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GUT ANKELOHE

Ankelohe
CONVERSATIONS



The Struggling Giant: Understanding the World through Chinese Eyes

Conference Report

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From April 24 to 27, 2008, an international group of journalists, non-fiction book authors, and other experts convened at Gut Ankelohe, an estate deep in the northern German countryside, to discuss the opportunities and challenges facing China, as well as the implications of China's growth at home and abroad. Under the heading, "**The Struggling Giant: Understanding the World through Chinese Eyes**" the 2008 *Ankelohe Conversations* brought together a group comprised of experienced China watchers and global thinkers (generalists) from China, the United States, the United Kingdom, and Germany. The event was organized and financed by the Dräger Foundation (Lübeck) and conceptualized and hosted by Lutz Kleveman, whose family owns Gut Ankelohe. Additional substantive support was supplied by the American Council on Germany (New York), ChinaDialogue.net (London), Prospect Magazine (London), and Volkswagen AG.

Now, in its third year, the *Ankelohe Conversations* symposium is becoming an institution among writers and those who shape public policy. In 2006, the focus was on climate change ("**The Heat is On: Climate Change and the Oil Endgame**"). In 2007, the topic was "**Resource Wars: The New Security Challenge of the 21st Century.**" The discussion forum is designed to address current topics and trends in an informal, discussion-oriented manner. The participants and speakers tend to continue their discussions outside the sessions, during the meals and coffee breaks, walks and carriage rides in the countryside, bonfire barbecues with music, and a bus journey to an excellent seafood restaurant at the nearby seaside. These relaxed social gatherings are key to everyone's enjoyment and the symposium's success.

Timed as a response to the heated international debate over the rise of China and to coincide with the run up to the Olympic Games in Beijing, the 2008 *Ankelohe Conversations* were designed to explore the myriad of domestic and foreign challenges China faces. The event was intended to focus on how China sees itself, the world, and its role in the world in the 21st century. Instead the frank and open dialogue among the participants – mostly Europeans and Americans together with several Chinese voices – revolved more around how the rest of the world perceives the rise of China in domestic and foreign terms. The Chinese participants and the western interlocutors with significant experience in China provided valuable insights.

The conference began with an opening speech and was followed by seven sessions which covered a range of topics from China's domestic economic, social, and political situation to its role in the world. Each session began with prepared remarks by conference participants to frame the discussion and allowed ample time for intense exchange among the participants. This report attempts to summarize some of the key topics discussed.

Dr. John C. Hulsman, The Alfred von Oppenheim Scholar in Residence at the German Council on Foreign Relations (DGAP) in Berlin, opened the conference by addressing ***China on the Rise: Is this the End of Western Hegemony?*** He said that in the United States and Europe, policy elites and the public at large are taking note of a change that has been emerging for over a decade but which has finally become impossible to ignore in recent years: The world has changed. The short answer to the question posed in the title is: Yes, this is the end of western hegemony. But, if one accepts this answer, then it is necessary to explore what has changed and how the west should respond to these changes.

Dr. Hulsman said that in the past he had often been invited to events in Washington framed around the question of how the West could stop the rise of China – or at least serve as a counterweight. But, this is the wrong premise: The West is not in a position to stop China. The rise of other powers and shifts in hegemony are a natural state in a multi-polar world – particularly as over time there has been a relative decline in U.S. power and a relative increase in power elsewhere. China has moved slowly, but it shows signs of emerging as a superpower. China today is a greater threat to U.S. hegemony than China of the 1970s and the "Cultural Revolution." The relative ebb and flow of power among nations is natural.

The discussion touched briefly on the range of global challenges facing the United States and Europe – from climate change to the spread of disease (including HIV/Aids), from migration to demographic trends and the challenge of aging populations, and the on-going efforts to counter terrorism, to name a few. Many policy makers are forced to distinguish between the urgent and the important challenges.

In order to meet the challenges of the 21st century, Europe and the United States need to put their differences aside and work with each other. At the end of the day, they need each other. But, the western community also needs to make sure China, India, Russia, and Brazil develop positively. Instability in any of these countries will have an impact on the West.

In the discussion, one of the participants asked whether there is any way to tell China what to do – “are there any sticks left?” Dr. Hulsman said that one has to look for linkages. By finding common interests, it is possible to find common ground. However, he said that although the interests line up in the short and medium-term, they are not likely to do so in the long run. As a result, there are likely to be shifting coalitions on different issues, but it is important not to alienate other parties in the process.

The discussion of common and competing interests quickly turned to a growing economic interdependence as a result of U.S. and European capital flows to China and of manufactured goods from China to the west. Of course China and the West are interdependent – so much so that one participant suggested that China would not stand by and watch the U.S. economy “go down the drain because that would hurt China too.” However, another participant said that we may be on course for a conflict over natural resources – given the appetite for oil and minerals.

Modern media and global civil society are much more able to shape images than was the case decades or even years ago. French President Nicolas Sarkozy’s symbolic boycott of the opening ceremony at the Olympic Games plays to people at home but has international reverberations. Similarly, U.S. Senator Nancy Pelosi’s statements and German Chancellor Angela Merkel’s meeting with the Dalai Lama have resonated at home but caused waves with the Chinese government. (In a later session, one of the participants argued that the Chancellor was pandering to domestic politics and using her meeting with the Dalai Lama as a way to bolster support at home – without consideration of the international consequences.)

One participant asked about China’s “backyard” – and its interests throughout Central Asia, and in places like Burma, Iran, and Afghanistan. The West takes China at its word, but of course China has interests throughout the region. As the current Tibet crisis demonstrates, the Chinese government is willing to exert force to maintain its regional borders and autonomy.

Another participant took issue with the framing question for the session. He said that western hegemony ended nearly a century ago with the rise of the Soviet Union and Japan. He added that the issue is not how we in the West try to get China to do what we want – since in most cases, Chinese action is consistent with what we want. The question is whether there are instances or contexts where the Chinese can apply pressure on the United States to get what it wants.

Another participant said that we tend to think about one rising power at a time and that the constructs are loose. For example, is Japan an eastern or a western power? What about India?

The discussion also turned to the role of international organizations – and China’s emphasis on global institutions. One of the participants argued that the International Monetary Fund and the World Bank do not matter much, despite the fact that there is now a Chinese chief economist at the IMF. Nevertheless, countries like China, India, Brazil, and Russia are able to exert some influence within the context of these international organizations. The Chinese government does not want to be bullied by these organizations.

By and large, one participant pointed out, the Chinese say what they mean. The elite has a long-term Marxist-Leninist view and is not pursuing democracy

One of the participants asked: Where do people fit into the equation? China has a growing middle class with a desire for peace and prosperity. But, the world cannot sustain this middle class growth in China (and India). This was echoed by another participant who said that if China continues on the same development trajectory it is currently on, by 2032 it may implode. Yet another participant asked whether China is really the global power we think it may be. The consensus in the group was that it can go either way: China can continue to develop and will emerge as a superpower or it might collapse – but there are numerous other options between these two extremes. Only time will tell.

In Session 1, **Jonathan Fenby**, China Director at Trusted Sources in London made opening remarks on ***The Chinese Model: ‘Socialism with Chinese Characteristics’ or ‘Autocratic Capitalism’?*** He began by putting China’s development in a historical context and opened by quoting another conference participant, Isabel Hilton, Founder and Editor of ChinaDialogue.net, who at another event said that since the fall of the empire in 1911/1912, China has been “searching for a narrative.” For twenty-one centuries (since 221 BC), China had a narrative – except for a period of 300 years of disunion – when it was at the center of the world. Throughout this period, there were changes in dynasty but the imperial system remained in place.

From 1644 to 1912 (Qing Dynasty) China was a self-sufficient agricultural economy, with the belief that it was at the center of the world. However, it fell into a high equilibrium trap: It produced enough food to feed its population and did not need to modernize agricultural production or move into industry. There was no dynamic for an industrial revolution. When pockets of development took hold, they were in the wrong geographic location. For example, China’s industry developed along the coast – far away from natural resources such as coal in the center of the country. (Today, China is still a net importer of coal although it has its own sources.)

Imperial China’s downfall was not due to outsiders, as some Chinese argue, but rather internal weaknesses. The great rebellions of the mid-19th century lasted for twenty years and caused fourteen million deaths, and by 1912 the Qing lost the will to rule. Anarchy followed. Political institutions did not function and inflation was rampant. In 1949, Chairman Mao and the military ushered in a “Communist Revolution” and in 1949 (after a period of disorder between dynasties) China found a narrative. Although there was the promise of a “new China,” the 100 flowers incident in the mid-1950s, the Great Leap Forward, and the Cultural Revolution of the 1970s were part of the narrative. One of the participants added that a country’s narrative is not automatic.

Another participant said that there is a Chinese narrative but that the key question at the moment is over China’s identity. He said that China is “not at rest with its modern identity. It is struggling to find its modern identity.” He said that personal freedoms have been sacrificed in the name of national salvation. Eastern China is making demands on the government, while western China is beaten back to stop it from making demands. In many senses, he added, China is still an empire with a strong man at the center. He said this would continue for a certain amount of time but cannot continue forever.

Another participant said that a country’s narrative is not automatic. It is manmade. It is the “glue” to bind people together. One of China’s core questions has been who does China belong to? The people? The state? The emperor? Or, today, the party? The people do not know. Empire has tied disparate regions of Manchu, Mongolia, and Tibet to China – even if they do not share the Chinese identity.

Another participant said that he believes a nation’s narrative is made up on the way and that there has been too much emphasis placed on the quest to find China’s narrative. In the past decade, China has followed developments in the Middle East and the countries of the Middle East have looked at how the 1.3 billion people in China live. They see a “Chinese model” of autocratic capitalism – but the participant argued that this model would not work in the countries of the Middle East. He said that the Chinese culture is one of initiative and self-made enterprise coupled with a self-confident government which allows “organized anarchy” so that people can set up their own

businesses.

Tying in with the discussion the previous evening, Mr. Fenby asked a rhetorical question about China's possible collapse or implosion. He expects volatility – bumps and challenges – but said that China's economy is set on a path of long-term growth. Labor resources and cheap capital (savings from peasants) have put China on course to be the second economic power. However, as China moves into the second phase of economic reform, fault lines are appearing over environmental issues, pressures between the coastal and inland regions, and the wealth gap. Pressures are also emerging over the notion of a “harmonious society” and today's social reality as well as social justice.

Deng Xiao Ping focused on economic reform – with social consequences. One participant pointed out that individual liberties were increased, but said that China “remains in a straight jacket.” Generally, economic progress leads to multi-party democracy, but not in China's case. China's economic development and growth will continue but there is a fundamental problem with China's narrative because the government is weak.

During the discussion, another participant asked if there really is a “Chinese model.” He said labor is available and cheap, but that the real factor is the ready access to cheap capital. As a result of the state control of the economy, capital can be made available at little to no cost. This protected China from the Asian financial crisis in the 1990s. One of the other participants chimed in that cheap labor, cheap capital, and state control of the economy drive strong economic growth. He did say that China has a unique economic model – which is an artifact of globalization. The Chinese tore down barriers to trade and solicited modern business in an effort to grow – but also to acquire access to knowledge and technology. Another participant argued, that the Chinese model, which combines and autocratic government with a liberal economic system, can work well during the early and mid-stages of industrialization. But, he added that another factor has been the access to electricity and raw materials such as steel – provided largely by state-owned companies. They have been subsidized but as a result, they have not been efficient. Resources have been wasted.

Several participants agreed that the leadership in China is far weaker than it appears. The economy is beyond the control of the government. It is run by private and public forces. There is \$120 billion in unlicensed lending. Another sign of weakness on the part of the Chinese government is it's response to the protests over Tibet. Some consider it a “blast to the past”: The ruler attempts to define broad interests because it is the ruler. In a sense, there has been a shift from a succession of emperors to the Communist Party.

In the discussion, the group touched on various aspects of China's civil society. In a new paper, the government guarantees contractual rights regarding holidays and pensions, but the question is whether they will in fact be applied. Some say this is an effort to create a “harmonious society.” A sign of relative prosperity has been the mobilization of the middle class to protest the path of the magnetic train or the location of a petrochemical plant. (This is a sign of the not-in-my-back-yard (NIMBY) principle.) In a sense this is a natural development: As the middle class grows, it begins to make demands on government for better quality of life.

One participant noted that there have been incredible changes in China. Millions of people have been brought out of poverty into the middle class. But, he argued, economic reform will not lead to democracy or even a harmonious society. There are far too many economic and social fault lines and contradictions in China.

One participant said that a sense of unified history remains elusive for China. “Within China, the idea of a unified or linear history is highly politicized.” He went on to say that China strives to be a modern industrialized country, but lacks the tools for that. Despite initiating technological innovations (such as gunpowder, the compass, printing, etc.) and being an advanced society, China is not a global leader. “There is something intrinsic to China that makes it impossible for China to lead.”

The second session built on the discussion in the first session and focused on ***A Harmonious Society? – China’s Domestic Challenges***. Through the opening remarks and in the discussion, it became clear that China’s government is faced with a challenge. On the one hand, it strives for a so-called harmonious society but it is at odds over how to ensure harmony. The government cannot simply decree harmonious society. **Isabel Hilton**, Journalist and Director of China Dialogue, opened the discussion by outlining the country’s three decades of broad progress. However, she highlighted both China’s immense environmental challenges, and reminded participants that she had one of the highest levels of inequality anywhere in the world.

Isaac Mao, a prominent blogger and also employee of United Capital Investment, Shanghai, gave examples of political prisoners who fell foul of the system, including one who was imprisoned by mistake because of a name was misspelled. He went on to outline how people – especially bloggers – evaded restrictions by using code words to ensure free discussion. He said the notion of “harmonious society” wasn’t taken seriously in China, often being used sarcastically. In conclusion, he argued that the internet and social media held the possibility of creating genuine social harmony, by allowing Chinese people to talk to each other more openly.

Nick Young, the Founding Editor of *China Development Brief* outlined what he saw as the possibility for class conflict in the new China. He noted growing social inequality, with a small group of Chinese now worth in excess of \$100m, in contrast to at least 300 million who lived on less than a \$1 a day. He argued that the real Chinese middle class was the 600 million in the middle, who were rich but had enjoyed modest rises in consumption. Inequality manifested itself in other ways – with a concentration of resources, for instance in healthcare, in the cities leaving many rural areas behind. Half of Chinese people do not have access to a doctor because of prohibitive cost, while few also had pensions. On the other hand, Mr. Young argued that education outcomes had improved impressively. He concluded by arguing that, for China, the future prosperity of the 600 million in the middle would continue to drive development, while he suspected the 300 million left behind would remain largely forgotten.

In short, there is a huge gap between the very rich and the very poor. In the past decade, the poor have also lost the minimal protection provided through the social welfare net. The Ministry of Civil Affairs used to provide the basic necessities – food, housing, healthcare, and would cover the cost of burial – but has pulled back. This is not a case of Chinese exceptionalism, but reflects the path in many countries. Nevertheless, given this divide, the key question is over the potential for class conflict in society. The fault lines are between east and west as well as urban and rural. Urban areas are more heavily subsidized and health care and education are more widely available in cities.

Some of these pressures have led to mass migration of people from rural to urban areas. Roughly 120 million people live away from the place where they are registered.

At the same time as there is a widening gap between the rich and the poor, there has been a significant growth of the Chinese middle class. This new middle class can help drive growth through its consumption. One of the speakers said that it does not look as though the Chinese economic elite will gain political rights because economic clout is not translating into political power. He also wonders if the Communist Party can manage the growth and disparity of the population. He added that society is not likely to force change. He said that he observes very little cohesive society but sees individuals looking out for themselves.

In the discussion, one of the participants who has traveled in China extensively said that there are many more happy peasants today than there were even just a few years ago, but that they question the legitimacy of the government and the Communist Party.

Another participant pointed out the challenges to China's healthcare system. He said the overall improvements in the health of people in China has been as a result of people eating better (as they have been able to afford a better diet) – rather than improvements in the health care system. Nevertheless, the child mortality rate is lower than in India, but TB remains a huge problem. He added HIV/AIDS has received a huge amount of international attention and is not as big an issue as perceived in the west.

A participant noted that, in their experience, a change had come over China's middle class in the previous 10 years. He noted that a decade previously he had traveled in inland China, and been struck by common expressions of anger over corruption and lack of basic consumer goods. A decade later, and he was struck by an "amazing" difference – with more contentment at modest rises in prosperity. To that degree he concluded that, for many, China had become a degree more harmonious.

The discussion turned to the issue of censorship in China. There are three layers of censorship in China. First, the government employs technology to filter URLs and individual words/expressions to stop communication within China and between China and the outside world. Second, businesses are forced to install systems for self-censorship. If they do not, their websites will be shut down. Third, common people are encouraged to engage in self-censorship and to consider what they publish.

One participant said that in the run up to the Olympics there has been a push to open access to information, but no one knows how lasting this will be following the Games. He said that as a foreigner, one has relatively good access to information – but that many Chinese-language websites are blocked and/or engage in self-censorship. He said that the coming five to ten years would pose a significant challenge to the regime, and suggested that social change would unfold because of the population change. "A bright, safe future for China requires openness." Although there has been a push to provide access to the internet, it has been hard to guarantee access in rural areas.

Nevertheless, the internet has facilitated a generational and technological shift in China because it has allowed access to information. One participant said that he believes political and social change in China will be driven by the millennium generation – China's largest group – because they are coming of age with new technologies and these technologies can empower people.

In the third session, discussion focused on ***Collateral Damage – Is China's Economic Boom Sustainable?*** The two speakers assessed China's economic growth. **Hu Shuli**, Editor of Chinese business magazine *Caijing*, kicked off the discussion by outlining a number of problems facing China's economy, in particular highlighting a scarcity of resources, endemic corruption, and a mixture of uncoordinated and unsustainable development models.

She went on to highlight a number of dilemmas for the current government. First, it must attempt to balance growth and inflation, in a situation in which the ruling classes retained an almost religious faith in the need to achieve 10% annual growth. Second, it must begin to understand that artificial controls on prices eventually will come unstuck. The examples of recent oil price rises to over \$100 a barrel, which have not been passed onto Chinese businesses or consumers, was cited. Third, and not helped by artificially low prices for fuel and energy, it must find ways to become more sustainable and lower pollution.

Ms. Shuli concluded by looking at options for reform. She thought growth would continue, but argued that certain economic interest groups were too effective at stopping both political and economic reform. Overcoming vested interests – be they polluting industries or corrupt officials – was the major challenge for the future.

The session was continued by **Dr. Wei Zhang**, Lecturer in Chinese Economy, Faculty of Asian and Middle Eastern Studies, at Cambridge University. He began by arguing four great imbalances exist in the Chinese economy.

First, an imbalance between savings and consumption, with consumption making up only around half of Chinese national accounts. With low domestic demand, China has an unusually high savings rate. In the future China needs to shift onto a path of lower savings and higher domestic demand.

Second, an imbalance exists between rich and poor. Inequality is growing fast in a situation in which China already has one of the world's worst gini coefficients – a popular measurement for inequalities in wealth. Dr. Zhang argued that this is exacerbated by government subsidies to those living in cities, claiming that while urban areas are six times wealthier than rural areas after subsidies are taken into account, rather than merely three times wealthier before transfers.

Third, an imbalance exists between the demand for ever higher growth and protection of the environment. It has been argued that China's average 9-10 percent growth could be entirely offset by the cost of this growth in environmental damage. Estimates suggest this damage could range from 3-10 percent of annual GDP.

Finally, an imbalance exists in China's national accounts. Unlike America in the 1980s, which suffered from famous "twin deficits" in its current account and its fiscal budget, China suffers from a "twin surplus" – with surplus in its current and capital accounts.

Dr. Zhang went on to ask if there was hope that the Chinese Government could find a way to rebalance these four areas, concluding that the leadership had little room for maneuver. He noted that any lowering in growth could have damaging consequences for unemployment, a particular worry for a country which needs to find 28 million new jobs annually simply to cope with a growing population and internal migration. Put more simply, he argued that an extra one percent annual growth was the equivalent of at least 1m new jobs – a calculation China's leaders would find difficult to ignore.

A wide-ranging discussion followed. Many participants were clear that the current model of Chinese growth was unsustainable, especially in environmental terms. Others argued that China's economic policy was failing on other terms, not least because some eight out ten of Chinese exporting companies were owned by foreigners. There was a discussion about the fragmentation of ownership in the economy – with some companies and sectors remaining almost exclusively in state control, while others were left to the market.

In similar vein, the possibility for a crisis – perhaps brought about by a recession – was discussed. Participants agreed that some form of recession was likely in the future, and indeed it had been surprising that China had avoided a slow down over the previous decade. The consequences of such a slowdown were unclear. Some thought china could withstand economic fluctuations, not least given its record withstanding the previous Asian crisis and its huge reserves of foreign currency.

The debate concluded with a number of further comments on future challenges centering on the perceived inefficiency of much of China's state owned enterprises. Participants noted that the current model – in which national savings were often pumped into internationally inefficient state owned industries – was economically unwise. This was a contributing factor to the lack of genuinely innovative, leading international Chinese company to compete with industries from the United

States, Europe, and Japan. While also being inefficient, it was noted that the mixed model of part-private, part state ownership tended to foster corruption, in particular through the process of privatization.

Finally a range of new economic challenges were mentioned, from food price inflation to continuing vast over-production. One participant, in concluding, said they thought the leadership was well aware of these challenges, and would begin to tackle many of them after the closing of the Olympics.

In the fourth session **Dr. Kerry Brown**, Associate Fellow in the Asia Program at the Royal Institute of International Affairs, Chatham House, kicked off a discussion of ***Chinese Exceptionalism: What are China's Political Beliefs?*** by talking about the role of the Chinese Communist Party. He said the government consists of roughly six million bureaucrats and that the Party has 74 million members. Each year, roughly twenty million people apply to get into the Party. Roughly two million are accepted.

In 1989, following Tiananmen Square, the Party looked vulnerable and as though it might have to give up power. Nearly twenty years later, the Party is very much in control in the areas where it wants to be. It has ceded some authority and offered some freedoms, but remains in control. As reflected in the discussion during this and other sessions, the Party and the government may not be as strong as some would like, but the Party remains in control.

The Chinese Communist Party is very ideological. It has survived extraordinary transformations since it was created in the early 1920s. Where it is today is a reflection of the narrative of the Party's history since 1949. In many senses, the development of the CCP was an organic process that led to the structures that exist today.

The People's Republic of China was founded in 1949 after a period characterized by foreign invasions and domestic conflict. In the early 1950s, the government engaged in major economic and social reform, which was generally well received by a population which longed for stability. Initially, the new leaders tried to reach consensus and unity – and gained popular support – by curbing inflation and restoring the economy. Under Chairman Mao there was central leadership. One man made decisions and was backed by the party congress every five years.

However, the new economic program, the "Great Leap Forward," which was launched in 1958 and aimed at rapidly raising industrial and agricultural production, ended in disaster. Normal market mechanisms were disrupted, agricultural production fell behind, and Mainland China's people exhausted themselves producing low quality, unsellable goods. Because of the reliance on the government providing and distributing food and resources and their rapid depletion due to poor planning, starvation appeared even in fertile agricultural areas. From 1960 to 1961, the combination of poor planning during the Great Leap Forward, political movements incited by the government, as well as unusual weather patterns and natural disasters resulted in widespread famine and many deaths. According to various sources, the death toll due was most likely 20 to 40 million.

Following Mao's death in 1976, there was widespread recognition in the late 1970s that that China's economy was dead. One of the participants described it as a period of "ideological and intellectual bankruptcy." At the time, there was a discussion of economic reforms; political reforms were – and continue to be – more difficult to discuss. At that point, "Socialism with Chinese character" was introduced. It was not a proper market economy largely because the state would not relinquish control, but attempted to introduce more liberal economic practices.

In 1978, there was another important change: At previous party congresses, the welfare of the people had been ignored. But, at the 1978 Party Congress, the party chief spoke about the welfare of the citizens and discussed how the party could best serve the people.

There is a rich tradition of political, legal, and intellectual thought in China. In recent years, there has been a pull away from western thought in favor of Chinese traditions. At the same time, however, the Chinese Communist Party has successively removed opposition parties. Within China – and among China analysts – there is a comparison between the Communist Party of the Soviet Union which existed for over 75 years and the Chinese Communist Party which is 59 years old. Will the Chinese Communist Party enjoy a long history or not? Leaders within the CCP looked at the Communist Party in 1988/1989 and decided to develop its own path – supporting an economy somewhere between a state planned economy and an open economy. One of the participants said that legitimacy and reform of the party will come from the bottom up. “There are too many vested interests within the Communist Party” therefore, change will only come about as pressure mounts from below. There are similar pressures on China as there were on the Soviet Union. President Gorbachev recognized the pressures and saw that the Soviet Union was destined to collapse if it did not reform.

Looking ahead to 2050, China could be a democracy or it could return to the relative unrest of the 1930s as a result of political and economic fragmentation. Given China’s history, some analysts believe China should be much further along than it is but fear that it could become the ultimate failed state.

In terms of party reform, one participant commented that there is no real distinction between the role of the party and the role of government. Another participant said that the CCP says it is still an ideological party, but that this does not seem to be the case: “The CCP is governed by no belief other than to stay in power.” In this sense, stability is the focus. Over the years, the Party has delivered unity over a very diverse country. The Party has also shifted positions on a range of issues in an effort to deal with problems and in order to stay in power. It has demonstrated itself to be very pragmatic in maintaining control and power. However, some of the participants agreed, there is no figure in the party with the political character who can deliver. Unfortunately, the Party and its leadership will be forced to respond to crises rather than work proactively. Another participant said that the CCP is governed by pragmatism and that the Party leaders would give up almost anything to maintain stability.

During the course of the discussion of the Chinese Communist Party and China’s past, present, and future, the group got into a heated debate of ideology vs. pragmatism as the driving force behind the Party and behind developments within China. The group also discussed the “Chinese dream” – which one of the Chinese participants described as “a stable society with good social conditions where one can get a good job.” He added that most Chinese people want to get rich (as quickly as possible). He said that there was a good mix between ideology and pragmatism in China, but that since Mao was in power it has become less ideological and more pragmatic.

Rob Gifford, National Public Radio’s Bureau Chief in London, opened the fifth session by saying that that it is important to consider both the impact of the outside world on China as well as China’s impact on the world. He mentioned China’s “charm offensive” in Southeast Asia and Africa as an example of how China is exerting pressure around the world. **Prof. Dr. Eberhard Sandschneider**, Otto Wolff-Director of the Research Institute at the German Council on Foreign Relations (DGAP) in Berlin, opened the discussion of ***Beijing’s Aims and Strategies: The World Through the Eyes of China’s Leaders***.

Dr. Sandschneider picked up on the previous session by saying that there are 1.3 billion “Chinese dreams” and added that there are as many views on China as there are people watching China. He offered some statistics: There are 230 million internet users in China compared with 211 million in the United States. In 2008, China will overtake Germany in exports. The Chinese military budget is increasing by 17 percent annually. But, he said one must put these figures in perspective: In the United States, 71 percent of the population uses the internet – as compared with 13 percent in China. Sixty percent of China’s exports are the result of activities undertaken by western companies. Although China’s military expenditures are roughly 100 billion dollars annually, the

United States is still spending 500 billion dollars. The gap is not closing.

In Dr. Sandschneider's opinion, the China debate is like a pendulum. Currently there is a great deal of angst over the rise of China – and little in the way of positive news. Ten years ago there was no negative news regarding China. In the 1980s, there was concern over the rise of Japan. In the 1990s, developments in Southeast Asia dominated attention in the west. The former ended in a structural crisis and the latter in a financial crisis. In both cases, the concern over the rise of power waned. Dr. Sandschneider said that China is on the rise, but that it is also facing major problems – such as the environmental degradation, regional disparities, social and regional differences, etc. There is a thin line between success and an implosion, and there is no way to forecast China's future.

Dr. Sandschneider did say that “any BRIC can turn into a CRIC (collapsing recently industrialized country).” In the discussion, several participants agreed that it is impossible for China to grow for the next 25 years as it has in the past 25 years. The growth rate and China's energy consumption are growing dramatically. However, there is not enough energy to enable continued levels of growth of eight percent annually. The Chinese premier has even promised less growth rather than more, but the government wants to create more income for all Chinese. At the end of each year, each Chinese person is better off.

China's growing economic power also has international implications: China holds considerable exchange reserves. The World Health Organization is led by a Chinese woman (Dr. Margaret Chan), The number two at the World Bank is Chinese. The Chinese elites are seeking a new model. They are using efficiency to create legitimacy. (In Africa many countries find the Chinese model of development more interesting than the European model. At the recent Africa-EU Summit, Europe offered strategic partnerships, but they fell short of true economic agreements. China, meanwhile has been providing development aid and is in the process of setting up so-called “economic cooperation zones” in Africa. Europe should expect competition from China over influencing Africa.

One speaker outlined the key priorities for Beijing as 1) security at the summer Olympics, 2) Taiwan, and 3) domestic stability without unrest. Tibet should be added to the list in light of the tensions over the disturbances which began in March. Another participant said that China lacks a global vision. It wants to be a superpower and wants international glory, but it does not know how to achieve this. Another participant said that there is a debate going on in China over issues ranging from democracy to climate change – and how to cope with China's domestic and international role today and in the future. But, in the west, people are not aware of the debate. Chinese elites read western policy documents, but elites in the west do not read similar documents from China. He said that the Chinese know much more about the west than the west knows about China.

Several participants agreed that if you push China, China will push back. China is a continent – not “just” a country. But, if you talk to China, China will talk back. Dr. Sandschneider believes that the only way to cope with China is to talk to China. Negotiate with China. He suggested meeting China where its interests lie. The rise of China does not automatically mean the end of the west. Another participant said that being nice to China does not guarantee that China will be nice back.

The group also discussed the Tibet issue. From 1979 to today, the Beijing government has met with representatives of the Dalai Lama – with the most recent meeting taking place in June 2007. The results have been non-existent. The current agreement by the Chinese government to meet with the Dalai Lama's representatives is a direct play to the international media. Of course it is important to improve human rights, but the Chinese goal is to achieve stability. In the west, positive developments did not come about as a result of human rights efforts but because of economics.

What does autonomy for Tibet mean? The Tibet Autonomous Region or the regions where Tibetans live, which include the provinces of Qinghai, Sichuan, and Gansu (or roughly 25 percent of the country)? Increasing Tibetan autonomy is against Beijing's interest. Sovereignty and stability are key. Outside observers, would like to see changes – such as better human rights and democratic institutions and practices – but at the end of the day, the west is also most interested in stability

because unrest in China would be felt in the rest of the world. (One participant cited the current crisis over Carrefour.)

One participant said that Tibetan parents are resistant to Chinese education, but want their children to learn Chinese because it opens economic opportunities. But, this dilutes Tibetan culture.

During this session, conversation also touched on China's policy toward Taiwan. China cannot let Taiwan go – largely for fear of losing autonomy and because of the precedents this would set for other regions of the country. Taiwan does not have recognition as an independent state. But, Taiwan goes to great efforts to not antagonize China.

The role of the Chinese army came up briefly in Sessions 4 and 5, and one of the participants commented that the army would consider itself politically answerable to the party – not the government. Since 1998, the army has withdrawn from commercial operations and focussed more on becoming a professional fighting force. Another said that military power is not as important as we may think. Financial and economic power is vital today.

Building on the previous session, Session 6 focused on China's role in Africa. Using Africa as a case study, the group discussed ***Toward a Multipolar World: China's Soft Power and Political Alliances***. The discussion was kicked off by **Firoze Manji**, Co-Editor of Pambazuka News and Director of Fahamu (Networks for Social Justice). He said that many perceptions of China and discussions about China's activities in Africa are tainted by xenophobic terms and expressions, but do not necessarily reflect the actual situation. Media reports talk about China "devouring" or "destroying" Africa. The same activities by western entities are described as "development" and "investment" which lead to "job creation" and "employment." He said that China is accused of complicity in human rights violations and environmental degradation. In reality, China is a minor player in Africa. While that might change, for now, China is only filling small niches.

China's aid to Africa falls behind that of Singapore, India, and Malaysia. Chinese foreign direct investment to Africa is low compared with its aid to Latin America and Southeast Asia. Some three percent of FDI to Africa comes from China as compared with 53 percent of the aid to Southeast Asia and 57 percent of the aid to Latin America. In 2005, the cumulative FDI from China was \$1.6 billion – as compared with \$30 billion from the United Kingdom, \$19 billion from the United States, \$11.5 billion from France, and \$5.5 billion from Germany. It is important to remember that China is a net recipient of foreign aid and foreign direct investment.

The Washington Consensus of the 1980s governed the opening of the African economy, but in a sense it also created an opening for China in recent years. Mr. Manji pointed out that China does not have a colonial history and was not tarnished the way the United States and many European countries are. The speaker argued that the numbers show that China has been a relatively small economic player in Africa but that it has been an important strategic player. In an interesting turn of events, the Washington Consensus has been challenged by the Beijing Consensus. China has challenged the West and the legitimacy of the West. While the West has often made aid dependent on the fulfillment of certain conditions, the Chinese have not. This has made Chinese offers of support very attractive to African countries. China's investments in infrastructure have bred positive good-will, and China has used aid as a political tool.

Trade to Africa has grown from \$11 billion in 2000 to \$40 billion in 2005. Imports from Africa to China are limited – and include oil, iron ore, cotton, diamonds, and logs.

Despite the numbers, China is vilified for taking jobs and destroying the economy and the environment. But, the speaker pointed out that 58 percent of exports from China are manufactured by foreign companies in China – therefore blame should be shared by China and the multinational companies.

The discussion also turned to China's thirst for oil. One participant pointed out that although the Chinese desire for oil has increased in recent years, it is not the only nation with strong oil needs: China receives 23 or 24 percent of its oil from Africa – as compared with the United States which gets about 25 percent of its required oil from Africa. Nevertheless, the press has painted a dark picture of China with regard to its oil consumption. "If one is critical of China for its oil consumption, then one should also be critical of the foreign companies in China" – which are using China as a base for export manufacturing.

Oil has been an important factor in China's involvement in Africa. For example, in Angola and the Democratic Republic of the Congo twenty years of civil war and huge amounts of destruction have all but destroyed much of each country and its infrastructure. These countries also had little to no access to infrastructure investment because the IMF blocked it. China has been willing to pay for infrastructure – at little to no interest and has bought oil against the investment to help the governments of Angola and DRC draw down their debt. With so many players on the world market, the Chinese have provided additional incentives to gain market access. In short, China uses soft power: It uses aid as a political tool (as do other countries). Another participant agreed that China uses trade and aid to pursue its interests. He added that if China becomes a global power, it will need more than soft power to have influence.

China is using Africa to create a base for its own globalization. One participant referred to this notion as "China's expanding capitalism" which is driven by the same forces as other countries. As China takes a more active role in the global economy – and as it becomes even more closely tied to markets in the United States and Europe as a result of its exports, the economies become increasingly closely linked. However, it is important to remember that a crisis in one economy will be felt in the other.

One of the participants asked what drives China's interests in Africa. This is a very complex situation and difficult to understand. There are a host of private Chinese companies in Africa. Some estimates state there are between 800 and 900 companies. Others indicate the number is more like 1200. There is not a good mechanism for finding out exactly how many Chinese companies are active in Africa. Not even the Chinese government knows.

The desire and need for natural resources (such as oil and minerals) drives much of China's business interests in Africa. But, there is more to it than that: China faces overproduction at home and needs more markets for its exports. By building relations with African countries, China also develops new export markets. But, several participants said that the goods which are produced for export to Africa are low quality.

In the race for resources, U.S. and Chinese long-term interests may not line up.

Brad Adams, Executive Director of Human Rights Watch's Asia Division, and **Dr. Robert J. Shapiro**, Chairman of Sonecon, LLC, kicked off the final session on ***Confrontation or Integration: How should the West deal with Rising China?*** Dr. Shapiro said that the difference between China on the one hand, and western democracies on the other do not rule out cooperation or mutual respect of interests. In today's global economy, goods, services, and capital are freely traded across international borders. The scale and pace of this exchange is increasing rapidly. It has gone from \$65 billion to \$800 billion.

The U.S. market tends to be the first market after the domestic market that countries focus on. FDI has created a network of interests with China – and through this investment, the West is a primary source in driving growth in China.

As the sole superpower, the United States is the guarantor or potential guarantor of stability in the rest of the world. The United States is the only force able to maintain stability. It spends more on military R & D than any other country spends on its military. It is the only country with a "blue water navy" (able to control the world's sea lanes) and the only country with a "blue skies air force." In

short, America's military and its role in maintaining stability around the world is key for China's development. The United States – and the West – actively engage China in dialogue over issues ranging from North Korea, to counter-terrorism efforts, to climate change. How the exchange develops depends on the “wisdom and ingenuity of leaders” on both sides. However, cooperation does not preclude conflict.

Economic integration is not a guarantor of stability of other interests become more important. For example, there was a moment of confrontation in 1996 in the Sea of China, but China was not prepared or willing to follow through. Chinese military spending may lead to a China more willing to take military action. China is the only country other than the United States which is increasing its military spending. (The United States has a ring of naval bases around China.)

In closing, Dr. Shapiro said that China and the United States are still in the process of figuring out how to live with each other and with the reality that China and the West may come into conflict. He said that is it essential that there is a global power which can maintain stability – and that that is likely to be the United States alone or in cooperation with other countries. In balance of power politics, there needs to be a mechanism for diffusing regional conflict.

Mr. Adams said that he did not agree with the basic premise and had been struggling with the term “the West” throughout the conference. He argued that there is no single position held by the western democracies and that they do not speak with a single voice. He pointed out that the European Union does not act as one and that even the United States is divided. He does not think there is anything on the horizon which could lead to an armed conflict between China and the United States – other than perhaps a Chinese invasion of Taiwan, but he did not think that was likely.

The discussion then turned to the welfare of the 1.3 to 1.4 billion Chinese. China is behind when it comes to rule of law, accountability, an open and free media, etc. Human rights are rarely on the agenda of western countries when they deal with China. Instead “Airbus/Boeing diplomacy” dominates the international agenda. Foreign policy and economic policy are front and center. The discussion of what is best for the people in China – including human rights issues – is not dominant. One of the participants said that any democratic government has the opportunity to press China on human rights issues as strongly as it does on economic or environmental issues but suggested that it is up to the public (the electorate) to get their government to do that. It is not surprising that countries with major economic interests push business and trade issues over human rights.

With Abu Ghraib and Guantanamo, the United States has a tarnished image around the world – but it also means that the United States cannot serve as a role model for China. Another participant argued that a similar case can be made in the area of climate change: China's growth is having a tremendous effect on global warming. Technology can slow the process. If China moves forward as it has been, then China will be an even bigger environmental challenge than it already is. But, many in China believe that if the United States does little to counter climate change, China does not need to do much either. It will be important for the new U.S. president – regardless of who it is – to re-introduce the United States to the rest of the world as of January 2009.

In terms of climate change, one participant said that the whole world has done very little in an effort to avoid short-term costs. Countries like China and India have an opportunity to use climate friendly new technologies which are more efficient. (Climate change has the potential to destabilize. Therefore, it has been adopted as a national security issue.) Several participants expressed concern that the “window is closing” and that in five to ten years it will be too late to turn around the hazards of development.

Another participant said that China is waiting in the wings to become a great power, but that China's rise will create conflict at home and abroad. This puts tremendous burden on China. China is having demographic challenges with more men than women and an aging population. And, it is poisoning itself through its lack of concern for the environment. These and others are “massive problems, but they are not just China's problems. They are our problems.” Mr. Adams said that for a country which is on the verge of becoming a superpower it is particularly important to introduce domestic reforms.

He added that the Chinese elites care about China's image abroad.

One of the European participants commented that – despite the negatives – China has delivered a great deal to its people by lifting many out of poverty. But, he pointed out it is very difficult to sustain this level of development/growth. Another participant said that the living standard has increased and that this is why the government has been able to retain power, but made clear that the starting point was very low. “There did not need to be much of an improvement for there to be a huge impact.”

Several participants agreed that China has been lucky that its economy has not been tied to the Asian finance crisis of the 1990s or the current sub-prime crisis because either of these events may have significantly harmed China.

As one can see from this brief summary of the conference, over the course of two and a half days, the participants discussed a broad range of issues pertaining to China's domestic situation as well as its role in the world. Many participants agreed that China's current development path is not sustainable. The economic, social, and environmental consequences are too high. But, China does not seem able to change its trajectory. For China domestically and internationally, much will depend on how its middle class develops. As the middle class grows, it will increasingly be able to apply pressure on the government, and a power struggle may ensue.

The countries of Europe and the United States must engage China. The West cannot exclude China but it cannot force China to act in a certain way. It must find overlapping interests to find areas for cooperation. Nevertheless, some participants did not want to rule out conflict. It is fair to say that everyone assembled is fascinated with China. Some are sanguine about the developments; some see China with trepidation. But, all of the participants are in agreement that it is important to watch China closely because it has great potential and both its growth and its possible collapse will create waves around the globe.