eight years for China to be given a turn to host the G20. Since 2008, the annual event (although there were two G20 summits in both 2009 and 2010), has been hosted in Washington DC, London, Pittsburgh, Toronto, Seoul, Cannes, Los Cabos (Mexico), St. Petersburg, and Brisbane; and was hosted in Antalya (Turkey) in 2015.

Of banks, roads, belts, and great corridors

There is an emerging alternative, perhaps rival, global architecture. This will reprise and expand greatly all that China has practised for many years, and that is transport corridors of rail and road, but now also lined with infrastructure for community benefit. It will involve new multilateral banks in key regions, but they will be banks in which voting is not based on strength of capital subscription, but purely on a one-member-one-vote basis, without any Chinese veto – even if China is the main financier. It will see an overarching role for the new BRICS Bank, and it is this that is likely to make its first major programme of loans at or near the time of the G20. It will also see, in addition to transport corridors across land, maritime corridors and, here, there will likely be a role for a refurbished Chinese navy. With this, the global economic geography would also assume a geopolitics that will see the return, minus Russia at this stage, of global superpower rivalry – albeit couched in the friendliest of language and the most careful of diplomacy.

The first key area of direct rivalry is in the Asia-Pacific, with the US launching the Trans-Pacific Partnership (TPP) – albeit with some domestic misgivings in member countries about job security in a liberalised trade zone. China is not included in the TPP, but has secured agreement in 2014 from regional countries for an Asia-Pacific Free Trade Area – an ambitious and upscaled outgrowth of earlier Doha Round talks. This will require some years of planning and strategic preparation – but the immediate challenge to the TPP will be the new Asian Infrastructure Investment Bank (AIIB), which, although not concerned directly with trade, will hugely influence capital flows in the region. Figures vary, but it is to be capitalised at least at $50 billion, with China providing half if not more of this figure. Australia, with US prompting, at first said it would not join the AIIB, but then changed its mind. A non Asia-Pacific power, the UK, also wishes to be associated with the new bank. Western powers perceive the effect the AIIB will have in economic development and fiscal flows in the region. We shall dwell upon the implications of the name of the bank – especially what is meant by 'infrastructure' – below. For now, if the AIIB is a challenger to US plans in the region, then China is also launching a challenge to Russian interests in the area of the Silk Road.

This is where the intriguing vocabulary of 'one belt one road' arises – for the land route will also be an infrastructural corridor, with communications and energy systems and facilities as part of a provision which will go far beyond transport. The road will be paralleled by a maritime 'Silk Road' route, so that China's links with the countries to its west and south-west will be comprehensive ones that will also considerably develop those countries themselves. This 'one belt one road' project is being capitalised at some $50 billion, about half if not more coming from China.

An extension of the Silk Road project will be the 3000 km southern route through Pakistan. It will link China to the Indian Ocean by a direct transport artery. It will also have an electronic communications and energy infrastructure and, more importantly to Pakistan, it will open up for the first time the capacity of Pakistani governmentality of its problematic northern territories. At a stroke, these territories, home to Taliban and other bandit societies, will be made accessible, and the populations of those territories will be able to enjoy developmental benefits and thereby be weaned from the outlaw organisation of their lives. This is expected to involve some $46 billion of Chinese investment and, of course, has raised great interest in India, Pakistan's rival regional power, with Prime Minister Modi himself now interested in a new relationship with China.[3]

Everywhere one looks, the Chinese are making plans and achieving agreements with powerful and strategic partners. $50 billion is proposed for new infrastructure, transport and steel projects in Brazil.[4] There is talk of a trans-Amazon transport link across Brazil and Peru, to be built by the Chinese.[5] And, of course, there is Africa – where much talk and speculation is concentrated on the size and nature of Chinese investment. Some of this suggests Chinese investment of as much as $100 billion by as early as 2020. By the same year, according to the Chinese Premier, Africa-China trade will double.[6] This is a rather huge projection, and it remains to be seen how it will be done. If there is not greater African productivity of goods or materials sought by China, then will it be in goods from China to Africa – in which case, where is the African absorptive capacity? Chinese ambitions towards Africa may not yet be fully blueprinted, but the signals are certainly being given that huge investments are being contemplated. Much of this, as in the Silk Road, Pakistan, and Brazil, will be infrastructural. The final completion of a Cape-to-Cairo transport link, first proposed at the dawn of colonialism by Cecil Rhodes, may be ironically due to China – itself being imperialised by the West at the same time Africa was. Transport is of course a hallmark of Chinese involvement in Africa. The Tazara Railway, linking Zambia to the sea via Tanzania, at the time of white stranglehold on transport routes south through Rhodesia, controlled by white rebels, and South Africa, controlled by Apartheid, remains the template for all visions of what the Chinese can do for the continent. The more recent huge plans to build a transport corridor across southern Democratic Republic of Congo, with infrastructural provision, and which aroused great antipathy from the West, is an updated version of the same template.[7] That too, as in Pakistan, would have increased governmentability and enhanced development in a volatile and troubled region. But, if 2020 is a target year, then the G20 in 2016 may represent a best-possible moment for the specifications of what investments will entail.

A meditation

How does foreign policy conceive of cultural animations? It seems a distant question to associate with Chinese global economic outreach. However, earlier in this chapter I used the term 'default strategy'. If excluded from global organisation, then the post-War Chinese history has been to seek, with immense patience, the moment of inclusion – but, simultaneously, seek not just inclusivity but centrality within alternative forms of organisation. These alternatives are conceived and constructed, again with immense patience and the patina of partnership with selected others, with extremely grand capacities. They become not only alternatives but challenges to those structures and organisations from which China was once excluded. The grand – almost grandiose – alternatives/challenges have China as a central planner and player. They situate China in the centre of the world. Perhaps the West left it far too long to begin the process of bringing China in from the cold, in from the Cold War – and then made the mistaken assumption that, once finally in, the Chinese would become an important, but also just another large player in the global diplomatic and economic architecture. Once 'in', there could be placed upon China an entire range of control variables, not least from the voting power of the US in the IMF, and repertoire responses and protocols of operation of other institutions. Certainly China, in its new institutions, may be intent upon new repertoire responses – perhaps genuinely sympathetic ones to the needs of non-Western development in emerging nations. There may be a genuine outreach here, but also perhaps a modernised and globalised form of chauvinism. Also, perhaps certainly in terms of irony, the exclusion and marginalisation of the 'Middle Kingdom', the 'Central Kingdom', may now rebound upon those who were the excluders – as China seeks to be, this time in genuinely global terms, the kingdom that is the centre of the world.

*The central argument of this chapter draws from: Stephen Chan, *A Prognosis and Diagnosis for China and the 2016 G20: The Politics of a New Global Economic Geography* (Brighton: Institute of Development Studies, 2016).

Notes

[1] Independent Commission for International Development Issues, *North-South: A Programme for Survival*, London: Macmillan, 1980.

[2] http://www.cnbc.com/2015/06/03/us-congress-pushed-china-towards-aiib-bernanke.html

[3] http://www.bbc.co.uk/news/world-asia-china-32718384

[4] http://www.bbc.co.uk/news/business-32747454

[5] http://www.bbc.co.uk/news/world-latin-america-32858944

[6] http://www.scmp.com/news/china/article/1505388/trade-africa-will-double-2020-li-keqiang-tells-ethiopia-conference

[7] Chan (2013), pp 31-33.

About the author:

Stephen Chan OBE was Foundation Dean of Law and Social Sciences at SOAS University of London, where he remains as Professor of World Politics. He has occupied many named chairs around the world, most recently the Konrad Adenauer Stiftung Chair of Academic Excellence at Bir Zeit University in 2015, and the George Soros Chair of Public Policy at the Central European University in 2016. He was the 2010 International Studies Association Eminent Scholar in Global Development. As an international civil servant he helped pioneer modern electoral observation in Zimbabwe in 1980, worked in many post-conflict zones – where 'post' was a largely fictional if politic appellation – and continues to be seconded to many diplomatic initiatives around the world today. He is the author of *Meditations on Diplomacy: Comparative Cases in Diplomatic Practice and Foreign Policy* (2017).