



SALZBURG GLOBAL SEMINAR

China as a World Power

Expert recommendations for Chinese and international policymakers

China would benefit from greater transparency about its policy-making processes, in order to build greater trust and confidence among its partners in the international system. The West needs to make greater efforts to understand China, and work out longer-term, more consistent strategies for dealing with it. And other countries, especially other emerging economies, need to be more strategic in using their developing relations with China to strengthen their position, both individually and collectively, within an emerging multipolar international order.

These were among the main conclusions reached by 50 policymakers and analysts from China and 27 other countries who met last month in Salzburg, Austria – just three weeks after China’s new leadership took over – to debate the question: “China in the 21st Century: What Kind of World Power?”

Convened by the Salzburg Global Seminar, an independent conference center, the group sought to make constructive suggestions both to China itself and to other countries that will interact with it over the coming decade. Its aim was to assess the likely extent and nature of China’s rising power, and as far as possible to recommend courses of action that would make for a more harmonious world, in which shared global challenges can be met by effective and coordinated action. It was chaired by Isabel Hilton, editor of www.chinadialogue.net (a pioneering bilingual website devoted to climate change and environment), and included leading academics, journalists and policy advisers from China as well as China experts from the United States, the European Union, India, Indonesia, Japan, Russia, and a range of other countries from Afghanistan to Egypt to Argentina.

The conference deliberated for five days, from December 4 to 8, 2012. For much of this time it split into thematic working groups, which considered:

- (i) China: World Leader in Waiting or Conflicted Superpower?
- (ii) Human Rights in China's Foreign Policy
- (iii) China's Approach to Multilateralism
- (iv) Governance and Social Insecurity in China
- (v) China's Quest for Energy and Natural Resources
- (vi) China's Expansion to Latin America.

But on the final day participants rearranged themselves into three different groups, one of which formulated policy suggestions for China itself on engaging with the rest of the world, while the other two made recommendations for, respectively, Western countries and the rest of the world (especially other emerging economies), on how to interact with China. Their findings are summarized below.

I. Policy recommendations for China on engaging with the rest of the world

a. International Norms and "Soft Power"

As an emerging power and responsible international actor in the world, China could promote the observance of international norms and values by embracing them in its own action, both domestic and international. Up to now China's style of domestic governance has often appeared to conflict with such globally accepted norms and values as responsibility, transparency and human rights. If China's Party-state wishes to convince the world that in fact it favors compliance with agreed international norms, this needs to be reflected in actual policies both at home and abroad. Such policies could greatly increase Chinese "soft power" – something the country badly needs at a time when its economic and military strength is developing very rapidly.

b. International Security

- It will be greatly to China's advantage if it can make its conduct of international affairs less opaque and more predictable.
Transparency will help to reduce mistrust.
- It will be in China's interest to engage in more robust strategies of building trust with other stakeholders, and to promote reciprocity in its interaction with them. China may (in consultation with other stakeholders) build crisis management mechanisms to address specific issues and conflicts. Such mechanisms may take the form of one or more non-binding fora for regular and emergency

dialogue, with negotiated terms of reference, in order to maintain lines of communication between stakeholders even in the most tense of times.

- China would also benefit from being more transparent in its decision-making processes. Allowing outsiders to form a clearer understanding about the inner workings of the Chinese administration and systems would help alleviate unnecessary tension and suspicion among other stakeholders. When dealing with sovereignty claims, China would greatly benefit from embracing a more transparent code of conduct, to encourage greater trust and confidence among other stakeholders. This approach would further augment China's participation in multilateral platforms and strengthen worldwide and regional belief in its commitment to resolve disputes through peaceful means – dialogues and consultations. To strengthen this, it would be useful to have more effective communication at various levels among the civilian and military hierarchies of China and other stakeholders.

c. Non-Traditional Security (NTS)

China, like many other countries, faces a range of NTS issues such as transnational diseases, environmental degradation, air and water pollution, corruption, and many others. These issues cannot be curbed or halted by traditional border-based control mechanisms. Their cross-border nature requires international cooperation in efforts to mitigate them. Therefore, China can deal with these issues more effectively by putting in place clearer and reliable mechanisms at home, and working more closely with international partners abroad. On issues such as energy, China can provide leadership by actively promoting renewable and environment-friendly technologies, which will help to lessen energy pressures on China itself.

d. Economic Relations

China may consider adopting robust, resilient and transparent policies on trade, and on international frameworks for regulating both trade and financial markets. The following suggestions may be considered:

- (i) allow a level playing field and reciprocity for all market participants;
- (ii) be in full compliance with the international standards and regulations, and fulfill the commitments that China has already

given, e.g. in the World Trade Organization, Bank for International Settlements and G20; ¹

- (iii) help ensure local and global economic and financial stability, in particular exchange rate policy, banking stability and monetary policy;
- (iv) show a continuing commitment to promoting and improving fair, transparent and robust policies on trade, the regulatory framework, and sustainable development.

e. Domestic Governance

Over the years abuses of power by local officials, and the level of public dissatisfaction these have provoked, have frequently been cited, both at home and abroad, as a major source of instability in China. Bureaucratic hurdles, coupled with a lack of public input into decision-making, may thwart China's efforts to achieve accountable and transparent local governance. Therefore, local democracy at township or even county level needs to be introduced. When a certain number of local officials are chosen by local citizens, the new local governance model will be able to establish an accountability system that requires all local government officials to answer for their conduct; more effective supervision of these officials both from above and from below; greater participation by local people; and a more effective system for managing public complaints. Establishing an independent governance monitoring organization may help deal with these challenges, and contribute to meeting China's need for more efficient and transparent governance.

II. Recommendations for Western countries on interacting with China

a. Background Considerations

- As a rising global economic giant, China is less and less willing to listen to Western hectoring, lecturing, preaching or teaching. Nor is it receptive to attempts to integrate it into a ready-made world order. Even talk of "advising" or "engaging" China, however well intentioned, risks being perceived as condescending. The West must interact with China on a strictly equal footing.

¹ In particular, better regulation of and respect for intellectual property rights would enhance foreign investors' confidence in China and contribute to its development.

- Western countries, particularly the United States, the European Union and Japan, are involved in extensive security and trade activities in the regions around China, namely the South and East China Seas as well as South-East and Central Asia. In recent years, China and the US have reacted to each other's policies, with China taking a more assertive position while the US seeks to "rebalance" by strengthening its ties with other countries within the Asia-Pacific region. Beijing is suspicious of an increasing Western presence in its neighborhood and feels (or claims to feel) threatened when it sees its neighbors seeking increased Western support or cooperation.
- Meanwhile, in Western capitals, as well as many within the region, there is a growing sentiment that China doesn't want to converge with the West. It is argued that China will become a less cooperative partner in the next ten years. And countries within the region fear that their interests may fall victim to confrontation caused by a lack of sufficient Chinese-Western dialogue.
- The US, the EU, Japan and South Korea, despite their shared democratic values, have different interests in and around China, and therefore different concerns. Some criticize China for taking actions which do not align with its words. But China itself has had a frustrating time dealing with Western partners, notably in its efforts to invest in the EU. To some extent, China policy in all Western countries has been too much dominated by domestic politics.
- Up to now China has not played a very active or leading role in most multilateral institutions. Including China in more multilateral institutions and processes may benefit both sides. Obviously, multilateral engagement of this sort requires experience-sharing and close collaboration between the different Western parties involved.
- In sketching a long-term strategic Western vision, it is crucial: to know what China's priorities are; to recognize Chinese achievements; to consider possible trade-offs, particularly in the trade and investment area; to identify the challenges China currently faces and explore ways for the West to help; to understand where the pressures and outlets are; and, at the same

time, to encourage China to understand the rest of the world more thoroughly. Without this, Western initiatives are doomed to failure. Whatever the new policies, they must ultimately be acceptable to China.

- Whether China wants to play a leading global role or not, it is already deeply engaged with countries all round the world in order to supply its domestic needs. It has invested a lot around the world, mainly in energy and natural resources, but has little experience in managing and maintaining vulnerable supply lines, and has taken few measures to protect them. Western countries do have this experience, and this is one area where cooperation between them and China could be fruitful.

b. Recommendations

1. **Western nations must make an effort to understand China better.**

Unless the West expands and deepens its understanding of how China works – preferably with the help of a more transparent and open Chinese government, but this cannot be taken for granted – its views and advice, and indeed its efforts to help build Chinese capacity in specific sectors, stand little chance of being taken seriously.

- In particular, the West needs to be cautious in its behavior towards China on security issues. While firm diplomacy may sometimes be needed, and current official dialogues must be continued, Western countries should seek to bring more transparency and reassure China about legitimate Western interests in the region through increased confidence building measures and targeted independent “track II” programs, i.e. those that involve practical exchanges among civil society groups, political parties, the judiciary, NGOs, academia and the private sector, as opposed to official government-to-government contacts. These programs should be aimed at building capacity, accountability and cultural understanding, with a focus on Chinese domestic priority concerns. Such programs can bring the internal Chinese debate to the West. (www.chinadialogue.net is a good example.)
- These measures could take the form of short, medium and long-term initiatives, including track II cultural diplomacy and people-to-people programs – which would also allow China to exploit its “soft power”, in other words expand its influence abroad in a non-threatening way. Under such programs, Western scholars, as well

as politicians, should make greater efforts to understand China, in particular the complexities of the ruling Communist Party and its procedures. This could happen through practical exchanges (with no official character), involving more research and interaction between independent Chinese and Western institutions, political parties, civil society and the private sector. This way, Chinese institutions, political parties and civil society groups would feel more integrated into the world system, and deploy their resources more effectively. There are already many such exchange programs under way at a variety of different official, semi-official and unofficial levels, involving (for instance) judges and students. It would be good to expand them in such a way that, for instance, Chinese journalists and bloggers would be/permitted, and indeed encouraged, to spend time in the West.

- It is important that track II initiatives acknowledge and complement the current official dialogues between the West and China, for example, on human rights.
- In the past ten years, the EU has been supporting local elections in China. If China moves in the direction of further democratization, this electoral assistance program could be expanded from local town level to county level, and widened to include assisting the agenda for political reform and encouraging smaller parties, which are already engaged in the consultative political process, to move towards actual power sharing.
- For better interaction, it is important to increase familiarity with the English language inside China and familiarity with the Chinese language in Western countries.

2. Long-term strategic thinking on managing relations with China

A sine qua non of effective China policies is clearly to separate longer-term priorities and objectives from short-term domestic pressures that too often are incompatible with or directly contradict them. This has been one of the biggest problems affecting Western governments' efforts to pursue effective policies towards China, because it requires exceptional political firmness, vision and courage.

Western countries should:

- Focus on having an articulated China policy and pursuing it in a coherent and sustained way that serves the West's collective interest. This is especially needed in the EU, which should identify its priorities. The EU and its member states need to focus on long-term strategic engagement with China, particularly in their policies on investment issues, and on occasion be prepared to sacrifice short-term gains in the interests of this long-term goal. Above all, member states should stop undercutting Europe's collective leverage by allowing Beijing to "buy them off" piecemeal with export orders and other commercial favors.
- Pursue greater economic liberalization, primarily through positive incentives, while protecting legitimate national security interests, in compliance with the rules of the system.
- Avoid subordinating Chinese policy to domestic politics.
- Incorporate risk management in strategic planning: is the strategy flexible enough to adapt to swings in the political landscape within China – particularly if China suffers an economic crisis, and all our assumptions about China continuing to be the workshop of the world and a great market for our products fall to pieces; or if China's rise turns out to have a nasty nationalistic side to it? Western policies (and, indeed, corporate strategies) towards China can no longer be based on straight-line extrapolation of past trends (e.g. unbroken double digit GDP growth, overriding emphasis on maintaining external stability, keeping a low profile in global affairs, etc.), as they have been for much of the past 30 years. The mounting challenges and uncertainties facing China make it prudent instead to adopt a "scenario planning" approach, explicitly recognizing that the country could go off in many different directions in the future.

How to achieve these long-term strategic objectives?

The West needs to pursue its objectives by way of inclusive multilateral and "pluri-lateral" approaches (the latter involving ad hoc groupings of countries as opposed to structured organizations), particularly on issues where we have common concerns such as international public goods. A concerted effort could be made to persuade China that a "divide and rule" approach to the West will not work, and that instead it should accept four-party talks on common interests with the EU, the US and Japan. If

this got off the ground, smaller countries could later be brought into it as equal partners.

III. Recommendations for the rest of the world, especially other emerging economies, on interacting with China

Background

- There is an obvious asymmetry of power between China and all other emerging economies.
- Given the vast variety of countries and the conditions of their economies, available resources and existing relationships with China, it is important to note that the recommendations below should be adjusted to the specifics of individual cases. Some recommendations may be irrelevant to the specific conditions of some countries.

Recommendations

1. General issues and security

Countries should

- Develop relations with China as part of policies to support a multipolar world order. (This particularly applies to former colonies which have a complicated relationship with their former “mother country”. They can use different models of cooperation with China to strengthen their position and diversify their foreign policy.)
- Initiate dialogue with China on both traditional and non-traditional security issues (the latter including water and the environment).
- Engage in multilateral dialogue with China, e.g. in regional fora; seek to adopt common or coherent positions so as to increase their negotiating strength; and be ready to resist attempts to sabotage such positions when China perceives them as going against its interests.

2. Economic issues

Countries should:

- Ensure that any cooperation with China helps their overall national interests, especially in terms of sustainable development, modernization and economic progress.
- Work towards preservation of their local industry base by:
 - encouraging joint ventures with Chinese companies;
 - ensuring that at least 50% of those employed in joint ventures come from the local workforce, with a tendency for this percentage to rise as temporary Chinese staff are phased out;
 - and ensuring that local legislation requires high transparency from businesses, including Chinese companies, through the introduction of mandatory auditing and publishing of annual reports.
- Consider China as a potential source of technology transfer, looking especially for areas where China might be able or willing to offer a technology which is difficult or impossible to obtain from Western countries.
- Follow the Norwegian and Russian examples by channeling money raised through selling commodities, raw materials, energy and other resources to China into funds which invest in viable economic projects, promote economic growth and stability, and support counter-cyclical policies in order to survive price fluctuations.
- Promote exports to China, and to this end develop clusters of export-oriented producers in order to satisfy China's domestic needs (e.g. in agriculture and processed food products).
- Encourage the development of Chinese tourism, including through more simple visa issuance and marketing.

3. Social issues

Countries should:

- a. Aim to create social capital for dealing with China through:
 - advancing and accumulating expert knowledge on China, in both the public and the private sectors;
 - developing think tanks, specialized agencies, expert fora and other research institutions;
 - encouraging creation of networks of organizations that deal with China;

- educating experts on Chinese market and businesses;
 - conducting people-to-people exchanges in various fields on a regular annual basis (intellectuals, journalists, scientists, artists, youth and student exchanges, double-degree programs at universities, etc.);
 - hiring private consultants on China (especially in business), when other advice on China is unavailable, when there is a need to check the background of a company the country wants to strike a deal with;
 - participating in conferences and seminars on China.
- b. Secure funds for point a. through local budgets or trustworthy international organizations. If funding is scarce, think tanks can be based in existing institutions, universities, etc. Countries could also obtain funding for a Confucius Institute or through other Chinese government grants.
- c. Share knowledge and experience with other states in their region which have dealings with China.
- d. Establish a routine of well-organized intra-regional caucus meetings before and after each meeting of a regional or other grouping with China. (Example: there should be a special internal Mercosur meeting before and after any Mercosur meeting with China.)