



# Executive Summary

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As the world continues to experience the fallout from the 2008 financial crisis, it is increasingly turning towards China. The outsourced 'workshop of the world' has become the world's great hope for growth, and the source of the capital the West's indebted economies so desperately need. Simultaneously, and in the United States in particular, commentators and policymakers have increasingly voiced concerns that the economic clout of a communist superpower might pose a threat to the liberal world order. These contradictory impulses – China as opportunity and China as threat – demonstrate one clear truth, exhibited in the Obama administration's much-trailed 'Asian pivot': that China is important.

The pace of China's integration into the world economy, as well as the relatively closed nature of China's government and society, means that whilst China's economy may have opened up, our understanding of what drives China's foreign and economic policies remains limited. Moreover, China's apparent adherence to Deng Xiaoping's code of caution and camouflage makes the task of throwing a light on China's international role even more difficult, an opacity which underpins the more alarmist assessments.

It is in this context that this report attempts to provide a systematic assessment of the economic bases of China's foreign policy and the challenges the country faces as it makes the transition from rising power to superpower. In doing so, it is informed by a central question, of to what extent China's remarkable growth has given rise to a geoeconomic strategy for China's future.

The answer, in short, is that China's foreign economic policies are not the result of a coherent, directed strategy. China's leadership understand the overarching need to rebalance China's economy, both domestically and internationally, in order to sustain growth and secure the country's continued development. But beyond this overarching goal there is little evidence of a plan as such; instead, particular domestic priorities and politics drive China's policies, often in contradictory directions.

Nowhere is this more marked than in China's military build-up and increased strategic assertiveness within its own region, marked by a series of incidents in which the competing impulses of a variety of domestic actors played a greater role in the crafting of policy than a strategic consideration of diplomatic interests. This haphazard approach, as Jonathan Fenby demonstrates, is having the paradoxical effect of reinforcing the ties of American hegemony in the Asia-Pacific.

Not only is China not conducting a coherent geoeconomic strategy, it is often not in direct control of the policies it has, even in so important an area as access to resources, as Shaun Breslin's analysis shows. Nor is China necessarily that competent in the international economic arena, as demonstrated by the decidedly mixed record of its firms' international investments. Significantly, these failings of foreign-economic policies are increasingly producing diplomatic difficulties for China.

This analysis suggests that ascribing a strategic plan to China – whether for the purposes of opportunity or threat narratives – is misplaced. China is attempting to come to terms with its integration into the world economy, its importance within that economy, and the pressures and responsibilities that emerge from those distinctly political realities. China’s foreign economic policies, and in particular how it goes about rebalancing, will shape the world economy in the years ahead, and understanding the sources of those policies will be central to good policymaking in the West. As the analysis here shows, China’s leadership is pragmatic, but it is also subject to significant and conflicting pressures both domestically and internationally. There are signs that China is beginning to reconcile itself to its role within the global economic system, particularly on issues such as trade governance, but it is by no means clear that China is willing or capable of using its position to strategically reshape that order. Ultimately, as Arne Westad points out, China’s international role will be determined by what happens within China, and how China’s leaders mitigate the political consequences of economic rebalancing. If they succeed in doing so, China’s geoeconomic strategy need no longer be the source of so much diplomatic debate.■