



The *International Journal of China Studies* is a triannual academic journal of the Institute of China Studies, University of Malaya, Malaysia. The journal is abstracted/indexed in *International Political Science Abstracts*, *International Bibliography of the Social Sciences*, *Bibliography of Asian Studies*, *EconLit*, *e-JEL*, *JEL on CD*, *Ulrich's Periodicals Directory*, *Ulrichsweb Global Serials Directory*, *Reference Corporation's Asia-Pacific Database*, *ProQuest Political Science and Research Library*, *ABI/INFORM Complete*, *ABI/INFORM Global*, *PAIS (Public Affairs Information Service) International*, *CSA (formerly Cambridge Scientific Abstracts) Worldwide Political Science Abstracts* and *NLB's ISI (Index to Singapore Information)*.

Website: <http://ics.um.edu.my/?modul=IJCS>

Manuscripts for consideration and editorial communication should be sent to:

The Editorial Manager
International Journal of China Studies
 Institute of China Studies
 University of Malaya
 50603 Kuala Lumpur, Malaysia

Tel: +(603) 79565663
 Fax: +(603) 79565114
 E-mail: chinastudies@um.edu.my
ijchinastudies@gmail.com



International Journal of China Studies

Volume 3 Number 2 August 2012 ISSN 2180-3250

Articles

Chinese Economy in the Aftermath of the Global Financial Crisis: Challenges to Macroeconomic Rebalancing
Shalendra D. Sharma 115

Indonesia, ASEAN, and the Rise of China: Indonesia in the Midst of East Asia's Dynamics in the Post-Global Crisis World
Syamsul Hadi 151

“Left-behind Children” Phenomenon in China: Case Study in Chongqing
LooSee Beh and Yao Ye 167

Cyber Public Diplomacy as China's Smart Power Strategy in an Information Age: Case Study of Anti-Carrefour Incident in 2008
Po-chi Chen 189

Book Reviews

Biwu Zhang, «Chinese Perceptions of the U.S.: An Exploration of China's Foreign Policy Motivations»
reviewed by Lee Poh Ping 221

A.W. Callahan and E. Barabantseva (eds), «China Orders the World: Normative Soft Power and Foreign Policy»
reviewed by Filip Viskupic

International Journal of China Studies

Notes for Contributors

Submission Notes

1. Manuscripts submitted for publication in the *International Journal of China Studies* should focus on contemporary China and her relations with other countries and regions, in the context of regional and global development, and more specifically, issues related to the political, social and economic development, trade and commerce, foreign relations, regional security and science, medical and technological development of contemporary Mainland China, Taiwan, Hong Kong and Macau.
2. A manuscript submitted should be an original, unpublished work not under consideration for publication elsewhere.
3. All manuscripts under consideration for publication will be refereed via a double blind reviewing process.
4. The contents of a published article in the *International Journal of China Studies* reflect the view of the author or authors and not that of the editors of the journal or the Institute of China Studies, University of Malaya.
5. The editors of the journal do not accept responsibility for damage or loss of manuscripts submitted.
6. Manuscripts submitted should be written in English with Microsoft Word in Times New Roman font, size 12 and with 1.5 line spacing, and should not exceed forty pages (or in the case of a book review, not exceeding three pages) inclusive of tables, charts and diagrams, notes, list of references, and appendices. A short note on the author, including name, academic title and highest qualification (e.g., professor, senior lecturer, PhD, MSc, etc.), institutional affiliation, full postal address and institutional e-mail address, and telephone and facsimile numbers should be included. In the multi-author case, the corresponding author should be identified. An abstract of 100 to 250 words and a list of three to five keywords should also be given.
7. Copyrights of accepted manuscripts will be transferred to the *International Journal of China Studies*.
8. Authors must obtain permission to reproduce all materials of which the copyright is owned by others, including tables, charts, diagrams and maps, and extensive quoting should be avoided.
9. Book review submitted should focus on new or recent publications, and the book title, author, city/publisher, year of publication and total number of pages should be shown above the review.
10. Manuscripts and book reviews should be sent by e-mail to chinastudies@um.edu.my and ijchinastudies@gmail.com, addressed to the Editorial Manager, *International Journal of China Studies*, Institute of China Studies, University of Malaya, 50603 Kuala Lumpur, Malaysia.

Stylesheet

1. Check carefully grammar and spelling before submitting the article.
2. Use British English, but alternate *-ize* spelling is permissible. Also note that a billion = 1,000,000,000 and a trillion = 1,000,000,000,000.
3. Make headings and subheadings identifiable, and try to avoid sub-subheadings.

(continued inside back cover ...)

(... continued from inside front cover)

4. A list of references should be compiled, and notes should be placed under a “Notes” heading. Notes and the list of references should be placed at the end of the article.
5. Use full point for decimal and commas for numbers 1,000 and above. A zero must always precede decimals less than 1.
6. Use “per cent”, not “%”, except in tables and charts.
7. For dates, use day-month-year format (e.g., 1st January 2010), and spell out the months to avoid ambiguity.
8. Do not use apostrophes for decades (e.g., 1990s, not 1990’s or ’90).
9. For short phrasal quotations, full points and commas fall outside a closing quotation mark. However, where the quote is a complete sentence, the full point falls inside the closing quotation mark.
10. Long quotations, if unavoidable, should be indented, using no quotation marks. The author should take note of the copyright implications of long quotations.
11. Use unspaced hyphens, not dashes, in pages and year spans, and write all page numbers and years in full (e.g., 245-246; 1997-1998).
12. Use British “open” style for abbreviations, with no full points in the following: Dr, PhD, Ltd, Mr, Mrs, US, EU, m, km, kg, ft, eds, vols, nos, but retain full points in ed., vol., no., p., pp., i.e., viz., e.g., etc., ff., *et al.*, *ibid.*, *op. cit.*
13. Use full capitals only for abbreviated names: UN, EU, USA. Only capitalize the first word and important words (verbs, nouns, pronouns, adjectives and adverbs, but not definite and indefinite articles, prepositions and conjunctions) in headings and book titles. Use “State” (except in quotations if the original is not so capitalized) to refer to the central body politic of a civil government and “state” to refer to other senses of the term, including a country or a political territory forming part of a country (except when the term begins a sentence).
14. A non-English term or word should be italicized but the s-ending (if added) in its anglicized plural form should not be italicized, but note that names of institutions, organizations and movements, local or foreign, and names of currencies, local or foreign, should not be italicized. Quotations from books or direct speech in a non-English language and set in quotation marks (followed by an English translation in square brackets) should not be italicized. Quotations translated by the author of the manuscript into English should be so indicated.
15. Use the APA/ACS style for in-text citation with list of references at end of text, with commas, e.g., (Lin, 1998: 24), for in-text citation, and in list of references: Shleifer, A and R. Vishny (1994), “Politicians and Firms”, *Quarterly Journal of Economics*, Vol. 109, pp. 995-1025; Steiner, Jürg (1974), *Amicable Agreement versus Majority Rule: Conflict Resolution in Switzerland*, rev. ed., Chapel Hill: University of North Carolina Press; Moscovici, Serge (1985), “Innovation and Minority Influence”, in Serge Moscovici, Gabriel Mugny and Eddy van Avermaet (eds), *Perspectives on Minority Influence*, Paris: Maison des Sciences de l’Homme and Cambridge: Cambridge University Press, pp. 9-51. The title of a book or article etc. in a non-English language should be shown in the original language or its Roman transliteration and followed by a translation into English in square brackets. Note that the title of a book or journal which is in italics in the original language or its Roman transliteration should not be italicized in the English translation unless an English translation of the book or journal has been published.

Typeset by Ivan Foo Ah Hiang

Printed by University of Malaya Press
University of Malaya, Lembah Pantai
50603 Kuala Lumpur, Malaysia

International Journal of China Studies

Editorial Board

Editor

Emile Kok-Kheng YEOH

Deputy Managing Editor

NGEOW Chow Bing

Deputy Production Editor

Lionel Wei-Li LIONG

Editorial Manager

Susie Yieng-Ping LING

International Associate Editorial Board

Wendy BEEKES
University of Lancaster

John DONALDSON
Singapore Management University

Kate HANNAN
University of Wollongong

KAMARUDING Abdulsomad
University of Gothenburg

LING Tek Soon
University of Malaya

MUTAHIR Ahmed
University of Karachi

Kwok-Tong SOO
University of Lancaster

Gerald CHAN
University of Auckland

FAN Pik Shy
University of Malaya

Michael JAKOBSEN
Copenhagen Business School

LEE Poh Ping
University of Malaya

Joanne Hoi-Lee LOH
University of Nottingham

Can Seng OOI
Copenhagen Business School

Andreas SUSANTO
Atma Jaya Yogyakarta University

International Advisory Board

Gregor BENTON
Cardiff University

Pio GARCÍA
Universidad Externado de Colombia

Mark HAYLLAR
City University of Hong Kong

Samuel C.Y. KU
National Sun Yat-sen University

Uziel NOGUEIRA
IDB-INTAL (Rtd)

Juan José RAMÍREZ BONILLA
El Colegio de México

Brian BRIDGES
Lingnan University

Fujio HARA
Nanzan University

Shiping HUA
University of Louisville

David MCMULLEN
University of Cambridge

Suzanne OGDEN
Northeastern University

Im-Soo YOO
Ewha Womans University

International Journal of China Studies, Vol. 3, No. 2, August 2012

© Institute of China Studies
First published in 2012

COPYRIGHT

All rights reserved. No part of this publication may be reproduced, copied or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without written permission from the publisher. Under the Copyright Act 1987, any person who does any unauthorized act in relation to this publication shall be liable to prosecution and claims for damages.

The *International Journal of China Studies* is a triannual academic journal of the Institute of China Studies, University of Malaya, Malaysia. The journal is abstracted/indexed in *International Political Science Abstracts*, *International Bibliography of the Social Sciences*, *Bibliography of Asian Studies*, *EconLit*, *e-JEL*, *JEL on CD*, *Ulrich's Periodicals Directory*, *Ulrichsweb Global Serials Directory*, *Reference Corporation's Asia-Pacific Database*, *ProQuest Political Science and Research Library*, *ABI/INFORM Complete*, *ABI/INFORM Global*, *PAIS (Public Affairs Information Service) International*, *CSA (formerly Cambridge Scientific Abstracts) Worldwide Political Science Abstracts* and *NLB's ISI (Index to Singapore Information)*.

Website: <http://ics.um.edu.my/?modul=IJCS>

Manuscripts for consideration and editorial communication should be sent to:

The Editorial Manager, *International Journal of China Studies*
Institute of China Studies, University of Malaya
50603 Kuala Lumpur, Malaysia

Tel: +(603) 79565663

Fax: +(603) 79565114

E-mail: chinastudies@um.edu.my, ijchinastudies@gmail.com

Contents

Articles

Chinese Economy in the Aftermath of the Global Financial Crisis: Challenges to Macroeconomic Rebalancing 115
Shalendra D. Sharma

Indonesia, ASEAN, and the Rise of China: Indonesia in the Midst of East Asia's Dynamics in the Post-Global Crisis World 151
Syamsul Hadi

"Left-behind Children" Phenomenon in China: Case Study in Chongqing 167
LooSee Beh and Yao Ye

Cyber Public Diplomacy as China's Smart Power Strategy in an Information Age: Case Study of Anti-Carrefour Incident in 2008 189
Po-chi Chen

Book Reviews

Biwu Zhang, «Chinese Perceptions of the U.S.: An Exploration of China's Foreign Policy Motivations» 221
reviewed by Lee Poh Ping

A.W. Callahan and E. Barabantseva (eds), «China Orders the World: Normative Soft Power and Foreign Policy» 225
reviewed by Filip Viskupic



Chinese Economy in the Aftermath of the Global Financial Crisis: Challenges to Macroeconomic Rebalancing

*Shalendra D. Sharma**
University of San Francisco

Abstract

When the global financial crisis erupted in the United States in the fall of 2008, the Chinese economy was seen to be relatively immune. However, this optimism proved misplaced. The contagion quickly spread to China, albeit, the overall impact was moderate – at least when compared to many other advanced and emerging market economies. How and why was China impacted by the financial crisis? In particular, what were the “transmission channels” via which the contagion spread into the Chinese economy? How has Beijing responded to the economic and sociopolitical challenges unleashed by the crisis, and how effective have been their responses been? Furthermore, what must Beijing do over the long-term to rebalance its economy and make it less vulnerable to domestic and external shocks? This paper addresses these interrelated issues.

Keywords: global financial crisis, Chinese economy, economic rebalancing, stimulus

JEL classification: E32, E44, E52, F02

1. Introduction¹

Even as the global economy was gripped in the throes of a spiraling financial crisis following the collapse of Lehman Brothers in September 2008, China was among a handful of economies that conspicuously remained an outlier. Not only was the Chinese economy booming – notching an impressive 9.3 per cent growth in GDP in 2008, Beijing’s top priority was to dampen the inflationary pressures and prevent the economy from overheating. To many analysts, such starkly divergent trajectories reflected by the world’s largest and

second largest economy could be explained by a single fact: that the Chinese economy had tangibly “decoupled” from the American economy. More specifically, the China-centered trade integration in Asia and the massive ability within China’s economy to generate a domestically driven demand meant that the Chinese economy had become decoupled or that its business cycle had become less synchronized with that of the advanced economies, notably the United States and Western Europe.² Predictably, this led observers to conclude that China was immune from an economic slowdown emanating from the US and Europe.

To others, China’s immunity was due to the “cushion” Beijing enjoyed because of its substantial foreign exchange reserves. Beijing’s holdings of US Treasury debt skyrocketed from about US\$46 billion in 1998 to US\$587 billion by 2008.³ According to the US Treasury, China’s investment in Treasury bonds totaled some US\$585 billion in September 2008, compared to Japan, which held US\$573.2 billion worth (Table 1). Moreover, in mid-2008, Beijing held the world’s largest cash reserve of roughly US\$2 trillion.⁴ This was not counting an additional US\$800 billion as Beijing also purchases US debt through third countries which are not recorded by the Treasury as being held by China. This meant that on the eve of the crisis China owned US\$1 out of every US\$10 in US public debt. This made Beijing the largest foreign

Table 1 Foreign Holders of US Treasury Securities (September 2008)

	US\$ billion	Per cent of Debt Held by the Public
China	587.0	10.1
Japan	573.2	9.8
United Kingdom	338.3	5.8
Caribbean Banking Centers ^a	185.3	3.2
Oil Exporters ^b	182.1	3.1
Brazil	141.9	2.4
All Other	852.9	14.6
Total	2,860.7	49.0

Notes: ^a Caribbean banking centers include Bahamas, Bermuda, Cayman Islands, Netherlands Antilles, Panama and British Virgin Islands.

^b Oil exporters include Ecuador, Venezuela, Indonesia, Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, the United Arab Emirates, Algeria, Gabon, Libya and Nigeria.

Source: US Treasury. 2009. *Treasury Bulletin*, Table OFS-1.

holder of US government debt – indeed, the US government’s leading foreign creditor – and the world’s leading creditor nation, while the United States became the world’s largest debtor.

Rather ironically, if earlier, vilified for creating the “global savings glut” seen as responsible for the crash of 2008, Beijing’s formidable reserves were now seen as a source of much needed global liquidity in an increasingly capital scarce world.⁵ Not surprisingly, it was suggested that the well-endowed and booming Chinese economy could serve as a potential “shock absorber” and “locomotive” to help drive the global economy out of its deep malaise (Dobson, 2009).

Others were upbeat because China (like the other major Asian economies, namely, Japan, India and South Korea) had only modest exposure to the “toxic” subprime loans and structured credit products originating in the United States as the Chinese financial sector does not trade much in derivatives (Lardy, 2010). The claim by the People’s Bank of China (PBC, the country’s central bank) that none of its massive US\$2 trillion foreign reserves was invested in subprime debt was just a slight exaggeration as it is well known that a large percentage of China’s reserves are invested in long-term US securities. It is estimated that the Bank of China held about US\$8.9 billion of securities backed by US subprime loans, while the Industrial and Commercial Bank of China and China Construction Bank reported exposure was about US\$2 billion each (*Caijing*, 2009; also Lee and Park, 2009: 17). Suffice it to note, these are extremely small debts. That is, even if the three Chinese banks exposure to risky subprime assets totaled US\$12.9 billion it was still a mere 6 per cent of the US\$199 billion in private foreign securities they held.

Furthermore, since China’s banks rely extensively on deposits rather than wholesale funding and fund their loans through deposits rather than capital markets they were better insulated from the global credit crunch than Western banks – indeed, banks in much of the world.⁶ Beijing’s limited reliance on foreign capital to finance growth gave it further shield, and the country’s corporate and banking sector balance sheets were relatively robust.⁷ The ambitious and wide-ranging banking reforms of early 2000, which included bank recapitalization, the strengthening of corporate and supervision, and greater compliance with international best practices, had not only helped remove a large portion of the nonperforming loans of the banking sector (Table 2), but also led to higher risk-weighted capital adequacy ratios.⁸

This made China’s once moribund banking system more solvent. Indeed, the major banks capital positions were strong on the eve of the crisis (Kwong, 2011; Riedel, Jin and Gao, 2007), and this explains why no financial institutions failed during the height of the crisis in 2008-09 (Woo and Zhang, 2011).

Table 2 Nonperforming Loans (% of commercial bank loans)

	1998	2003	2004	2005	2006	2007*
China***	28.5**	17.8	13.2	8.6	7.1	6.2
Hong Kong****	5.3	3.9	2.3	1.4	1.1	0.9
Germany	3.0	5.2	4.9	4.0	3.4	n/a
Japan	5.4	5.2	2.9	1.8	1.5	1.5
United States	1.0	1.1	0.8	0.7	0.8	1.1

Notes: * Data for Hong Kong, China; Rep. of Korea; Japan, Singapore, and the United States as of September 2007.

** Figure refers to 1999 data.

*** 1999–2001 data are for state-owned commercial banks only.

**** Reported nonperforming loans are gross classified loan ratio of retail banks.

Source: Lee and Park (2009: 19).

Equally important, China's low budget deficits, modest level of public debt (about 18 per cent of GDP in 2007 to nearly 40 per cent for the United States), and a largely closed capital account served as critical buffers to external shocks. More specifically, it not only meant that the spillover effects into the Chinese economy would be minimal, but also easier to contain. Although, it was well-known that Beijing had a potentially risky housing bubble problem, it was also felt that China's banks were far better prepared to withstand falling house prices than their American counterparts because Chinese buyers (unlike their American counterparts) are required to put down a minimum deposit of 20 to 30 per cent down-payment and as much as 40 per cent on second homes.

Also, rather counter-intuitively, although the Chinese economy has become deeply enmeshed into the global economy, it is still not fully integrated into the global financial system (Yao and Wu, 2011). In particular, China is still a minor player in the global financial system. For example, Chinese banks, some of which are large by global standards based on market capitalization and the size of their balance sheets, have only modest international presence. Furthermore, the RMB (or the renminbi⁹) denominated debt-market is shallow and the Chinese currency plays a relatively minor role in the global foreign exchange market. In fact, the RMB is hardly used outside China, except for a modest amount in Hong Kong, and Chinese capital markets are not a major source of financing for foreign borrowers. Overall, China's capital markets is small relative to the size of the domestic economy, and relies heavily on FDI rather than securities investment and other forms

of capital flows to access international capital markets.¹⁰ Although there has been gradual liberalization, Beijing continues to heavily regulate many cross-border transactions and subjects portfolio capital flows to various restrictions. Namely, a cautious approach to financial sector liberalization has meant that portfolio flows are still largely channeled through large institutional investors via the QFII (Qualified Foreign Institutional Investors) and QDII (Qualified Domestic Institutional Investors) programs established in 2002. The QFII program is restricted to funds-management and securities companies with at least US\$10 billion in assets, including the world's top 100 commercial banks. In addition, securities regulator of the QFII's home country must sign a "Memorandum of Understanding" and have a track-record of good relations with the China Securities Regulatory Commission (CSRC), while the QDII's must have assets of over five billion RMB.¹¹

Finally, since the crisis was seen as related to factors specific to the US economy, especially problems associated with expansionary monetary policy that had kept US interest rates low for some years and led to a real estate bubble (rather than to systemic factors such as an oil shock or adverse trade relations), it was believed that the economic fallout would be mainly limited to the United States and that American authorities would, in short order, contain the crisis.

2. The Contagion Hits

However, China did not remain immune long – albeit, it has fared far better than most. In early December 2008, the RMB experienced its largest weekly decline against the US dollar since July 2005 (when the RMB's peg to the dollar was lifted), and China's foreign exchange notched a modest decline largely through valuation changes. It is important to note that the contagion caused a slowdown in China's economic growth – the Chinese economy never actually contracted. China's quarterly growth rate in 2008 was 10.6 per cent, 10 per cent, 9 per cent and 6.8 per cent – with an overall average of 9.3 per cent. Nevertheless, given its perceived immunity, how and why was China impacted? In particular, what were the "transmission channels" via which the contagion spread into the Chinese economy? How did Beijing respond to the economic and sociopolitical challenges unleashed by the crisis, how effective have been the response been, and what was Beijing do over the long-term to rebalance its economy and make it less vulnerable to external shocks?

At the outset it should be noted that contagion stemming from a financial crisis can be transmitted simultaneously via several channels – both broad and specific. Broadly, the rapid global spread of the crisis unambiguously underscores that in today's interconnected world no country is an island. Closely integrated financial and banking systems and deepening trade interdependence

has meant that even countries not directly exposed to the toxic subprime assets originating from the United States are extremely vulnerable to the financial contagion. This is in part because economic globalization not only creates deep and entwining linkages between economies, but also “convergence” amongst them. As such, troubles in one part, especially the largest part (the United States) will inevitably send waves which may become ripples in some places (China) and a tsunami in other places (Iceland).

Furthermore, global economic integration has generated unprecedented levels of capital flows. These funds now cross national borders, often at will, despite attempts by governments to control and regulate its movement. Such financially integrated markets also mean more rapid and powerful spillover across economies through both traditional and newer types of channels. For example, although spillovers through the traditional trade channel remains a central transmission mechanism (even though global trade patterns have become more diversified), financial spillovers have become more pronounced as the rising correlation of global equity prices and the potential for sudden capital flow reversals mean that shocks at the core can be transmitted rapidly throughout the entire global financial system. For example, China’s stock markets are particularly vulnerable to swings in investor sentiment. Heightened anxiety over growing losses led foreign institutional investors (FIIs) to sell billions of their investment in Chinese companies to cover losses accrued in their home markets. As a result the Stock Exchanges took a beating – with the Shanghai stock market falling by 48 per cent between May and November 2008 (De Haan, 2010: 761).

Decoupling did not mean that a downturn in the American economy would have no impact on emerging market economies like China. Rather, a more nuanced version of the decoupling thesis – such as those articulated by the IMF did distinguish between the “effects” of a “moderate” slowdown in the United States to a “sharp slowdown or recession” (Akin and Kose, 2007; IMF, 2007). Specifically, “... most countries should be in a position to ‘decouple’ from the US economy and sustain strong growth if the US slowdown remains as moderate as expected, although countries with strong trade linkages with the United States in specific sectors may experience some drag on their growth. However, if the US economy experienced a sharper slowdown because of a broader-than-expected impact of the housing sector difficulties, the spillover effects into other economies would be larger, and decoupling would be more difficult” (IMF, 2007). As the crisis only became more severe – especially, after the collapse of Lehman Brothers – decoupling no longer guaranteed immunity.

Finally, as is well known, China’s integration into the global economy exemplified by its export-led growth strategy has proven to be remarkably successful producing an unprecedented 10 per cent annual growth for the

past three decades (Lin, 2012). During this period, China has seen its share of world GDP rise to 13 per cent (in 2010) from less than 2 per cent in 1980 – even as its share of the world’s population declined to 20 per cent from 25 per cent. Equally impressive, with real GDP per head increasing almost thirty-fold, hundreds of millions of people have been lifted out of abject poverty. On the eve of the reforms in 1978, the incidence of poverty in China was among the highest in the world. However, over the past three decades the proportion of people living in extreme poverty fell from some 53 per cent to below 5 per cent. This means that across China there were over 500 million fewer people living in extreme poverty than in 1978 (IMF, 2010; Lin, Cai and Li, 2003; World Bank, 2009). Few countries have grown so fast over such an extended period of time or reduced the incidence of poverty so sharply. However, with the onset of the crisis, China’s heavy dependence on exports of goods and services now became a liability.

As Table 3 shows, China’s exports of goods and services as a share of GDP rose sharply from 9.1 per cent in 1985 to 37.8 per cent in 2008.

Table 3 China’s Exports of Goods and Services (as % of GDP)

Year	Percentage of Exports
1985	9.1
1990	14.2
1995	19.5
2000	23.4
2005	36.5
2008	37.8

Source: Economist Intelligence Unit.

In fact, in 2007, China not only replaced the United States to become the world’s second largest exporter of merchandise goods (after the EU), its net exports (exports minus imports) contributed to a whopping one-third of its overall GDP growth in 2007. Most of the export industries were direct beneficiaries of foreign direct investment (FDI) which totaled some US\$92.4 billion in 2008 – making China the third largest recipient of FDI after the EU and the United States (Xing, 2010). Also, according to Chinese government estimates, in 2007 over 80 million people depended on the “foreign trade sector” for employment – with some 28 million employed directly in enterprises engaged in exports. Therefore, on one hand, rapid and unprecedented changes in the structure of the Chinese economy have generated sustained economic growth, on the other, it has made growth highly

depended on the continuation of robust external trade and external capital flows (Arora and Cardarelli, 2011). This also meant that a global slowdown in demand would rapidly translate into a corresponding negative impact on economic growth.

As the United States, the EU and the Middle East account for a significant portion of China's exports, the sharp deterioration in demand with the onset of the financial crisis saw the value of China's exports fall by 16.7 per cent between October 2008 and November 2009 (IMF, 2010; OECD, 2010). According to a World Bank study, "since the onset of the crisis, exports shifted from 20 per cent annual growth to an annualized contraction of more than 25 per cent in early 2009" (Vincelette, 2010: 13). The most severely impacted have been the technology and capital-intensive exports, forcing several companies (both domestic and foreign) in these key sectors to shut down their factories and businesses. Such sharp export contraction also led to equally sharp declines in FDI – which "plunged to -35.52% in November 2008. The period of negative FDI growth lasted for nine months until September 2009" (Woo and Zhang, 2010: 354).

Cumulatively, these had a deleterious impact of the highly export-dependent Chinese economy. Indeed, with demand for Chinese exports evaporating some "67,000 small and medium-sized companies across China were forced to shut down in 2008" (Yang and Lim, 2010: 27). In Guangdong province some 6.7 million jobs were lost (De Haan, 2010: 763), and in China's key industrial provinces an estimated "20 million workers lost their jobs" (Overholt, 2010: 28). In addition, as many as 26 million of China's estimated 130 million migrant workers were left unemployed (Tan and Xin, 2009). No doubt, the authorities are cognizant of the fact that after years of double-digit growth anything less than at least 8 per cent a year growth could lead to further unemployment and social tensions. Indeed, Overholt (2010: 28) notes that "the loss of tens of millions of jobs supplemented another domestic trend, namely the rapid rise over the years in the number of the so-called 'mass incidents', or popular demonstrations. According to official statistics, these had risen from 8,700 in 1993 to about 40,000 in the year 2000, compounded by increasing size, violence, and effectiveness of the protests, with a further rise to 74,000 in 2004. Official statistics do not yet reveal the scale of the additional impact of the financial crisis, but there have been many widely publicized protests by workers losing their jobs."

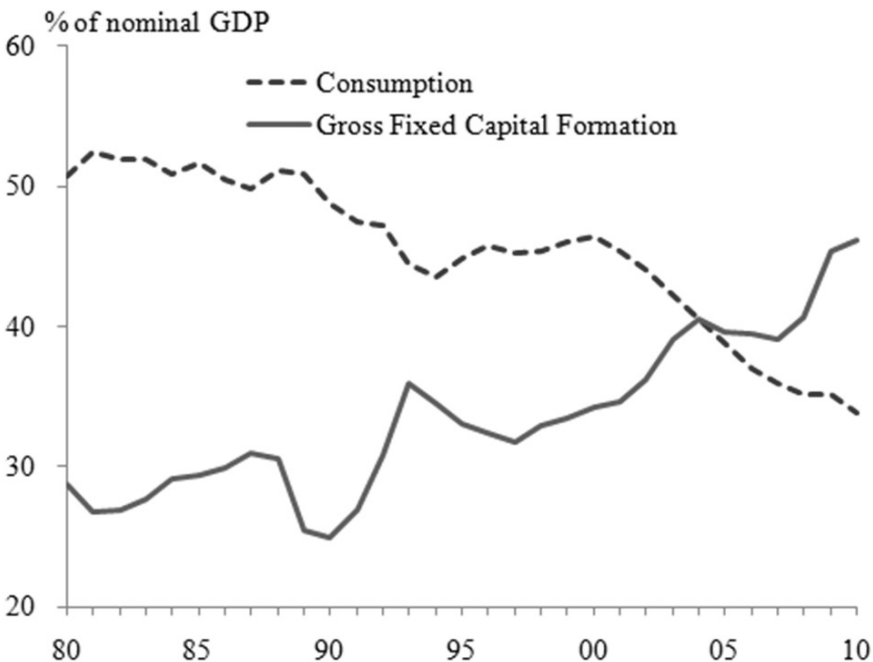
3. Beijing's Ambitious Response

The global financial crisis of 2007-08 which saw an abrupt and sharp shrinkage in external demand, the rise of protectionism in the advanced economies, and growing chorus of criticism of China's economic policies

from American lawmakers in both houses of Congress and the White House, only underscored what Beijing, itself, had come to recognize: that excessive dependence on exports was not a sustainable long-term strategy. That is, China’s investment-driven and export-oriented development model, with exports accounting for 40 per cent of GDP, was becoming increasingly difficult to sustain (Morrison and Labonte, 2008). In fact, Lardy (2006: 1) points out that Chinese authorities have been increasingly concerned about the country’s economic trajectory and as early as 2004 “China’s top political leadership agreed to fundamentally alter the country’s growth strategy by rebalancing the sources of economic growth”.

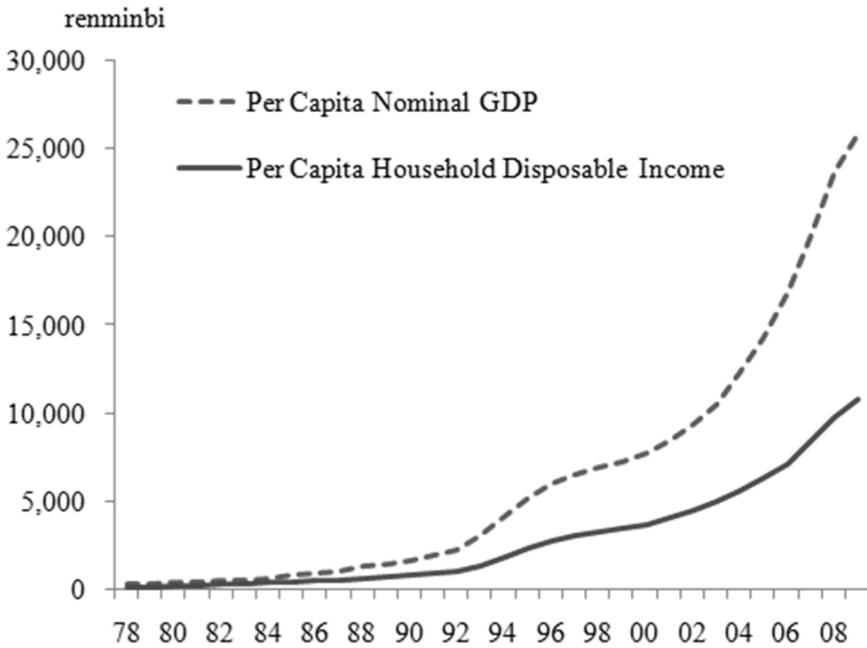
This is because China has developed two forms of macroeconomic imbalances: a “domestic imbalance” due to high-investment (hence, “investment-led growth”), and very low household consumption, and an “external imbalance,” due to the country’s export-led development strategy that relies heavily on exchange rate undervaluation and intervention in the foreign exchange rate markets to promote exports (Figures 1 and 2). The domestic imbalance has resulted in rapid and massive capital accumulation, imbalances between expenditure and production, and the overall income gains

Figure 1 Consumption and Investment in China (as % of nominal GDP)



Source: Fukumoto and Muto (2011: 4).

Figure 2 Per Capita GDP and Per Capita Disposable Income in China



Source: Fukumoto and Muto (2011: 5).

not percolating to the Chinese people in line with the growth in the country's GDP.¹² On the other hand, the external imbalance has generated a massive surplus in the current account of the balance of payments.

Premier Wen Jiabao, a strong proponent of macroeconomic rebalancing repeats the imperatives of rebalancing at every opportunity. At the influential National People's Congress in March 2007, Wen noted that "the biggest problem with China's economy is that the growth is unstable, unbalanced, uncoordinated and unsustainable." Again, in a keynote speech to the National People's Congress in March 2010, Wen unambiguously noted that a development strategy based on investments to facilitate exports cannot be sustained indefinitely. Rather, he pointed out that "unleashing domestic demand holds the key to long-term and steady development of China's economy." Wen noted that "expanding domestic demand is a ... basic standpoint of China's economic development as well as a fundamental means and an internal requirement for promoting balanced economic development."¹³ In other words, a transition or rebalancing away from exports and investment-driven growth towards "consumption-driven growth" was declared to essential to the long-term dynamism of the Chinese economy.

To guide this transition, or in Wen words, “put China’s economy quickly on the path of endogenous growth,” he pledged billions of renminbi would be invested in “human and social services” – especially, affordable housing, expanding educational opportunities and delivering a more comprehensive health and social welfare system.

Beijing – which had maintained a contractionary fiscal policy from 2001-07¹⁴ now found itself in a good fiscal position (the fiscal balance as percentage of GDP in early 2008 was 0.7 and the debt-to-GDP ratio was only 20 per cent), to stimulate the economy (IMF, 2008: 46; World Bank, 2009). Coupled with this, Beijing’s formidable “war-chest” of cash reserves totaling more than US\$2 trillion gave it unprecedented policy flexibility – especially, in the area of fiscal policy by giving it the ability to boost the economy if it began to slow down.¹⁵ As the strong headwinds emanating from the global contagion began to make its deleterious impact felt, Beijing did precisely this. On 11 November, 2008, the authorities announced a massive 4 trillion RMB (US\$586 billion) “*duiying guoji jinrong jingji weiji de yilanzi jihua* 对应国际金融经济危机的一揽子计划” or “investment plan” to be spent over two years “to counter the negative effects of global financial crisis” (Table 4). Totalling some 14 per cent of China’s GDP in 2008, it was arguably the biggest peacetime stimulus ever.

As Table 4 shows the stimulus package targeted seven core spending areas. General infrastructure included construction and expansion projects of high-speed railways, new expressways and highways, airports, city subways and nuclear power plants. Through targeted social spending the

Table 4 China’s Stimulus Package (Total: RMB 4 trillion)

<i>Infrastructure</i>	2.87
General infrastructure	1.50
Reconstruction of Sichuan earthquake area	1.00
Rural area infrastructure	0.37
<i>Technology and environment</i>	0.58
Technology and structural adjustment	0.37
Energy savings and emission reductions	0.21
<i>Social measures</i>	0.55
Construction and renovation cheap houses	0.40
Social security and health	0.15

Source: National Development and Reform Commission (NDRC, 2009). <<http://www.ndrc.gov.cn>>.

authorities hoped to increase investment in the public health care system, education and subsidized housing, as well as to raise unemployment and other welfare benefits. To generate employment, the authorities announced plans to reform the value-added taxes (VAT), including increasing VAT rebates for export industries, and replacing other cumbersome taxation by a more simple corporate income tax.¹⁶ The stimulus funds could be made available almost immediately, because as Woo and Zhang (2011: 679) note, unlike the United States or the UK, where the expansion of the monetary base was used to repair the “balance sheets of commercial banks ... the expansion of the monetary base in China replaced export demand and externally financed investment demand with internally generated demand.” Hence, Naughton (2009: 278) notes, “disbursement began almost immediately. The Chinese government and Communist Party sent an emergency directive to government departments at all levels, emphasizing the need to prop up domestic demand and start new construction projects. Literally within weeks, local governments throughout China were meeting to compile lists of shovel-ready projects that compiled with central government directives. As a result, resources began flowing through the pipeline by the end of 2008, and expanded government investment began to have a discernible impact on the economy during the first quarter of 2009”.

However, to many observers, Beijing’s expectations for its massive stimulus to generate a much-needed domestic consumption, and thereby rebalance the economy unduly skewed towards exports, was puzzling as “social measures” represented a mere 5 per cent of the package. This was correctly viewed as simply insufficient to stimulate domestic consumption. Moreover, the stimulus package was seen as contradictory in that it subsidized exports and targeted infrastructure despite the fact that China already has overcapacity in industrial production and infrastructure (De Haan, 2010; McKissack and Xu, 2011). Given this, the concern was that the multiplier effects of the stimulus would be much lower than expected. Indeed, it was suggested that a more prudent way to stimulate domestic consumption would have been send tax rebates directly to mid-and low-income families as these rebates would produce faster and targeted results. Equally perplexing, the stimulus package did little to improve the social safety net – which stands at less than 1 per cent of GDP. Chinese citizens are prodigious savers because they are justly concerned about the prohibitively high medical, education and housing costs and lack of social security and other safety-nets when they retire. This is particularly true for poorer households who try their best to save because they fear the consequences of serious illness, unemployment and old age in a country lacking effective government safety nets.¹⁷

In order to discourage precautionary savings and boost consumption, on January 21, 2009, Beijing announced additional spending of some

RMB850 billion over three years. This was designed to improve health care provision by initially covering some 200 million uninsured citizens with the goal of achieving universal coverage by 2020, and improving access to primary health care in underserved areas. Also, beginning in February 2009, a pension plan for rural workers was initiated and the level of pensions to the elderly poor modestly increased. To encourage spending by rural households, the authorities' unveiled the "household appliances going to the countryside" (*jiadian xiexiang* 家电下乡) and "exchanging old for new" (*yi jiu huan xin* 以旧换新). Under these initiatives, rural residents would receive subsidies and rebates on purchases of goods such as refrigerators, TVs and washing machines for four years. Furthermore, to help the struggling property sector, minimum down-payments was reduced from 30-40 per cent of a home's value to 20 per cent and the transaction tax waived for properties held for at least two years. The 12th Five Year Plan (2011-16), further committed to construct 36 million low-income housing units by 2016. However, a recent IMF study (Ahuja *et al.*, 2012: 12), notes that "there are few signs in the data that the initiatives to build out the social safety net and increase the provision of social housing have led precautionary savings to decline or have created sufficient momentum for household consumption to reverse the secular decline as a share of GDP that has been seen over the past several years."

Arguably, without effective privatization of state and collective-owned land and state assets the stimulus efforts may be a one-time boost only. As noted, spending by Chinese households as a percentage of GDP remains significantly below private spending levels in other emerging economies. However, China's private consumption has failed to grow, not because Chinese consumers do not like to purchase goods and spend on vacations, but because most do not own property and collateral asset. Rather, most households are wage-earners who have not felt enough "wealth effect" to boost their consumption levels. Unless these concerns are effectively dealt with, consumers will not be spending their rainy day savings anytime soon. It also means that financial stimulus is a one-time shot designed to alleviate immediate problems in the economy by giving it a boost. More sustained growth must come less from government-backed capital infusion, but from balanced growth, including productivity growth.

Between 2001 and 2007, Beijing maintained a fairly contractionary or tight monetary policy to control inflation and cool the asset-price bubbles (World Bank, 2008). However, once the contagion spread to China, the PBOC quickly adopted what it called a "moderately loose" (but in reality, a highly expansionary monetary policy) to support their highly expansionary fiscal policy. Specifically, beginning in the fourth-quarter of 2008, the central bank began to pump substantial volumes of liquidity into the banking

Table 5 Monetary Indicators, 2008-2009

	2008				2009	
	Q1	Q2	Q3	Q4	Q1	Q2
M1	18.0	14.0	9.2	9.0	17.0	24.8
M2	16.2	17.3	15.2	17.8	25.4	28.4
Bank Loans	14.8	14.1	14.5	18.8	29.8	34.4

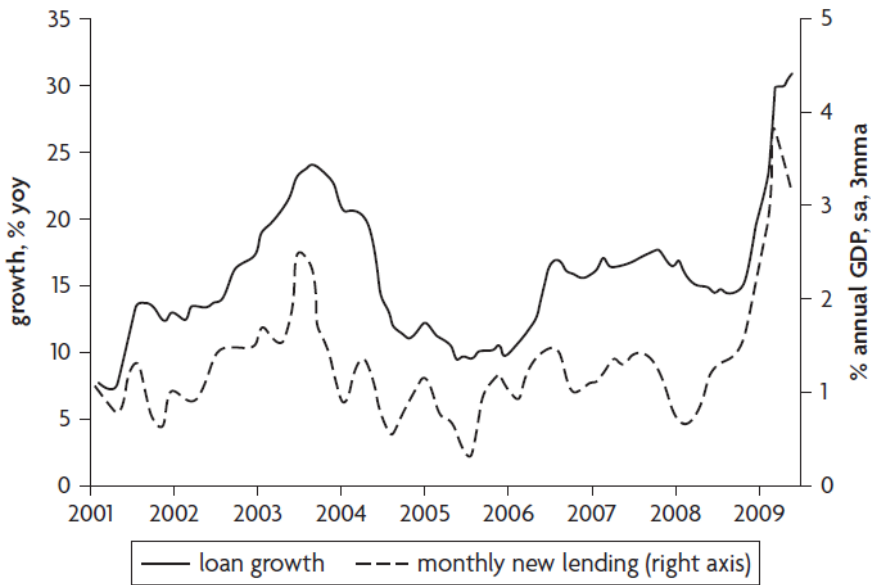
Note: M1 = money supply; M2 = M1 plus quasi money.

Source: Vincelette *et al.*, World Bank Study (2010: 16).

system, and the lending limits of commercial banks were scrapped in early November 2008 to provide even more loans. These easy-credit policies had predictable results – massive credit expansion. As Table 5 shows, broad money (M2) grew 28.4 per cent in the second quarter of 2009 – a significant increase over the end of 2008. Yu (2009: 10) notes that “in the first half of 2009, bank credit increased by 7.3 trillion RMB, which was above the official target for the full year... In contrast, the annual increases in bank credit in 2006 and 2007 were 3.18 trillion yuan and 3.63 trillion yuan respectively”.

In addition, to ease bank lending, the deposit reserve requirement ratio (RRR, which is the amount of bank reserves over the sum of deposits and notes) was lowered four times in 2008 – from 17.5 per cent to 14 per cent – giving banks more funds to lend. The central bank cut the benchmark interest rate on a five-year loan from 7.47 per cent in September 2008 to 5.31 per cent in December 2008 – where it remained as to June 2010. In similar fashion, rates for mortgage loans were sharply reduced. Lardy (2010: 2) estimates that “the combined effect of a reduction in the benchmark five-year loan rate and the adjustment in the mortgage factor meant that the interest rate a potential home buyer would pay on a mortgage with a term of five or more years was reduced by two-fifths, from 6.66 to 4.16 per cent. This meant that the monthly payment on a 20-year mortgage was reduced by 18.6 per cent. For property investors the 40 per cent minimum down payment on a mortgage, introduced in the fall of 2007, was scaled back to 20 per cent. And the compulsory penalty interest rate that applied to property investors, which had been set at 1.1 times the benchmark rate starting in September 2007, was eliminated”. Not surprisingly, such an aggressive easing of credit led to a massive increase in bank lending – totaling some 30 per cent of GDP in 2009 (Figure 3).

Figure 3 New Banking Lending



Note: mma = monthly moving average, sa = seasonally adjusted.
 Source: Vincelette *et al.*, World Bank Study (2010: 17).

4. The Outcomes: Intended and the Unintended

China’s massive fiscal program, complemented by accommodative monetary policies and unprecedented bank lending played an essential role in helping the economy emerge from the crisis relatively quickly. A dynamic computable general equilibrium model developed by Diao, Zhang and Chen (2012) to assess the impact of the 4 trillion yuan stimulus package on China’s economic growth shows that GDP growth rate in 2009 could have fallen to 2.9 per cent without the stimulus mainly as a result of the sharp decline in exports of manufactured goods. The revitalization of domestic demand not only helped GDP to recover by the second-quarter of 2009, but also boost intraregional trade. Yet, China’s credit expansion during 2009-10, was one of the highest in the world. Bank-financed investment has resulted in massive credit growth (some 9.95 trillion yuan in lending was granted in 2009 alone), carries inherent risks.

China experienced this explosive bank financed credit boom, in large part, because of the peculiar nature of the country’s political institutional arrangements. For example, Beijing (the central government) financed only about 29 per cent (or 1.18 trillion yuan) of the stimulus by mainly issuing

central government bonds. The bulk was financed by local governments borrowing from commercial banks, the corporate bond market and via local financing vehicles (LFVs). Created by local governments (by pooling public assets such as land into LFV and using it as a vehicle to raise capital), the LFVs were explicitly designed to circumvent the no-borrowing constraint imposed on local governments by Beijing in 2006. However, lacking the necessary checks and balances to ensure prudent borrowing, the LFVs have amassed huge debts (Shih, 2010). Moreover, although reforms in the banking sector have weakened the monopoly of state banks, and non-state banks have increased in both number and the range of services they offer, the “big four” state-owned commercial banks¹⁸ still dominate (Table 6), directing bulk of the credit to state owned enterprises at very low cost. In addition, the government also holds significant equity stakes in the remaining shareholding commercial banks, including the rural cooperative banks and credit societies (which are technically not state-owned). Beijing still maintains tight control over the banking sector, while regional banks are effectively controlled by local governments as they tend to be the major shareholders. Such pervasive state presence gives it tremendous clout, and predictably, bank lending still very much based on government directives rather than purely economic considerations.¹⁹

Moreover, like the central government, provincial/municipal and local governments can also raise funds via off-balance sheet vehicles such as the

Table 6 China's Banking Sector

	Total Assets in RMB (billions)	State Ownership (per cent)
<i>Five Big Banks</i>		
1. Industrial and Commercial Bank of China	9,757.2	51
2. China Construction Bank	7,555.5	48
3. Agricultural Bank of China	7,100.0	100
4. Bank of China	6,951.7	70
5. Bank of Communications	268.3	26
<i>Three Policy Banks</i>		
1. China Development Bank	3,821.2	100
2. Agricultural Development Bank of China	1,354.7	100
3. Export-Import Bank of China	566.7	100

Source: Chinese Banking Regulatory Commission (CBRC), Annual Report, 2008.

credit-related wealth management products (CWMPs), credit-related trust products (CTPs), and as noted, via the newly allowed bond issuance backed by central government credit to finance stimulus and related spending programs. In fact, the central government clearly stipulated that only 1.18 trillion RMB (out of the 4 trillion RMB) of stimulus spending would be funded by Beijing. In other words, local governments had to fund the bulk of the spending. Local governments usually do this with Beijing's backing – which instructs state-owned banks to provide loans “guaranteed” by local governments. This explains why state-run banks lend so generously and without delay and local governments borrow so generously and often. Yet, as we know from the 2008 global crisis, placing loans off-the-books into off-balance sheet vehicles does not eliminate counterparty risk from the system. Rather, it just places it elsewhere – in this case, on the central government.

As Yu (2009: 12) notes, this is, in part, because “local governments have an insatiable appetite for grandiose investment projects. Investment led by local governments is likely to lead to a sub-optimal allocation of resources”. In fact, in early 2012, the National Audit Office announced that “it had uncovered 531 billion yuan (US\$83.8 billion) in irregularities involving local government debt, which amounted to 10.7 trillion yuan as of the end of 2010”.²⁰ Similarly, as Naughton (2009: 280) points out, that “in order to move such a huge volume of credit, banks have inevitably turned to large, especially state-run companies to take up the loans. State firms enjoy implicit government guarantees for these loans... The result is that the share going to China's private sector, already low, has dropped further. Loans to households for all purposes – consumption as well as household business – made up only 15 per cent of the increased lending in the first half of 2009, down from a 2007 peak of nearly one-third of all lending... The long-term objective of creating a more diverse and resilient economy, less dependent on large state-run firms, has been seriously set back”. Indeed, a number of analysts including Naughton (2009), Bremmer (2010) and Huang (2011) have noted that China's stimulus program may have inadvertently served to further enhance the role of the state in the economy at the expense of the private sector. Hence, there are legitimate concerns about the commercial viability and soundness of many of these investments. If economic conditions deteriorate and these investments fail and put the repayment of the underlying debt in doubt, China will once again face the spectre of a sizable non-performing loans problem in the banking sector, unsustainable asset-price inflation (especially, in real estate and equity markets), and excess capacity. Indeed, the IMF (2011) has correctly warned that such rapid and massive credit expansion also carries the real potential to distort and exacerbate the country's already skewed growth patterns – that is further imbalance the growth pattern.

5. The Imperative of Rebalancing

There are no guarantees that the normal business cycle can fundamentally rebalance China's economy. During the Asian financial crisis, robust growth and demand in the advanced economies helped support Asia's recovery. However, this time, the US, Japan, and Western Europe are in recession, if not difficult economic times, and their business confidence and consumption, on which China and other Asian countries (indeed, the world) depends are still reeling from massive deleveraging, crashing equity prices, and tight credit markets. The precipitous fall in asset prices (equity, bond, and housing markets) has dramatically eroded the net worth of households in the advanced economies. According to an IMF study "during the first three quarters of 2008 alone, the value of household financial assets decreased by about 8 per cent in the United States and the United Kingdom, by close to 6 per cent in the euro area, and by 5 per cent in Japan. As global equity markets plunged in the last quarter of 2008, household financial wealth declined further – for example, by an additional 10 per cent in the United States. At the same time, the value of housing assets also deteriorated in line with falling house prices, especially in the United States and the United Kingdom". More precisely, "the losses in household wealth during 2008 were about US\$11 trillion in the United States (US\$8.5 trillion in financial assets and US\$2.5 trillion in housing assets) and were estimated at US\$1.5 trillion in the United Kingdom (US\$0.6 trillion in financial assets and US\$0.9 trillion in housing assets)" (Brooks, 2009). Such unprecedented loss of household wealth coupled with growing financial liabilities in the advanced economies will inevitably force many households to deleverage their balance sheets and engage in more precautionary savings. This means that US consumers who have long served as the locomotive – not only for the US economy, but for the global economy – will not be able to serve in that role. In addition, as the government support for consumer spending winds down, it will further depress consumption.

Table 7 illustrates that as consumers in the advanced economies abruptly cut back on spending in 2008 demand for exports sharply fall. Both sales of labour-intensive manufacturing products as well as higher value-added goods such as computers and related equipment and automobiles have fallen since September 2008 in all Asian countries for which data are available.

If these current trends are any indication of the potential long term trends, export-dependent economies are at risk of a structural decline in demand from the advanced economies. In other words, not only the era of easy credit to finance consumer durables may be over, the over-leveraged households in the United States and elsewhere in the rich economies are saving more (Feldstein, 2008). If these "course corrections" hold, the export growth could be structurally lower and China's (and Asia's) export-led growth strategy

Table 7 Collapse of Exports (Value, % Change)

Country	2007	2008				2009 ^a
		Q1	Q2	Q3	Q4	
World	15.1	22.1	25.2	21.0	-9.5	-29.1
China	25.7	21.4	22.4	23.0	4.3	-19.7
India	21.5	37.6	37.1	25.5	-12.8	-24.1
Malaysia	2.7	9.9	20.8	16.8	-7.5	-22.2
Thailand	7.4	13.5	16.5	23.7	-9.7	-16.2
Philippines	6.4	2.8	5.5	4.1	-22.3	-39.9
Viet Nam	23.8	28.7	31.8	37.6	5.7	3.4
Cambodia	14.1	97.2	45.8	5.3	-3.3	—
Lao PDR	12.1	36.2	15.7	42.7	4.9	—
Bangladesh	11.1	17.5	8.6	19.3	12.5	10.6
Pakistan	2.9	20.9	25.9	19.0	1.7	-17.9
Sri Lanka	18.0	9.3	6.8	5.4	-3.5	-10.7

Notes: ^a First quarter figures are estimates using latest available data. Data for PRC are actual values.

“—” indicates data not available.

Source: Asian Development Bank (ADB 2009). *Report to the Second Global Review on Aid for Trade: Aid for Trade in the Asia and the Pacific: An Update*. June, Asian Development Bank: the Philippines, p. 3.

may no longer be as critical as in the past. If global demand for Chinese produced goods remains suppressed for the foreseeable future, China and the Asian region's longer-term recovery will mean that its traditional reliance on export-promotion as the driver for growth will have to diminish.²¹ This means the need to rebalance growth away from exports and toward domestic demand in order to adjust to the structural shifts taking place in the global economy. Although, for export-dependent economies like China a boost in global demand is essential for recovery, domestic policy reorientation is also essential for long-term sustainability. As noted earlier, this could be partly achieved by building stronger social safety systems that reduces the need for precautionary savings to meet needs related to health, education, and retirement. Beijing, by effectively reducing imbalances can significantly aid in the recovery of the global economy, but also push the Chinese economy towards a more sustainable path.

Over two years (2007-09), China's current-account surplus (a broad measure of its international trade in goods and services) was reduced by

half. By end of 2011, the current account surplus fell to 2.8 per cent of GDP from 10 per cent in 2007. Beijing also posted a US\$31.5 billion trade deficit in February 2012. What explains this? Is it because China's economy is rebalancing externally and domestic consumption is expanding? No doubt, there is some evidence that domestic demand is rising relative to exports – but to what extent is unclear. However, internal or domestic rebalancing remains static as China still has very low household consumption-to-GDP (about 30 per cent in 2011). According to the data compiled by the IMF (see Ahuja *et al.*, 2012: 20), the decline in China's external surplus is not “due to consumption rising as a share of GDP or national savings falling”. Rather, it is due to a combination of factors, including a much weaker global demand, very high levels of domestic investment, and a sharp increase in commodity prices relative to Chinese manufactured goods. Stated bluntly, the Chinese economy is still overly dependent on exports and large-scale infrastructure investment.

Although, it is worth reiterating that Beijing has viewed rebalancing away from exports and investment and towards domestic consumption as a long-term goal, and in all fairness, such structural changes takes time, Beijing must make domestic rebalancing a top priority. Indeed, the crash of 2008, and the fact that China's two largest export destinations (the United States and the Eurozone) are already in various stages of a massive deleveraging underscores that a growth strategy based on exports cannot be sustained indefinitely. It is in Beijing's interest that it moves expeditiously towards rebalancing focused on domestic consumption immediately. Failure to do so could very well determine if China's economic “landing” or whether its economy will slow gradually or decline abruptly and sharply after the stimulus-fueled growth of the past three years begins to run-out its course. Of course, an immediate action Beijing can take to facilitate rebalancing towards domestic consumption is to adopt a sustained policy of external rebalancing by allowing its undervalued currency to appreciate faster. As the next section argues, revaluation of the RMB to rebalance the US-China trade is essential for sustained global recovery.

6. Rebalancing Through Currency Reforms

Since a close relationship exists between monetary policy and international trade, domestic monetary stimulus and central bank interventions in foreign exchange markets can help to boost exports. To this end, Beijing has regularly intervened in international exchange markets to prevent the RMB from appreciating relative to other currencies, particularly, the US dollar. Certainly, Beijing's maintenance of an artificially low exchange rate is tantamount to erecting import tariffs and maintaining export subsidies – at least, as far as the trade account is concerned. In turn, this policy has enabled Beijing to

accumulate large global and bilateral trade surpluses. However, this strategy has also angered Beijing's trading partners, namely the United States, which has long claimed that Beijing deliberately "manipulates its currency" and engages in "mercantilist" practices to give itself an unfair advantage in global trade.

It is useful to reiterate that to the United States, the origins and persistence of its massive trade deficit with China is due to Beijing's mercantilist economic policies (Tables 8 and 9). The US contention regarding China's mercantile behavior is rather straight-forward: Beijing engages in gratuitously unfair trade practices via outright protectionism, and most perniciously, by deliberately manipulating its currency. Specifically, in maintaining an undervalued exchange rate, Beijing has been able to dramatically increase its export growth and pile-up large current account surpluses – the latter by aggressively intervening in foreign exchange markets to keep its currency from appreciating. This in turn has resulted in a massive build-up of foreign exchange reserves (Goldstein and Lardy, 2005). However, if Beijing allowed market-forces to determine the value of its currency, its current account surpluses would be much lower and American trade balances much healthier.

Not surprisingly, American manufacturers with the backing of lawmakers in Congress have long argued that the artificially low yuan has placed American companies at a huge competitive disadvantage *inter alia* contributing to the bankruptcy of US companies and the loss of tens of thousands of American jobs.²² The contention is that the yuan is so

Table 8 US Merchandise Trade with China, 1980-2007 (US\$ billion)

Year	US Exports	US Imports	US Trade Balance
1980	3.8	1.1	2.7
1985	3.9	3.9	0
1990	4.8	15.2	-10.4
1995	11.7	45.6	-33.8
2000	16.3	100.1	-83.8
2001	19.2	102.3	-83.1
2002	22.1	125.2	-103.1
2003	28.4	152.4	-124.0
2004	34.7	196.7	-162.0
2005	41.8	243.5	-201.6
2006	55.2	287.8	-232.5
2007	65.2	321.5	-256.3

Source: US Congressional Research Service (2008: 2) in Morrison (2008).

Table 9 US Merchandise Trade Balances with Major Trading Partners, 2007
(US\$ billion)

Country/Trading Group	US Trade Balance
World	-791.0
China	-256.3
European Union (EU27)	-107.4
Organization of Petroleum Exporting Countries (OPEC)	-127.4
Japan	-82.8
Canada	-64.7
Mexico	-74.3
Association of Southeast Asian Nations (ASEAN)	-50.6

Source: US Congressional Research Service (2008: 2) in Morrison (2008).

undervalued (by some accounts as much as 40 per cent) that it amounts to an unfair trade subsidy. This unfair advantage permits a flood of cheap Chinese-made goods into the United States, but makes American products expensive in China.²³ Thus, it is claimed that if the yuan was traded at its true market worth the bilateral imbalance between the two countries would be substantially reduced, if not altogether eliminated. This is because China's exports to the United States would become more expensive in dollars and would therefore decrease, while China's imports from the US would become less expensive in yuan and therefore increase. To make matters worse, China's unwillingness to allow the yuan to appreciate has, in turn, made other Asian Pacific Rim countries reluctant to allow their currencies to appreciate because of their fear of losing further export sales to China.²⁴ As US trade deficit with China soared to record level in first-quarter 2005, the Bush administration came under intense pressure to take unilateral action to address the problems associated with the artificial undervaluation of the yuan. US Treasury Secretary John Snow called for an immediate Chinese exchange rate adjustment, but many other lawmakers called for punitive tariffs on cheaply priced Chinese imports unless China sharply revalued its currency.

In May 2005, the US Senate by a margin of 67 to 33 voted to consider a proposal to impose a 27.5 per cent tariff on all imports from China unless Beijing stopped inflating its currency. In May 2005, the US decided to reimpose quotas on seven categories of clothing imports from China limiting their growth to no more than 7.5 per cent over a 12-month period. On 23rd June 2005, the Bush administration, which until then had insisted that diplomacy was working in getting China to allow the yuan's value to be set by currency markets rather than controlled by the government, finally warned

China that it could be cited as a “currency manipulator” and face economic sanctions unless it switched to a flexible exchange system. Labeling China’s currency policies “highly distortionary,” the Bush administration warned that it was going to closely monitor China’s progress towards adopting a flexible exchange system.

It seems that the unrelenting pressure worked. On 21st July 2005, Beijing made a big monetary shift in more than a decade by revaluing the yuan and dropping the currency’s peg to the US dollar by announcing that the yuan’s exchange rate would become “adjustable, based on market supply and demand with reference to exchange rate movements of currencies in a basket” composed of the dollar, the yen, the euro, among few other key currencies.²⁵ This was an important, albeit modest shift. From 1994 to July 2005 the value of the yuan was pegged to the US dollar at a rate determined by the People’s Bank of China. The yuan traded within the range of 8.27 to 8.28 to the dollar because the People’s Bank maintained this peg by buying dollar-denominated assets in exchange for the yuan in order to reduce excess demand for the yuan. As a result, the exchange rate between the yuan and the dollar remained largely the same – despite changing market conditions. When Beijing abandoned the peg by moving to a system that now linked the yuan to a basket of currencies, it effectively raised the yuan’s value by 2.1 per cent.²⁶ This meant that prior to the revaluation US\$1 bought 8.28 yuan, following revaluation US\$1 would buy roughly 8.11 yuan. Beijing made it clear that it had set tight parameters on how much the yuan could rise. Clearly, the aim was to make sure that the yuan did not float by a big margin, but appreciate²⁷ by a modest 2 per cent by moving within a tight range of 0.3 per cent band against a group of foreign currencies which make up China’s top trading partners.²⁸ Thus, unlike a true floating exchange rate, the yuan was allowed to fluctuate by only 0.3 per cent on a daily basis against the basket. However, this modest and gradual appreciation (called “managed float”) allowed China to continue to accumulate foreign reserves – implying that if the yuan was allowed to free float, it would appreciate much more rapidly – by some account by another 20 to 30 per cent. The fact that from July 2005 to June 2008 the yuan appreciated by 14.4 per cent in terms of the US dollar (or from 8.35 to 6.6 to the dollar), but much less in real effective terms (since most other major currencies have appreciated against the dollar) despite China’s large and growing trade surpluses, barely managed to placate the critics.

However, in July 2008, in the midst of a global financial meltdown Beijing resumed its earlier practice of pegging the RMB (or in other words, suspending its policy of allowing the yuan to strengthen), to revive its faltering export-dependent economy. From September 2008 to June 2010, Beijing kept the RMB stable against the dollar at 6.83 yuan to the dollar – in effect, preventing the renminbi from appreciating by putting in place a

de facto peg against the US dollar. However, during the height of the global recession the voices of the critics of China's currency became muted, because among other things, the artificially low yuan allowed the United States (as well as other cash-strapped countries), to borrow large sums from China to stimulate their economies. In fact, rather ironically, Beijing's currency and trade policy actually helped to stimulate the US, indeed, the global economy. Specifically, by purchasing US securities (in particular, Treasuries), Beijing was indirectly helping the United States to fund its massive budget deficits and skyrocketing debts. High demand from China not only boosts the value of fixed-income securities (and thereby, keeps US interest rates low), it also makes it much cheaper for Washington to borrow – and in the process keep its domestic mortgage and related consumer loan rates rather low.

By 2010, with the global economy on the mend (but, job growth in advanced economies still stagnant), calls for China to let its currency float more freely grew again. Nobel laureate Paul Krugman (2010), who kept his powder-dry during the depth of the crisis, fired the first salvo when he scathingly noted that “China has become a major financial and trade power. But it doesn't act like other big economies. Instead, it follows a mercantilist policy, keeping its trade surplus artificially high. And in today's depressed world, that policy is, to put it bluntly, predatory”. According to Krugman's “back-of-the-envelope” calculations, China's weak-yuan policy cost 1.4 million American manufacturing jobs. Of course, the US is not alone in its criticism. Beijing's policy has also resulted in a large depreciation of the yuan against the euro – making it extremely hard for the beleaguered euro-zone countries to compete with Chinese exporters.

On 3rd April 2010, the Obama administration announced that it would delay publication of the semiannual exchange rate report to Congress (due on April 15th), containing the international economic and exchange rate policies of America's major trading partners. The report was eagerly awaited because it would officially state the Obama administration's position on China's exchange rate policy, in particular, whether Treasury Secretary Timothy Geithner would declare China a “currency manipulator.” Instead, striking a measured tone, Geithner tactfully noted that “China's inflexible exchange rate has made it difficult for other emerging market economies to let their currencies appreciate. A move by China to a more market-oriented exchange rate will make an essential contribution to global rebalancing”. Geithner noted that “the best avenue for advancing US interests at this time” is via discussions in multilateral and bilateral forums, including that of the G20 finance ministers and central bank governors in late April; the semiannual Strategic and Economic Dialogue between the United States and China in May; and during the meeting of G20 leaders and finance ministers in June.²⁹ To further assuage Beijing, on April 7th, Geithner made an impromptu

75-minute stopover at the VIP terminal of Beijing airport (on his trip to India) to meet with Vice Premier Wang Qishan (China's leading finance official) to "exchange views on US-China economic relations and the global economy".³⁰

No doubt, the Treasury's conciliatory message was intended to deescalate tensions that had been brewing for months between Beijing and Washington. In fact, the latest round of the war of words began during Geithner's confirmation hearing (in January 2009), for Treasury Secretary when he bluntly stated that both he and "President Obama – backed by the conclusions of a broad range of economists – believe that China is manipulating its currency".³¹ Geithner's tough rhetoric brought nods of approval from the members of the Senate Finance Committee – many of who have long rallied against Beijing's alleged malpractice and were now hoping for a firm stance against China from the new Obama administration. However, to the markets, Geithner's tone signaled a potential confrontation between the world's largest and second largest economy. The already jittery markets responded almost immediately as investors became concerned that China may scale-back its purchase of US debt if the new administration pushed Beijing to further revalue its currency: the dollar promptly fell, the price of gold jumped by US\$40, and the price of Treasury debt was driven further down.³² Although Geithner tried to gloss over his remarks by stating that what he actually meant was for China to adopt "market exchange rates," it only brought a short respite to this sensitive subject.

Rather abruptly, on 19th June 2010, Beijing relaxed its exchange-rate policy by making the yuan a bit more flexible. The People's Bank ruled out any large one-time revaluations. Not surprisingly, by early August 2011, the yuan/dollar exchange rate was 6.44 – a modest appreciation. Clearly, it would be prudent for Beijing to adopt a much more flexible exchange rate. After all, China's emphasis on exchange rate stability in the face of rising current account surpluses has not only generated intense protectionist pressures in the United States and elsewhere, it has also forced the People's Bank to accumulate massive foreign exchange reserves with negative domestic consequences.

Specifically, by keeping the RMB from rising against the US dollar not only means that China's central bank has to print more money to keep interest rates low, such a strategy can also exacerbate inflationary pressures if more money ends up chasing too few goods. It also means that China has fallen into a "dollar trap" – borrowing at higher cost and lending the money back to the United States for low to zero return. Because the bulk of these securities have been (and are) purchased when interest rates were (are) at historically low rates, means that these securities would lose value when rates eventually increases. It also means that Beijing is exposed to large capital losses on its

foreign reserve holdings (which are mostly held in US dollars) as the RMB appreciates. Inflation would further exacerbate this problem. Indeed, there is broad consensus that if the US Federal Reserve continues to print money (and thereby further debase the dollar) to pay down its debt, inflationary pressures would become a pervasive problem. This would mean that Beijing paid a “premium” for US securities, but will be paid back with dollars that are worth far less. Although, Beijing is now prudently moving more of its reserves into securities with shorter maturities (which are less vulnerable to rising interest rates and inflation), the fact is that the bulk of their reserves would lose value.

Rather, than locking such huge foreign currency reserves (the fruit of years of hard work and sacrifice by the Chinese people) in investments like Treasury securities (to arguably finance the consumption of ungrateful foreigners), Beijing would be better-off utilizing these resources to improve the living conditions of its people by investing in education, health care, housing, social security, and other human needs. Domestic exchange rate appreciation can greatly facilitate this as it will provide price incentives to shift resources toward production for domestic use and by raising real household income. Indeed, a meaningful appreciation of the exchange rate would immediately spur domestic consumption as it would give Chinese consumers real purchasing power – something China needs to expand and sustain. Finally, if Beijing’s oft-stated goal of making the RMB a global reserve currency (or even more modestly, increase the use of the RMB in international trade and finance), is to be realized, a meaningful loosening of foreign-exchange controls, especially in the capital account and allowing the RMB to be freely trade (in effect, revaluation), is essential. Of course, the US should be cautious regarding its wishes. After all, China could strengthen its currency by reducing its currency reserves. This would mean reducing or “unloading” its huge stockpile of US securities. This, in turn, would drive down the price of securities – thereby, sharply increasing interest rates – making it more costly for the United States to finance its deficit and debt, not to mention that the borrowing rates of American consumers could also see a sharp spike.

7. Postscript

By early 2012, pressures for the yuan to appreciate eased substantially after China’s trade became more balanced – that is, the once huge trade surpluses have dwindled. In a surprise move, Beijing announced that effective 16th April 2012, the central bank would allow the yuan to rise or fall by 1 per cent instead of the previous limit of 0.5 per cent. Certainly, doubling the size of the yuan’s trading band against the dollar moved China a step away

from its investment and export-based growth model – albeit, such a timid step will hardly make consumption the key driver of growth anytime soon. Rather, pressure on the yuan to appreciate has been reduced as China's trade surplus and capital inflows have shrunk with the yuan approaching a seemingly equilibrium level against the dollar.³³ It is important to note that even as the central bank allows the market to play more of a role in the yuan's daily movements, such a modest widening of the trading band will greatly limit how much the yuan can rise and fall from the official rate the central bank will set each day. Also, this does not mean that Beijing will necessarily allow faster appreciation of the yuan in the coming weeks or allow the yuan to eventually float freely.³⁴ Indeed, in late May 2012, the renminbi dropped further against US dollar than in any other time since it was allowed to appreciate in 2005. Visibly upset, the Obama administration released a report two days later criticizing Beijing's decision and demanding that the Chinese authorities release data on the scale of its foreign exchange market interventions (US Department of Treasury, 2012). Although, the report did not explicitly label China as a "currency manipulator," Mitt Romney, the Republican presidential nominee, made it clear that if he was elected president, he would label China a currency manipulator on his first day in office. Clearly, unless Beijing fundamentally reforms its currency policy, the issue will remain a thorn in Sino-US relations. Of course, there is hope that China's ambitious 12th Five Year Plan is committed (at least on paper) to dramatically rebalance the domestic economy by raising household income, expanding social services and boosting consumption. This is in the interest of both the Chinese and the global economy.

Notes

- * Dr Shalendra D. Sharma (PhD University of Toronto) is Professor in the Department of Politics at the University of San Francisco. He also teaches in the MA program in the Department of Economics. Sharma is the author of *Global Financial Contagion: Building a Resilient World Economy after the Subprime Crisis* (New York: Cambridge University Press – forthcoming 2013), *China and India in the Age of Globalization* (Cambridge University Press, 2009), *Achieving Economic Development in the Era of Globalization* (Routledge, 2007), *The Asian Financial Crisis: Meltdown, Reform and Recovery* (Manchester University Press, 2003), *Democracy and Development in India* (Lynne Rienner Publishers, 1999) which won the Choice Outstanding Academic Title for 1999, and editor of *Asia in the New Millennium: Geopolitics, Security and Foreign Policy* (Institute of East Asian Studies, UC Berkeley, 2000). Sharma has also published numerous articles in leading journals. Sharma was the recipient of USF's University-wide Distinguished Teaching Award for 1996/1997 and the University-wide Distinguished Research Award for 2002/2003. During 2006-2007 he was a

Visiting Professor at Universiteit Leiden, the Netherlands. <Email: sharmas@usfca.edu>

1. I would like to thank the two anonymous reviewers of this journal for their thoughtful comments and Cass Krughoff and Li Li at the University of San Francisco for their very able research assistance. All remaining errors are mine.
2. Akin and Kose (2007) argue that decoupling is part of the process of globalization. Drawing on data from 106 countries (which they divide into developed, emerging and low-income), they measure how the correlation between economies has shifted over time even as cross-border flows have expanded. They find that even as growth has become more synchronized among the developed and emerging economies, over the past two decades, economic activity in emerging economies has decoupled from that of the developed economies.
3. Office of Management and Budget (2008), Mid-Session Review, Budget of the U.S. Government, Fiscal Year 2009, July 2008. <www.whitehouse.gov/omb/budget/fy2009/pdf/09msr.pdf>
4. At the end of 2010, China held an estimated US\$2.85 trillion worth of foreign reserves. This is equivalent to 48 per cent of China's 2010 GDP.
5. Specifically, before the crisis broke, in an important speech, titled "The Global Saving Glut and the US Current Account Deficit", Ben Bernanke, the Federal Reserve chair, offered a novel explanation for the rapid rise of the US trade deficit in recent years. To Bernanke, the source of the problem was not America, but Asia – especially China and the booming economies of East and Southeast Asia. He argued that if in the mid-1990s, these economies were significant importers of capital by borrowing abroad to finance their ambitious development, in the aftermath of the Asian financial crisis of 1997-98, they made a sharp volte-face. Cognizant of the fact that absence of foreign hard currency reserves had made them vulnerable, they began to protect themselves (taking the IMF's advice) against future crisis not only by amassing huge war chests of foreign assets. Amidst a global economic downturn, these savings now provided as a source of stability.
6. In fact, China did not experience a credit crunch.
7. In 2007, China was the largest net exporter of capital – that is, some 21 per cent of all exported capital. IMF (2008c: 169)
8. In 1998, the central government issued some 270 billion yuan of treasury bonds to recapitalize the large state banks, in addition to creating 4 asset management companies or "bad banks" for these banks to transfer their nonperforming loans (Ma, 2007).
9. The RMB is also known as the yuan. Hence, the term RMB and the yuan are used interchangeably.
10. Beijing is also quite selective about FDI and only encourages foreign companies to invest in China using the so-called Greenfield FDI.
11. The CSRC is the executive arm of the State Council Securities Committee which was established in 1992 to regulate China's securities and futures market.
12. That is, although overall the living standard of the masses has greatly improved it has not improved in line with the growth of China's GDP.

13. Wen Jaibao, 2010, "Consolidate the upward momentum and promote sustained growth", 13th September, available at <<http://www.ccchina.gov.cn/en/NewsInfo.asp?NewsId=25436>>.
14. According to the World Bank (2008b: 12), "during 2001-07, when growth was high and rising, fiscal policy was appropriately contractionary. In 2005, the fiscal policy stance was officially adjusted to 'prudent'. In 2006 and 2007, fiscal contraction was particularly sizable".
15. Office of Management and Budget (2008), Mid-Session Review, Budget of the US Government, Fiscal Year 2009, July 2008. <<http://www.whitehouse.gov/omb/budget/fy2009/pdf/09msr.pdf>>
16. China uses both the business tax (BT) and value added tax (VAT) in its turnover tax system. The VAT applies to the sale of goods and the BT is primarily levied on taxable services. Often, this leads to some industries to be double-taxed. In October 2011, Beijing announced that the VAT will eventually replace the BT, and Pilot Programs to this effect were launched on January 1st, 2012 for selected industries in Shanghai.
17. Furthermore, the absence of sophisticated financial intermediation contributes to high level of savings. For example, private companies are forced to save a significant proportion of their earnings to finance future investment as access to bank lending can be unpredictable. Also, the relative lack of consumer credit fosters precautionary savings.
18. China's "big four" state-owned banks include, the Industrial and Commercial Bank of China (ICBC), China Construction Bank (CCB), Bank of China (BOC), and the Agricultural Bank of China (ABC). Geiger (2008) notes that the "Big Four" control some 80 per cent of the entire banking sector's assets, have around 70 per cent of the total deposit and provide over 80 per cent of the total lending.
19. This is a remarkable transformation from the one-time Soviet-style mono-bank system, under which the PBOC controlled almost four-fifths of all bank deposits and provided 93 per cent of all loans (Sharma, 1999).
20. <<http://www.forbes.com/sites/kenrapoza/2012/01/31/china-debt-burden-safe-sound-says-wen/>>
21. China's dependence on exports was vividly illustrated when in May 2009 Beijing introduced a "buy Chinese clause" that discriminates against foreign businesses.
22. From its peak in early 1998, the United States has lost over 3.3 million manufacturing jobs. While not all of the job loss can be attributed to China, the US manufacturing sector, despite significant productivity growth could not overcome the huge trade advantage China gained by having an undervalued currency. The decline in manufacturing employment has led both Democratic and Republican senators to threaten the Chinese with substantial tariffs on Chinese imports to offset the Chinese currency advantage. For details, see Hufbauer and Wong (2004).
23. Some economists claim that the yuan is anywhere from 15 per cent to 40 per cent undervalued against the dollar, making Chinese exports to the United States cheaper and contributing to China's trade surplus with the United States.

Of course, no one really knows the true extent of the under-valuation. This is because in not letting the market decide a currency's value means the nominal exchange rate – literally the number of units of one currency you can get for one unit of another – is essentially made up. It is whatever the government chooses it to be, so long as the regime can be feasibly maintained. For a good overview, see Keidel (2011); Lardy (2005); Subramanian (2010a); and Makin (2007). For a dissenting view, see Lin, Dinh and Im (2010).

24. Indeed, following the Chinese revaluation, Malaysia responded by shifting its own currency regime from a dollar peg to a basket peg. However, given the very small initial change in the yuan's value, most countries in the region seems to be waiting for a more substantial yuan revaluation before taking action.
25. Revaluation is the resetting of the fixed value of a currency at a higher level
26. Both flexible and floating exchange rates have distinct advantages – albeit, no single exchange rate regime is appropriate for all countries in all circumstances. A fixed exchange rate which pegs the value of a currency to a stronger foreign currency like the US dollar or the euro has advantages for developing countries seeking to build confidence in their economic policies. On the other hand, countries with fixed exchange rates are seemingly more vulnerable to currency crises. As economies mature and become more closely aligned with the international financial markets, exchange rate flexibility seems more advantageous.
27. When a currency increases in value, it experiences appreciation. When it falls in value and is worth fewer US dollars, it undergoes depreciation. Thus, when a country's currency appreciates (rises in value relative to other currencies), the country's goods abroad become more expensive and foreign goods in that country becomes cheaper. Conversely, when a country's currency depreciates, its goods abroad become cheaper and foreign goods in that country become more expensive.
28. Both the central bank governor Zhou Xiaochuan and Premier Wen Jiabao noted that the revaluation should be viewed as the first in what is expected to be a series of steps over years to shift the yuan toward even greater flexibility as China increases its participation in the world trading system. See, People's Bank of China (2005), "Public Announcement of the People's Bank of China on Reforming the RMB Exchange Rate Regime", July 21st. <<http://www.pbc.gov.cn/english/detail.asp?col=6500&id=82>>
29. "Statement of Treasury Secretary Geithner on the Report to Congress on International Economic and Exchange Rate Policies", April 3, 2010, United States Department of the Treasury, No. TG-627. <<http://www.ustreas.gov/press/releases/tg627.htm>>
30. Bill Powell (2010), "Why Geithner Made A Surprise Stop in Beijing", *Times*, April 8th <<http://www.time.com/time/world/article/0,8599,1978666,00.html?xid=rss-fullworld-yahoo>>; and Keith Bradsher (2010), "China Seems Set to Loosen Hold on Its Currency", April 8th, *The New York Times*. <<http://www.nytimes.com/2010/04/09/business/global/09yuan.html?ref=business&src=me&pagewanted=print>>
31. In his written statement to the Senate panel, Geithner noted then senator Obama's support for "tough legislation to overhaul the US process for determining currency

- manipulation and authorizing new enforcement measures so countries like China cannot continue to get a free pass for undermining fair trade principles”. However, the Obama administration quickly backtracked from Geithner’s statement and declined to label China a “currency manipulator.” Rather, the administration noted that while it still believes that the yuan is undervalued, it also recognizes that China has taken steps to rebalance its economy and enhance exchange-rate flexibility. See, Lori Montgomery and Anthony Faiola (2009), “Geithner Says China Manipulates Its Currency,” *The Washington Post*, January 23rd, p. A08. <<http://www.washingtonpost.com/wpdyn/content/article/2009/01/22/AR2009012203796.html>> Also, “Statement by Treasury Secretary Timothy Geithner on Release of Semi-Annual Report to US Congress on International Economic and Exchange Rate Policies”, April 15th, 2009. <<http://www.treas.gov/press/releases.tg90.htm>>
32. Treasury securities (or Treasuries) are the debt financing instruments of the US government. There are four types of marketable treasury securities: Treasury bills, Treasury notes, Treasury bonds, and Treasury Inflation Protected Securities (TIPS).
 33. As noted, China’s current account surplus dropped sharply from about 10 per cent of GDP in 2007 to around 2.8 per cent in 2011. A surplus between 2.5 and 4 per cent of GDP is widely seen as when a currency has reached its fair value or “equilibrium”.
 34. This is because the daily trading band limits intraday fluctuations, and the central bank is not constrained on how it sets the daily official exchange rate.

References

- Ahuja, Ashvin, Nigel Chalk, Malhar Nabar, Papa N’Diaye, and Nathan Porter (2012), “An End to China’s Imbalances?”, IMF Working Paper, No. WP/12/100, Asia and Pacific Department, Washington DC: IMF.
- Akin, Cigdem and M. Ayhan Kose (2007), “Changing Nature of North-South Linkages: Stylized Facts and Explanations”, IMF Working Paper, No. WP/07/280, Washington DC: IMF.
- Arora, Vivek and Roberto Cardarelli (eds) (2011), *Rebalancing Growth in Asia: Economic Dimensions for China*, Washington DC: IMF.
- Bernanke, Benjamin (2009), Speech at “Asia and the Global Financial Crisis” at the Federal Reserve Bank of San Francisco’s Conference on Asia and the Global Financial Crisis, Santa Barbara, California, October 19th. <<http://www.federalreserve.gov/newsevents/speech/bernanke20091019a.htm>>
- Bernanke, Ben (2005), “The Global Saving Glut and the US Current Account Deficit”, Speech at the Sandridge Lecture, Virginia Association of Economists, Richmond, Virginia, March 10th. <<http://www.federalreserve.gov/boarddocs/speeches/2005/20050414/default.htm>>
- Brooks, Petya Koeva (2009), “Households Hit Hard by Wealth Losses”, *World Economic Outlook*, Washington DC: IMF Research Department, June 24.
- Chan, Kam Wing (2010), “The Global Financial Crisis and Migrant Workers in China: ‘There is No Future as a Labourer; Returning to the Village has No Meaning’”,

- International Journal of Urban and Regional Research*, Vol. 34.3, September, pp. 659–677.
- De Haan, Arjan (2010), “A Defining Moment? China’s Social Policy Response to the Financial Crisis”, *Journal of International Development*, Vol. 22, Issue 6, August, pp. 758-771.
- Diao, Xinshen, Yumei Zhang and Kevin Chen (2012), “The Global Recession and China’s Stimulus Package: A General Equilibrium Assessment of Country Level Impacts”, *China Economic Review*, Vol. 23, Issue 1, March, pp. 1-17.
- Dobson, Wendy (2009), *Gravity Shift: How Asia’s New Economic Powerhouses will Shape the Twenty-First Century*, Toronto: University of Toronto Press.
- Dobson, Wendy and Anil Kashyap (2006), “The Contradictions of China’s Gradualist Banking System”, *Brookings Papers on Economic Activity*, Vol. 2, Summer, pp. 103-162.
- Fang, Cai (ed.) (2010), *Transforming the Chinese Economy*, Leiden: Brill.
- Fukumoto, Tomoyuki and Ichiro Muto (2011), “Rebalancing China’s Economic Growth: Some Insights from Japan’s Experience”, Bank of Japan Working Paper Series, No. 11-E-5, July, Tokyo: Bank of Japan.
- Geiger, Michael (2008), “Instruments of Monetary Policy in China and Their Effectiveness: 1994-2006”, Discussion Paper, No. 187, Geneva: United Nations Conference on Trade and Development.
- Goldstein, Morris and Lardy, Nicholas (2005), “China’s Role in the Revived Bretton Woods System: A Case of Mistaken Identity”, Working Paper 05-2, Washington DC: Peterson Institute for International Economics.
- Hufbauer, Gary Clyde and Yee Wong (2004), “China Bashing” International Economics Policy Briefs, No. PB04-5, Washington DC: Institute for International Economics.
- IMF (2007), *World Economic Outlook 2007*, April, Washington DC: IMF.
- IMF (2008), *IMF Financial Stability Report 2008*, Washington DC: IMF. <<http://www.imf.org/external/pubs/ft/gfsr/2008/02/index.htm>>
- IMF (2010), *World Economic Outlook: Recovery, Risk and Rebalancing*, October, Washington DC: IMF.
- IMF (2011), “People’s Republic of China: Financial System Stability Assessment”, IMF Country Report No. 11/321, November, Washington DC: IMF.
- Keidel, Albert (2011), “China’s Exchange Rate Controversy: A Balanced Analysis”, *Eurasian Geography and Economics*, Vol. 52, No. 3, pp. 347-374.
- Kose, M. Ayhan, Christopher Otrok, and Eswar Prasad (2008), “Global Business Cycles: Convergence or Decoupling?”, IMF Working Paper, WP/08/143, Washington DC: IMF.
- Kwong, Charles (2011), “China’s Banking Reform: The Remaining Agenda”, *Global Economic Review*, Vol. 40, No. 2, June, pp. 161-178.
- Lardy, Nicholas (2005), “China: The Great New Economic Challenge” in C. Fred Bergsten (eds), *The United States and the World Economy: Foreign Economic Policy for the Next Decade*, Washington DC: Institute for International Economics.
- Lardy, Nicholas (2006), *China: Toward a Consumption-Driven Growth Path*, Policy Brief PB06-6, October, Washington DC: Institute for International Economics.

- Lardy, Nicholas (2010), "The Sustainability of China's Recovery from the Global Recession", *Policy Brief*, No. PB10-7, Washington DC: Peterson Institute for International Economics.
- Lee, Jong-Wha and Cyn-Young Park (2009), "Global Financial Turmoil: Impact and Challenges for Asia's Financial Systems", *Asian Economic Papers*, Vol. 8, No. 1, pp. 9-40.
- Lin, Justin Yifu (2012), *Demystifying the Chinese Economy*, New York: Cambridge University Press.
- Lin, Justin Yifu, Fang Cai and Zhou Li (2003), *The China Miracle: Development Strategy and Economic Reform*, Hong Kong: Chinese University Press.
- Lin, Justin Yifu, Hinh T. Dinh and Fernando Im (2010), "US-China External Imbalances and the Global Financial Crisis", *China Economic Journal*, Vol. 3, No. 1, February, pp. 1-24.
- Lo, Chi (2009), *Asia and the Subprime Crisis: Lifting the Veil on the 'Financial Tsunami'*, New York: Palgrave Macmillan.
- Ma, Gouan (2007), "Who Pays China's Bank Restructuring Bill?", *Asian Economic Papers*, Vol. 6, No. 1, pp. 46-71.
- Makin, Anthony (2007), "Does China's Huge External Surplus Imply an Undervalued Renminbi?", *China and the World Economy*, Vol. 15, No. 3, pp. 89-102.
- Makin, Anthony (2009), *Global Imbalances, Exchange Rates and Stabilization Policy*, New York: Palgrave Macmillan.
- McKissack, Adam and Jessica Xu (2011), "Chinese Macroeconomic Management through the Crisis and Beyond", *Asian-Pacific Economic Literature*, pp. 43-55.
- MOF (Ministry of Finance) (2010), *Zhongguo Caizheng Nianjian 中国财政年鉴 (China Public Finance Yearbook)*, Beijing: Zhongguo Caizheng Zazhishe.
- Morrison, Wayne (2008), *CRS Report for Congress: China-US Trade Issues*, March 7, Washington DC: Congressional Research Service.
- Morrison, Wayne and Labonte, Marc (2008), *China's Holdings of US Securities: Implications for the US Economy*, May 19, Washington DC: Congressional Research Service. <www.fas.org/sgp/crs/row/RL34314.pdf>
- Morrison, Wayne and Marc Labonte (2009), *China's Currency: A Summary of the Economic Issues*, No. RS21625, April 13, Washington DC: Congressional Research Service.
- NAO (National Audit Office) (2011), "Quanguo Difang Zhengfuxing Zhaiwu Shengji Jieguo 全国地方政府性债务审计结果" (Results from a Nationwide Audit of Local Government Debts). <<http://www.audit.gov.cn/n1992130/n1992150/n1992500/2752208.html>>
- Naughton, Barry (2009), "In China's Economy, the State's Hand Grows Heavier", *Current History*, Vol. 108, Issue 719, September, pp. 277-283.
- NBS (National Bureau of Statistics) (2010), *Zhongguo Tongji Nianjian 中国统计年鉴 (China Statistical Yearbook)*, Beijing: Zhongguo Jihua Chubanshe.
- Overholt, William (2010), "China in the Global Financial Crisis: Rising Influence, Rising Challenges", *The Washington Quarterly*, Vol. 33, No. 1, January, pp. 21-34.
- Reinhart, Carmen and Kenneth Rogoff (2009), *This Time is Different: Eight Centuries of Financial Folly*, Princeton NJ: Princeton University Press.

- Riedel, James. Jing Jin and Jian Gao (2007), *How China Grows: Investment, Finance and Reforms*, Princeton: Princeton University Press.
- Setser, Brad (2008), "Impact of China Investment Corporation on the Management of China's Foreign Assets", in Morris Goldstein and Nicholas Lardy (eds), *Debating China's Exchange Rate Policy*, Washington DC: The Peterson Institute, pp. 201-18.
- Sharma, Shalendra (2009), *China and India in the Age of Globalization*, New York: Cambridge University Press.
- Sharma, Shalendra (2010), "China as the World's Creditor and the United States as the World's Debtor: Implications for Sino-American Relations", *China Perspectives*, No. 4, pp. 100-116.
- Shih, Victor (2010), "China's 8,000 Credit Risks", *The Wall Street Journal*, February 9th.
- Subramanian, Arvind (2010), "New PPP-Based Estimates of Renminbi Undervaluation and Policy Implications", *Policy Brief*, No. PB10-8, April, Washington DC: Peterson Institute for International Economics.
- Subramanian, Arvind (2011), *Living in the Shadow of China's Economic Dominance*, Washington DC: Peterson Institute for International Economics.
- United States Department of the Treasury (2012), "Report to Congress on International Economic and Exchange Rate Policies", May 25th, Washington DC: US Department of the Treasury, Office of International Affairs.
- Vincelette, Gallina Andronova, Alvaro Manoel, Ardo Hansson and Louis Kuijs (2010), "China: Global Crisis Avoided, Robust Economic Growth Sustained", Policy Research Working Paper, September, No. WPS5435, Washington DC: The World Bank.
- Woo, Wing Thye and Wei Zhang (2010), "Time for China to Move from Macro-Stability to Macro-Sustainability: Making Macro-Stimulus Work and Maintaining its Effects", *Journal of the Asia Pacific Economy*, Vol. 13, No. 4, November, pp. 349-368.
- Woo, Wing Thye and Wei Zhang (2011), "Combating the Global Financial Crisis with Aggressive Expansionary Monetary Policy: Same Medicine, Different Outcomes in China, the UK and USA", *The World Economy*, Vol. 34, Issue 5, May, pp. 667-686.
- World Bank (2008), *China Quarterly Update*, December, Beijing: World Bank Office. <<http://www.worldbank.org/china>>
- World Bank (2009), *China Quarterly Update*, June, Beijing: World Bank Office. <<http://www.worldbank.org/china>>
- Xing, Yuqing (2010), "Facts about the Impacts of FDI on China and the World Economy", *China: An International Journal*, Vol. 8, No. 2, September, pp. 309-327.
- Yang, Mu and Tin Seng Lim (2010), "Recession Averted? China's Domestic Response to the Global Financial Crisis", in Zheng Yongnian and Sarah Tong (eds), *China and the Global Economic Crisis*, Singapore: World Scientific Publishers, pp. 25-46.
- Yao, Xianguo and Xin Wu (2011), "Transition of China's Financial System after the Global Financial Crisis", *The World Economy*, Vol. 34, Issue 5, May, pp. 792-804.

Yi, Kei-Mu (2009), “The Collapse of Global Trade: The Role of Vertical Specialization”, in Baldwin, Richard and Evenett, Simon (eds), *The Collapse of Global Trade, Murky Protectionism, and the Crisis: Recommendations for the G20*, VoxEU.org e-book, pp. 45-48.

Yu, Yongding (2009), *China’s Policy Responses to the Global Financial Crisis*, Richard Snape Lecture, November 25, Melbourne: Productivity Commission.

Newspaper Articles

Caijing (2009), “Financial Crisis: Impact on China”, April 11th.

Krugman, Paul (2010), “Chinese New Year”, *The New York Times*, January 1st.
<<http://www.nytimes.com/2010/01/01/opinion/01krugman.html>>

Tan, Yingzi and Dingding Xin (2009), *China Daily*, February 3rd (internet edition).
<<http://www.asianewsnet.net/news.php?id=3740&sec=2>>



“Left-behind Children” Phenomenon in China: Case Study in Chongqing

*LooSee Beh** and *Yao Ye***
University of Malaya

Abstract

This article examines the “left-behind children” phenomenon in Wuxi County, Chongqing, China. This research utilizes several interviews with government officials, NGOs, and the left-behind children through questionnaire and observations including official written reports. The activities on LBC were categorized into 4 models: care model, society support model, rural school education model, and policies support and empowerment model. Given the exploratory nature of this LBC model in Chongqing, we have several recommendations in further improving the plight and phenomenon of this group of population.

Keywords: *left-behind children (LBC), China*

JEL classification: *H75, I38, P3, Z13*

1. Preamble

With the advent of globalization, migration has become a worldwide phenomenon which has caused “Left-behind Children 留守儿童” (LBC) issues all over the world, especially in developing countries. For instance, 7 per cent of Mexican children in 2002 have migrating fathers, yet multistage estimate suggests that 17 per cent of children born into two-parent homes are expected to experience a migrating father at least once during childhood (Rosalia Cortes, 2007). In Thailand, Bryant (2005) estimates that about half a million children aged up to 14 years are left behind. A case study based on 1996’s data found that in certain rural areas of Bangladesh, a range of 18 to 40 per cent of rural households have at least one migrant member working elsewhere (Yeoh and Lam, 2007). Moreover, there are approximately 9 million Filipino children under the age of 18 who are left behind by one or both parents to work tentatively or live permanently abroad (Reyes, 2008).

Since the “Reform and Opening up Policy” started in the 1970s in China, the acceleration of economic development and rapid urbanization has caused millions of peasant workers to migrate into cities. The rural population who migrated to urban cities has risen to 151 million by 2009 in China (NBS, 2009). However, the unique dual economic structure and related household register system in China restrained rural labour’s settling down in city and hundreds of them had to move alone without their family. Thus there is a huge group of LBC left in the countryside, with their population estimated at 58 million in China representing 28.29 per cent of total population of rural children (All Women Federation, 2008). These statistics are still rising rapidly. The LBC are facing various problems in their life, such as in the aspects of education, security, personality, psychology, etc., which limits these LBC’s development. The issues of LBC do not only have a bad impact on society, but also create some serious risks on next generations of China.

In the last decade, the Chinese government has introduced policies, laws and regulations to provide better care for LBC in the countryside. This paper concentrates on Chongqing, being the youngest municipality located in southwest China with 32.57 million people in 2008 including 7.5 million out of residential areas (CRC, 2010). Chongqing has the highest rate (49.9 per cent) of LBC among rural children all over the country (Duan and Yang, 2008). Since 2008, Chongqing has put the left-behind children (LBC) into the Ten People’s Livelihood project, and explored series of ways to manage LBC, one of which is called “Chongqing’s model”.

2. Literature Review

2.1. Left-behind Children

LBC are defined as children with one or two parents who have moved elsewhere and were left behind at the place of household registration (Duan and Zhou, 2005). There were no heated controversies over the definition of LBC, but diverse scholars have various opinions about LBC’s age range. According to the “Convention on the Rights of the Child”, China, the term children is defined as “every human being below the age of eighteen years” (CRC, Article1). In All-China Women’s Federation’s survey in 2007, they defined the LBC as children seventeen years old or below (All-China Women’s Federation, 2008). Some others define the age range as between 7-18 years old (Lu, 2006; Zhang, 2010) whereas Duan and Zhou (2005); and Duan and Wu (2009) refer to their age as fourteen and below. In this paper, we define LBC as children of up to 16 years of age according to the LBC definition of the Report of Chongqing Women’s Federation.

The concept of LBC was first proposed by Yi Zhang (1994) who discussed the issue of children who have been left in their country when their parents work abroad. However, the idea of LBC slightly differs today where it refers to the migrated peasant workers’ children in rural area and attracted public attention in 2002. According to the *Guangming Daily* report “Nongcun Liushou Ertong Jiaoyu Wenti Jidai Jiejue 农村留守儿童教育问题亟待解决” [Rural left-behind children’s education problems need to be solved], where four million peasants in each province of Anhui, Henan, and Sichuan work outside of their hometown, bringing about over ten million LBC, and these children are facing physiological and psychological problems (Ye and Fan, 2008). *Chutian Metropolis Daily* published articles on young left-behind girls who were raped or molested which accounted for one third of the 48 cases a year in one court of Suizhou, Hubei, and since that media outcry, it became a hot issue. In 2004, the Chinese Ministry of Education held a conference on “Research on Rural Left-behind Children in China”, and thus began the academic research on LBC. About 30 materials have been published in 2004 and 85 literatures in 2005 (Duan and Zhou, 2006).

2.2. Dual Economy Theory

The dual economy models posited a relatively advanced sector and a relatively backward sector. These have alternatively been called capitalist and subsistence, formal and informal, modern and traditional, industry and agriculture, urban and rural, primary and secondary, and good jobs and bad jobs (Fields, 2007). The major economists of dual economy theory are Lewis, Rains, Fei, Jorgenson, Harris and Tobago. Lewis is the pioneer of the dual economy theory. In “Economic Development with Unlimited Supplies of Labour” 1954, he stated that the main sources of economic development proceeds are subsistence agriculture, casual labour, petty trade, domestic service, wives and daughters in the household, and the increase of population in the country. In most but not all of these sectors, if the country is overpopulated relative to its natural resources, the marginal productivity of labour is negligible, zero, or even negative. He noted that dual economy appeared in developing countries and it is the starting point of economic development. The Harris-Todaro model states that the rate of migration flow is determined by the difference between expected urban wages (not actual) and rural wages. It explains why peasants still decide to try to work in urban areas even through there are serious unemployment problem in urban areas (Zhang, 2008). The dual economy theory has further demonstrated that rural-urban migration in China is unavoidable, is the product of economic development, and a phenomenon of long term rural-urban migration.

2.3. Migration and the “Hukou 户口” System in China

Urbanization has been one of the most important features of China’s development since the inception of the reform programme in the late 1970s (Dillon, 2009). China’s massive rural to urban migration began with the reform policies, which is also known as the household production responsibility system. The reform has changed the socioeconomic conditions which include widened rural-urban divide thus further encouraged peasants to move to urban areas, and increased agricultural productivity. On the other hand, there appear to be relaxed restrictions on rural-urban migration thus opening the door for rural workers to seek jobs in cities (Song, 2004). China has been experiencing a huge influx of rural workers into urban areas, often called “floating population” (internal migrants in China), referring to the large and increasing number of migrants without local household registration status (Guo, 2009). In 1998, the population of rural labour force migration was 44.24 million (Lu and Song, 2004). It increased to 131.81 million in 2006 (*Chinese Farmer Development Report*, 2008) and reached 150.97 million by the end of the second quarter of 2009 (NBS, 2009). Over 80 per cent of them are below 40 years old and with middle school education (*Chongqing Daily*, 2008). According to the survey, 69.88 per cent of rural to urban migrant workers are married (Ren, 2009).

In addition, the group of migration in China is growing bigger and the age of migration is getting younger. The numbers of “floating population” will slowdown the rising population from 6 million to 3 million per year, reach 0.35 billion in 2050 (National Population, 2010). There is a new main group of migrants which is called “new generation of peasant workers” that refers to the peasant work migrants who were born after 1980s, and most of them are the first generation of LBC. They followed their parents’ path when they grew up, left hometown to seek jobs in cities for better living and income. The “new generation of peasants” was 30 per cent of total migration in 2005, and increased to 58.4 per cent (84.87 million) in 2010 (National Population, 2010).

The Hukou system is an administrative measure that registers households according to place of origin. It essentially is a household registration permit, akin to an internal passport. It contains all of a household’s identification information, such as parents’ names, births, deaths, marriages, divorces, moves and colleges attended. Most important, it identifies the city, town or village to which a person belongs. It was established in the 1950s in order to prevent the rural population from spontaneously moving to cities. Under the Hukou system, people born in urban areas are officially registered as “residents” (*jumin* 居民) and those in rural areas as “peasants” (*nongmin* 农民). “Residents” and “peasants” are two distinct categories of social status

that entail different rights, and “peasants” cannot obtain urban Hukou status unless mandated by the state (Biao, 2007).

Nevertheless, permission to enter urban areas and stick to a hard-working job does not mean migrant workers have the same welfare benefits as citizens with urban Hukou. The Hukou system remains a formidable obstacle for the overwhelming majority of migrants who want to live with their families in the city (Biao, 2007). First of all, the majority of migrant workers in cities, usually do not have long-term urban residencies (or household registration status), medical insurance or other benefits (Guo, 2009). Second, education is among the most important barriers for migrants’ children, city schools are generally held responsible only for providing education for children of registered permanent residents, whereas they will charge “temporary schooling fees” for others (Amnesty International, 2007). Even when the migrant children intend to enter a school in the city, they have to return to their place of origin (as defined by Hukou) to pass the examination for entry to a higher level of education, the reason being the entire school enrolment system is place-based. Third, many rural labour force meet “discrimination of household registration” (*hujū qīshì* 户籍歧视) in the labour markets of the cities. “Discrimination of the household registration” means the migrant workers have been unfairly treated compared to residents, for instance, rural labour force are usually distributed in industries with low wage and terrible work environment (for example construction) (Yuan, 2007).

2.4. Previous Research Findings on LBC

2.4.1. LBC’s population

The studies on LBC’s population include number, gender, distribution and biomorphous characteristics. There were various number of LBC’s population due to the different definition on age rank in academic. The *China Youth News* reported that rural LBC was 70 million in 2004 (Ye and Fan, 2008). According to Duan, there were about 22.9 million LBC below 14 years old in China in 2000 (Duan and Zhou, 2005), or 26.48 million LBC (0-4 years old) in 2005 (Duan and Wu, 2009), while in Li’s research, there were 79.81 million under 18-year-old LBC in China (Li, 2005). Although the figures of LBC are different, all academics have the same understanding that the group of the rural LBC is huge and expanded rapidly in years. In 2008, the All China Women’s Federation have reported their research based on the 2005 by-census (or mid-decade count) of one per cent of the population, the research estimated there are about 58 million rural LBC, 28.29 per cent of total population of rural children, one-third of rural children are left behind (All-China Women’s Federation, 2008). This number is now widely used in research. In addition, the research found different age groups of LBC. 27.05

per cent of LBC are 0-5 years old, 34.85 per cent are 6-11 years old, 20.84 per cent are 12-14 years old and 17.27 per cent are 15-17 years old. There are 30 million LBC in school age (6-14 years old) in rural areas. The majority of LBC are distributed in West and Middle of China. In 2002, eastern China has input 86.23 per cent of migrant workers, 77.4 per cent of them were from middle and western China (Fan, Xing and Cheng, 2010). All-China Women's Federation indicated that LBC are 52 per cent of total rural LBC population in the Sichuan, Anhui, Henan, Guangdong, Hunan and Jiangxi provinces (All-China Women's Federation, 2008).

The academic study on biomorphous characteristics of LBC involved the family structure of LBC. Duan and Zhou (2005) have summarized four types of LBC's family structures: 1) both parents migrate out, stay with grandparents; 2) one parent migrate out, stay with another parent; 3) both parents migrate out, stay with other relatives; 4) both parents migrate out, stay alone. According to All-China Women's Federation's survey, 22.66 per cent of LBC stay with mother only, 25.56 per cent of LBC live with grandparents. The majority of 0- to 11-year-old LBC are taken care of by grandparents, while most of the 12- to 17-year-old LBC stay with mother (All-China Women's Federation, 2008).

2.4.2. Education studies on LBC

The education studies on LBC mainly focus on the research of LBC's study, moral character and psychology. Firstly, most of the LBC record poor results in their studies, high rates of repetition and being drop-outs, undisciplined, and less ambitious (Qu, 2009; Women's Federation of Meishan municipality, 2004). A survey by Sichuan Agricultural Survey Team investigated in 2003, found that 47 per cent of the students performed poorly in their studies, 41 per cent were in the medium to low range and only 12 per cent performed better than average (Zhao, 2004). According to Duan and Zhou, the drop-out rates of LBC are not far different with other children in primary school, but it rose sharply in secondary school (Duan and Zhou, 2006). One-third of 15- to 17-year-old rural LBC began to work in urban areas after graduating from secondary school (All-China Women's Federation, 2008).

Secondly, Lin Guo's research on several aspects of children's physical well-being, found that LBC are weak in their anthropometrics, such as height, weight and self-evaluation of health (Guo, 2009). Moreover, there are some reports in news about the negative consequences on the health of LBC. For instance, the "fake milk formula" had infected 171 infants – all of them are LBC in Fuyang municipality of Anhui Province where 13 among the 171 died (Yeoh and Lam, 2007).

Thirdly, there is a significantly higher proportion of LBC suffering from psychological and behavioural problems. A study involving 250 junior high school students who have been left behind for at least half a year in Jichun County, Hubei, found that 16.6 per cent of these students felt abandoned, 12.3 per cent of them had problems expressing difficulties or obtaining help, and 6.5 per cent of them felt “anguished” about being left behind (Yeoh and Lam, 2007). Left-behind children often develop behaviour at two extremes: either they are withdrawn or excessively aggressive (Li Lijin, 2004; Qian, 2004; Zhao, 2004).

2.4.3. Sociological researches on LBC

Most sociological researches on LBC focused on LBC’s security. LBC are more likely to be victims of accidents and crime (Chan, 2009). According to All-China Women’s Federation report, LBC face the highest risk of abduction (All-China Women’s Federation, 2008). Likewise, a survey on sexual violence in Zhechuan in Henan province showed that 34 per cent of the 62 rape incidents in the county involved LBC, and most these LBC were aged between five and 12 (Chan, 2009). Secondly, some LBC even turn to crime due to lack of supervision and positive goals (Chan, 2009). Data from the police in Fujian showed that about 60 per cent of the children who were arrested for public disturbances, pick-pocketing and theft are LBC (Wang, 2006). In 2006, 40 per cent of the 1,708 detainees at the Hunan Provincial Juvenile Reform Centre were left-behind children (*China Youth Daily*, 2008). According to the head of the research department of the Supreme Court, there has been on average a 13 per cent annual increase in youth delinquency since 2000 and 70 per cent of these delinquents are LBC (Chan, 2009).

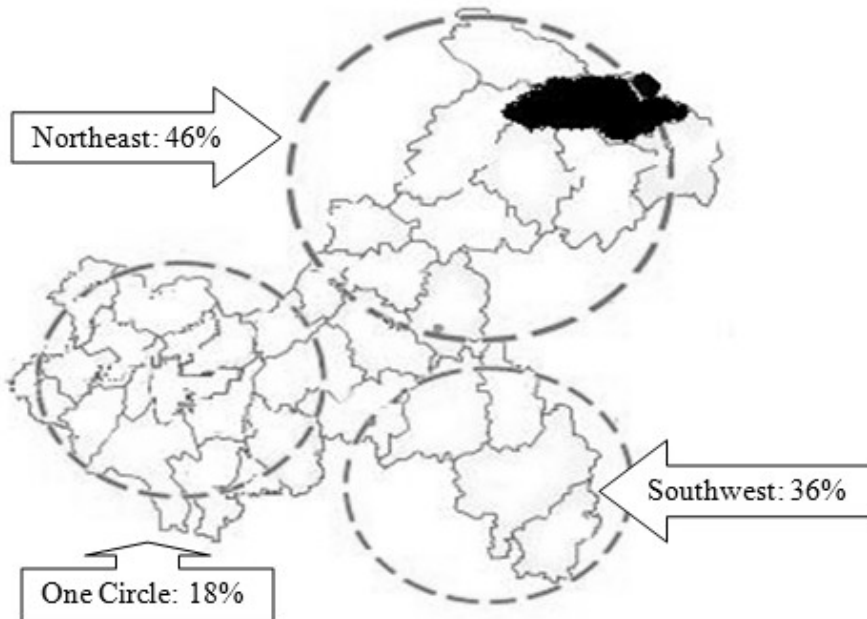
3. Chongqing

3.1. LBC Status in Chongqing

Chongqing has around 32.57 million population in 2008, including 23.5 million peasants, and 2.35 million 0- to 16-year-old LBC (Chongqing Women’s Federation, 2009). The large number of LBC exists due to rural labour force output and urbanization in Chongqing. One third of rural population (about 6.2 million) migrate out for work (Fu and Liu, 2008), and continue to increase to 400,000 every year (Ren, 2009). The urbanization rate accelerated since the central government of China started the “western development” policy in 2000. This caused the percentage of urban population to raise from 29.5 per cent in 1996 to 50 per cent in 2009, while the rural population dropped to 13.84 million in 2009. Urbanization has expanded the gap between rural and urban, thus more and more peasants experience

out-migration for better income. Chongqing has the highest proportion (49.9 per cent) of rural LBC of the rural children all over the country. Rural LBC represent 53 per cent of the total population of rural children in 2009 (Duan and Yang, 2008). Compared to the Fifth National Population Census in 2000, it rose to 0.88 million (60 per cent) (Chongqing Women's Federation, 2009). Second, LBC are unevenly distributed in Chongqing. Chongqing has 40 counties, where 9 counties contain 100,000 rural LBCs, and another 5 counties with over 80 per cent rural LBC of the total rural children (Chongqing Women's Federation, 2009). Figure 1 shows that the government has divided Chongqing into three regions: one circle (central) with two wings. The circle (central) includes the city and 23 counties. The two wings are Northeast and Southwest Chongqing, each involved 11 counties and 6 counties respectively. LBC are distributed with 18 per cent in the central region, 46 per cent in Northeast and 36 per cent in Southeast (Zhen and Wu, 2009). Moreover, the majority of LBC are primary school's age. According to Chongqing Women's Federation, 18 per cent of LBC were 0-6 years old, 55 per cent of LBC were 6-12 years old, and 27 per cent of LBC were 12-16 years old. Male

Figure 1 LBC Distribution in Chongqing's Three Regions

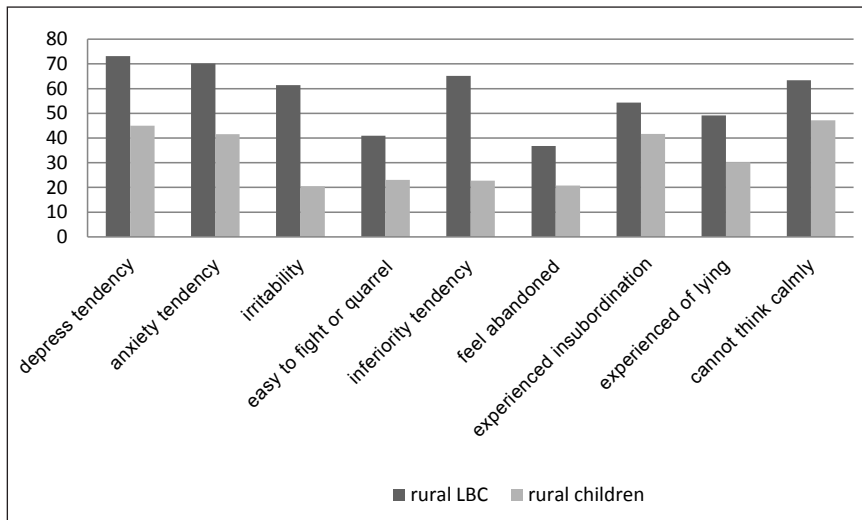


Source: Zhen Yonghui and Wu Mingyong (2009), *School Education Deficiencies of Left-behind Children and Its Countermeasures in Chongqing Rural Areas*, Beijing City University, No. 5.

LBC represented 5 per cent of total number of LBC (Chongqing Women’s Federation, 2009). The survey shows 32 per cent of LBC live with their grandparents, with both parents of 1.3 million LBC having migrated out of their homes. 65 per cent of LBC experienced single parent migration. 69 per cent of LBC have poor performance in study, 28 per cent of LBC have to walk half an hour to go to school, 34 per cent of LBC (over 700,000) have to walk more than 1 hour, and 15 per cent walk 2 hours to school daily (*Chongqing Daily*, 2010).

LBC in Chongqing are suffering from various problems. In 2008, rural LBC consist of 42.2 per cent of students in primary school, and over 40 per cent of students in secondary school in Chongqing, both being the highest rate in China (DPME, 2009). According to Zhen and Wu, 65 per cent of LBC’s performances are average in school, and 13 per cent of them are considered good in their studies (Zhen and Wu, 2009). The Department of Civilization in Chongqing has done a research on 113,973 LBC in 5 counties, 64.8 per cent of them stay with their grandparents with 69.8 per cent of grandparents above 50 years old and 92.6 per cent of grandparents have below middle school education background. Most of LBC’s grandparents have no formal education and poor health. Figure 2 shows the psychological status of LBC in 4 counties in Three Gorges of Chongqing. This study found that 73.2 per cent of rural LBC have tendency for depression, 70.1 per cent of LBC have anxiety

Figure 2 Psychological Status of LBC in 4 Counties in Three Gorges of Chongqing



Source: Tian and Zhou (2008), “Psychology Research on Left-behind Children in Three Gorges”, *Basic Education*, June, No. 1~2.

tendency, and over 60 per cent of LBC have irritable, inferiority complex and unable to think calmly (Tian and Zhou, 2008). Besides, 92 per cent of them wish to be together with parents, and more significantly so for those LBC above 10 years old. 21 per cent of them have not seen their parents for more than a year (Fu and Liu, 2008). This shows the worrying situation of LBC that needs urgent attention.

3.2. Chongqing Government Measures

Over the last decade, the Chinese government has embarked upon some official initiatives to overcome the LBC issues. In 2008, LBC was one of the “Ten People’s Livelihood” in Chongqing where the government spent over 5 billion on this project. The Education Department, the Women’s Federation, Commission of Communist Youth League, Committee for the Wellbeing of the Youth, Civilization Department, etc., are mainly in charge of implementation of policies. In 2010, the Chongqing government has issued the “Decision on the Work of Current People’s Livelihood”, in setting up 400 boarding schools, “family room”, “LBC care centre”, etc., and caring for the 1.3 million rural LBC and so on. The 1.3 million rural LBC were the rural LBC in the age of 6-15 years (in nine-year compulsory education period). In the same year, Chongqing government insisted on further 9 actions of care-taking of rural LBC, which involved education finance subsidies, school construction, egg and milk project, special training, family link, psychological guidance, twinning and community care. Moreover, the “Circular of Administrative Office of Chongqing Municipal Committee and General Office of the People’s Government of Chongqing Municipality on Action Plan for LBC”, involved 6 plans: constructing rural boarding school and kindergarten, innovative training model, community education on rural LBC, promoting LBC’s nutrition and health, and protection of LBC’s right. In 2011, the “decision to reduce three gap and promote common prosperity” strengthen the activities of LBC care-taking in “constructing boarding school”, “love lunch”, “egg & milk program” and “surrogate parent”, etc. Through our interview and observation during the research, the activities on LBC were categorized into 4 models: care model, society support model, rural school education model, and policies support and empowerment model.

Care Model refers to individual or group who provide material or spiritual aid to LBC. Since 2009, Chongqing Electric Power Corporation built 12 “Yu-electric Chunmiao Houses”, which have reading rooms and family room telephones (*Chongqing Daily*, 2010). From March to July in 2010, *Chongqing Daily*, Chongqing television together with seven other media have introduced “12 • 5” International volunteers column, with report focused on voluntary service. The “Children learning partner” of China Telecom provides free call

on 11896100 to listen to knowledge teaching. Until July 24, it has provided services to 234,430 children in 2011 (*Chongqing Daily*, 2011). In 2011, one businessman has brought 22 rural LBC to travel to Chongqing city.

Society support model refers to government department, enterprise, media and NGOs who offer long term and reliable support for LBC's development. In 2009, Chongqing's budget includes 2.67 billion yuan on education, eliminating the school fees for 3.6 million students, financial subsidy to 489,600 students in rural areas, and 14 million yuan to 57,000 LBC for their education. Chongqing's government plan is to build 2000 "family Internet video chat rooms" and 5000 "family telephones" in 2011.

Community Model refers to formation of a bottom-up community care environment. In the "Action plan of care for LBC" the rural children community program in 2010, plan to complete 100 rural LBC care centres in 2012, encourage volunteer to be "surrogate parent", build 1000 "LBC's homes" and provide free training to rural LBC's guardians. There was a significant attempt of community care model held by Wuxi county government and Beijing global village NGO. Rural school education model improves the LBC's education by enhancing the expenditure and public education resource on rural schools. Chongqing targets to build 2000 rural boarding schools and 1000 rural kindergartens in 2012; promote rural LBC's nutrition and health programs by supplying "love lunch", "egg and milk project", nutritional guidance, safe drinking water, etc. The government spent an estimate of 0.8 billion Yuan to launch the egg and milk project in 39 counties, and "love lunch" in 30 counties, which would benefit 5,000 schools in total. 37 counties collected 0.35 billion Yuan to maintain or construct canteen in 989 schools, and improve the canteen's environment for 440,000 students. This could also solve the problem of drinking water for 450,000 students and teachers which cost 0.14 billion Yuan. On the other hand, 4+1 model began in 18 schools from 17 counties in two wings of Chongqing in 2010. "4+1 model" is the LBC training experiment. It aims to promote ideological and political education, quality personality education, mental emotional education, behavioral health and physical education.

Policies support and empowerment model aspire to improve the LBC's situation by changing some policies, and protect their rights. Two main implementation of policy support and empowerment model are "the rights of rural LBC protection program" and "household registration reform". "The rights of rural LBC protection program" required each county to set up the rural LBC's right protection center, eliminate the phenomenon of dropping out of rural LBC and build the safety guard system in school to prevent the injury of LBC's right. The household registration reform began in 2010. Under this new household registration system, peasants are able to change to "citizen" with some requirements, and the new "citizen" could enjoy the same social

welfare as the original citizen resident of the county. This new system may break the gap of dual economy in China, thus reducing the number of LBC. Chongqing aims to transfer 3 million peasants to become city residents from 2010 to 2011 and bring about an increase of 800,000-900,000 “new citizens” each year after 2010.

3.3. Chongqing NGO's Activities on LBC

According to Nongovernmental Organizations Administrative Bureau of the Ministry of Civil Affairs (MOCA) in China, NGO has been defined as “organizations formed by citizen volunteers which carry out activities aimed at realizing the common aspirations of their members in accordance with organizational articles of association” (Lau, 2009). “Shi Chuan Town LBC fund” is the first NGO specifically, for LBC. This NGO was established in 2011, with 150 members volunteer looking after 1,000 LBC. Another NGO, “Chongqing Youth Student Volunteers Association” (registered in 2007) implemented many activities in 2008 to help LBC, such as donate materials and money, provide psychological care activities and hold summer camps. However, not all the NGOs are registered. In this study, we have interviewed 6 NGOs which concentrated their activities on LBC in Chongqing. Only one NGO has registered, the other 5 are grassroots NGOs. Usually the registered NGOs are government-organized or have some relationship with government department, for example, the “Chongqing Youth Student Volunteers Association” is led by the government of Wangzhou County. Most of the registered NGOs are organized top-down, while the grassroots NGO are set from bottom-up. The registered NGOs have close ties with government, thus easier to get funding and support from government than grassroots NGOs. Therefore, the grassroots NGOs are more independent in their operations. However, grassroots NGOs are facing many problems nowadays. First, under-developed civil society has limited the development of grass root NGOs (Ji and Zhao, 2006). Secondly, the government has strict controls over the registration of NGO, thus also making it difficult for them to get financial support. Third, grassroots NGOs usually lack social credibility. Finally, through our interviews, we are aware that the grassroots NGOs have not cooperated with government departments in many activities and there is no policy support to encourage them to help LBC.

4. LBC in Wuxi County

4.1. Overview of LBC in Wuxi

Wuxi is located in Northeast of Chongqing, which comprises 30 towns. The population of Wuxi is 530 thousand (2008), with 470 thousand peasant

population. Wuxi is one of the national poorest county, with GDP per capital of 5391 Yuan (2008), constituting only 30 per cent of Chongqing’s average level.

According to Chongqing Women Federation’s Survey in 2008, 71,272 rural LBC are 0-16 years old, comprising 76.15 per cent of total rural children, and of these, over 36 thousand LBC’s parents both migrate out. Table 1 shows the status of LBC in Wuxi in 2011. All of the data are collected from the education department of Wuxi through an interview done in mid to late 2011. There were 54660 LBC in compulsory education period, 29.8 per cent of LBC whose parents have both migrated, and 13050 of them being taken care of by their grandparents, while 2609 of them stay with their relatives. A total of 6661 LBC stay in school dormitory, where 77.11 per cent of them are from the middle school. The poor LBC comprised 17.8 per cent of total LBC, and around 85 per cent of them are in primary school.

4.2. Government’s Measurements in Wuxi

First of all, Wuxi has established a joint conference system for LBC that regularly discuss and solve the problems of LBC. Secondly, the education department keep the records of the LBC personal files during their compulsory education period, provide free health check and 2,920 LBC are less than 6 years old. Thirdly, the social support model involved open family connection platform. For instance, the county has built 87 family rooms, 4 “LBC’s home” in Dahe School, Chaoyang Primary School, etc. Table 2 indicates the result of the family connection platform construction in 2011. Ninety-one schools have open family phone, and 86 schools have family chat room among 221 schools.

Fourth, the care model in Wuxi include condolence and donation for LBC where volunteers take care of LBC playing the roles of “foster mother”, “foster brother/sister” and “surrogate parent”, besides running “home visit” and obtaining donation from enterprises.

Education department of Wuxi County has spent 200,000 yuan to take care of 2000 LBC. Corporations/enterprises donate books, clothing, household items and money to rural LBC. Yuanda Power Company in conjunction with the government department donated 13,000 yuan, Zhongba coal mining company with other companies have given 25,000 yuan to Zhong Ba primary school to carry out a variety of activities for LBC during festivals, training guardians and surrogate parents of LBC through “mobile parent schools”. Besides, 30 female officials of agriculture department of Wuxi have been “foster mothers” of 30 LBC in Sanbao Village. Education department of Wuxi county has grouped 50 university student volunteers to be the “foster brothers/sisters” of 100 LBC, to teach the LBC, and to counsel the LBC’s

Table 1 Status of LBC with Both Migrant Parents

	Number of students	LBC (with both parents migrated)		Guardians of LBC (with both parents migrated)		LBC staying in school dormitory (with both parents migrated)		Poor LBC (with both parents migrated)		
		Number	Percentage	Grandparents	Relatives	Fosterage	Number	Percentage	Number	Percentage
Total	54,660	16,313	29.84	13,050	2,690	573	6,611	40.53	2,903	17.80
Primary school	33,354	10,165	30.48	8,132	1,708	325	1,870	18.40	2,208	21.72
Middle school	21,306	6,148	28.86	4,918	982	248	4,741	77.11	695	11.30

Source: Compiled by authors.

Table 2 The Family Connection Platform

Scope of LBC (both parents went out)	Number of schools	Number of LBC (both parents went out)	Schools (with "family phones")	Number of "family phones"	Schools (with family chat rooms)	Number of family chat rooms
Total	221	16,313	91	95	86	86
Below 50	134	2,890	4	4		
51-100	33	2,412	33	33	32	32
101-200	33	2,245	33	33	33	33
Over 200	21	8,766	21	25	21	21

Source: Compiled by authors.

Table 3 The Situation of Construction of Boarding Schools

	Number of students	Number of towns	Number of towns with "no boarding school"	Boarding schools	Schools "with bathroom"	Schools (with canteen)
Total	54,660	32	12	58	33	58
Primary school	33,354		12	41	16	41
Middle School	21,306			17		17

Source: Compiled by authors.

psychological problems. The "surrogate parents" helped 1,800 LBC, by carrying out six roles in each month: communicate, check their homework, and demonstrate life experience, psychological counseling and practical aspect of living to help them. Moreover, 3,000 teachers over 250 village (neighbourhood) committees, visit more than 5,000 rural LBC's home. They comprehensively understand the LBC's guardians' real situation, community education environment, and give recommendations in the case of LBC's education, safety, behaviour, and physical and mental health.

Fifth, the rural school education model involved boarding school construction, nutritional planning and "4 +1" model: The education department plans to invest nearly 20 million to improve the school environments, in terms of security, building and maintaining dormitory and canteens. According to the data collected from government department through the interview, Table 3 shows there were 58 schools built with dormitories, 33 of them with

bathrooms, and all of them provide a canteen each. 41 boarding schools are primary schools, a number much higher than middle schools. This situation is due to the smaller number of middle schools and high schools compared to primary schools.

An expenditure of 1.94 million yuan was incurred to provide lunch for the LBC in schools such as Wenfeng Primary School, Zhuhai Experimental Primary School, Gulu Primary School, etc. Such programme benefits 2,198 primary school students, and 1,256 middle school students (Table 4). In terms of nutrition, 1.5 million yuan was spent to provide milk for 51,399 primary- and middle-school students, 97,584 yuan to provide eggs for 3,242 village school students, and 296,700 yuan to subsidize 2 yuan for each 3,450 poor students. Furthermore, the “4 + 1” model has been successfully experimented in Xiabao Primary School, and Tongcheng Middle School was also granted a declaration of “4 + 1” model of education.

Lastly, the Community Care Model has brought about a good innovation in Wuxi. In July 2010, the Wuxi government started to cooperate with Beijing Global Village Environmental Education Center (Beijing Global Village-BGV), which was founded in 1996 as a NGO dedicated to public environmental issues. Since 2010, the project has been launched in Wuxi and piloted in three villages and six communities. The project is an innovation of social administration, ecological civilization and harmony based on relation between society and the government, and to achieve the goal of “social justice, the common prosperity of the people, so that everyone is happy and harmonious”. Today, the slogan “happy and harmony” appears everywhere on banners and posters in towns and villages, a popular place in Wuxi.

The villagers’ autonomy, shared governance, and rule by law are the key points of “happy and harmonies home” construction. Volunteer Villagers composed a “happy and harmonious association”, which manages the community of village. The three parties – government, NGO and “happy and harmonious aid association” – coordinate the construction of a new pattern of basic level of community governance. The Government provides guidance, and policy financial supports, whilst NGOs play the important role of counseling, training and establishing foundation.

Wuxi County adheres to solving the issue of the LBC through social construction and social management innovation. In 2010, the members of “happy and harmonious association” from 30 “happy harmonious home” pilot villages have taken care of over 1,000 LBC. For example, in Yangqiao village, “happy and harmonious aid association” has recruited 108 volunteers to take care of 108 LBC. In the “happy and harmonious home” community, villagers became “foster mothers” helping the neighbourhood LBC. Through the 5 “foster mother” group discussions in 3 “happy and harmonious home” communities, it was found that most “foster mothers” have children at

Table 4 The Expenditure on LBC Programmes in March of 2011

	Number of "home visits"	Family phone		Internet video chat		Free lunch		Egg & milk programme	
		People	Expenditure (yuan)	People	Expenditure (yuan)	People	Expenditure (yuan)	People	Expenditure (yuan)
Total	844	8,807	2,642	9,036	12,390	3,454	6,908	81,565	113,248
Primary school	518	5,682	1,705	5,782	8,142	2,198	4,396	50,825	60,990
Middle school	326	3,125	937.5	3,254	4,248	1,256	2,512	30,740	52,258

Source: Education Department of Wuxi, 2011.

home, usually of the same age with the LBC whom they are helping. “Foster mothers” take care of LBC’s daily life, studies, and communicate with them. However, half of “foster mothers” are unable to check LBC’s homework because of their education limitation and most of the “foster mothers” have health issues, thus are unable to look after LBC. In addition, all LBC are very close to their “foster mother”, and prefer to stay in “foster mother’s” home, and communicate more with “foster mother” rather than their grandparents. In Wuxi, the government and community coordinate and provide services for “foster mothers”, while NGOs provide funding to charities to support “foster mothers” livelihood.

The “happy and harmonious home” project is derived from a Community assistance form of participatory social management mechanism as a big family in exploring a new path to take care of LBC. First of all, it encourages LBC to make friends with other children (both LBC and normal rural children), then forming some “children group”. After that, the relations of “children group” spread to their families. Rural children’s family could help the LBC who is in the same “children group” or live next door. Finally, the whole community will be involved in care-taking of LBC. This is a bottom-up process.

5. Conclusion

No doubt, the LBC’s situation is improving, at least in raising widespread concern in society. Research on 350 LBC in 5 schools of Wuxi County found that most of them have experienced love and care from the school, government and society, making their everyday lives better. However, the real proportion of LBC is higher than the official government report.

Secondly, there are some findings about the Chongqing Model. The Care model is a top-down process. LBC have been treated as passive beneficiaries rather than active actors, resulting in the negligence of LBC’s real needs. On the other hand, it is wonderful to see the numerous amount of care on LBC, even though there were reservations on the ultimate beneficiaries of the donations. The Society Support model promoted the government and society in bearing their responsibilities, but the LBC’s voices may not be totally heard. The construction of boarding school had been fully acknowledged by the society, LBC and migrant workers. However, it has some weaknesses which include lack of teaching resources, non-standardized management and difficulty in taking care of every child in a big class (over 50 students in each class in a town school). The policy support and empowerment model have explored a number of new policies, such as encourage migrant workers to come back and work nearby, and have obtained reasonably successful results.

However, we also found many problems with policy implementation, e.g., the urban school charged additional fees on migrant worker’s children. During the LBC group discussion, most LBC prefer their parents to come back, rather than they move to the city in following their parents. Due to LBC’s low self-esteem, they fear of the inability to adapt to city life. On the other hand, they love their current life and hometown. In addition, the survey by the Department of Services and Management of Migrant Population of China noted that 63.9 per cent of rural migrant workers plan to go back to hometown when they get older, only 10.4 per cent want to stay in their work place, while 66.73 per cent of peasants refuse to change to become citizen because they do not want to lose their land in hometown. Therefore, the “household registration system reform” has to improve on the requirements and link with the social welfare of the city. The Community Care model which is a bottom-up process, seems more effective in creating the “happy and harmonious home” project which is community-based.

So far, the Chongqing model is still at the exploratory stage. Therefore the policies, laws, regulations, management systems and implementation may not be perfect. However, some measurements have begun to take effect now to continually improve on these models. Here, we have some recommendations in solving the problems of LBC based on Chongqing’s situation.

First, it is to enhance the level of logistics of rural boarding schools. Secondly, to further develop the bottom-up community care model. Research found that most the villagers do not trust the government. Paradoxically, they hope to receive government’s awards and honours. Therefore, it is necessary to adhere to government-led self-governance, and ensure a better permanent mechanism. Thirdly, the government should coordinate more with NGOs, in reducing government failure. It is recognized that the government provides financial and legal policy support whilst NGOs are able to eliminate public’s fear of cooperating with the governments’ professional group in providing better service and flexible operations.

Fourthly, it is crucial to protect migrant workers and optimize the environment for employment. Narrowing the gap between urban and rural development is necessary, and modernization of rural development will further help in leading the migrant workers back and work nearby. On the other hand, relaxing entry requirements of urban school, and helping LBC integrate into city life is another measure. Lastly, China’s economic development is uneven. The western part of China sacrificed their economy to accelerate the economic development of the East through migration of labour force to the east. Meanwhile, Chongqing self-sufficiently spent large number of investment funds on people’s livelihood projects. China should play a role of macro control and further develop the western part of China.

Notes

- * Dr LooSee Beh 马露丝 is Associate Professor and Deputy Dean (International and Higher Degree) at the Faculty of Economics and Administration, University of Malaya. Her PhD is in the areas of training management and human resource and her master's and bachelor's degree in political science. She has published in local and international publications and serves as resource person with many local and international bodies. She was also a visiting academic at Griffith University, Australia. Her main interests of research include public administration, human resource management, and Asia-related sociopolitical studies. <Email: lucybeh@um.edu.my>
- ** Yao Ye 姚叶 obtained her Bachelor of Arts degree from Chongqing Technology and Business University, China. She now holds a Master of Public Administration degree from the University of Malaya. Her field of interest is public administration. <Email: venessa.yaoye@gmail.com>

References

- All-China Women's Federation 中国妇女网 (2008), *Research Report on Rural Left-behind Children in China* 全国农村留守儿童状况研究报告. <<http://www.women.org.cn/allnews/02/1985.html>> (Accessed 11th November 2010).
- Biao, Xiang (2007), "How Far Are the Left-behind Left behind? A Preliminary Study in Rural China", *Population, Space and Place*, 13, pp. 179–191.
- Chan, Aris (2009), "Paying the Price for Economic Development: The Children of Migrant Workers in China", in Geoffrey Crothall (ed.), *China Labour Bulletin Special Report*, pp. 7-23.
- Chongqing Municipal Bureau of Statistic and NBC Survey Office in Chongqing (2010), *Chongqing Statistic Yearbook 2010*, China Statistic Press.
- Chongqing Women's Federation (2009), *Research Report on Rural Left-behind Children*.
- Cortes, Roselia (2007), "Children and Women Left behind in Labor Sending Countries: An Appraisal of Social Risks". <[http://www.unicef.org/socialpolicy/files/Children_and_women_left_behind\(3\).pdf](http://www.unicef.org/socialpolicy/files/Children_and_women_left_behind(3).pdf)> (Accessed 12th March 2011)
- CRC, Article1. <<http://www2.ohchr.org/english/law/pdf/crc.pdf>> (Accessed 11th November 2010)
- Department of Service and Management of Migrant Population of Nation Population and Family Planning Commission of China (2010). *Report on China's Migrant Population Development*, China Population Press.
- De Vries, Jan (1984), *European Urbanization 1500-1800*, London: Methuen & Co. Ltd, p. 28.
- Dillon, Michael (2009), *Contemporary China – An Introduction*, New York: Routledge, pp. 61-63.
- Duan, Chengrong and Wu, Lili (2009), "Analysis on Latest Status of Rural LBC in China", *Journal of Chongqing Technology and Business University Social Sciences*, Department of Development and Planning of Ministry of Education, Vol. 126, No. 1.

- Duan, Chengrong and Yang, Ge (2008), "Research on the States of Rural Left-behind Children in China", *Population Research*, No. 3.
- Duan, Chengrong and Zhou, Fulin (2005), "Research on the States of Left-behind Children", *Population Research*, Vol. 29, No. 1.
- Duan, Chengrong and Zhou, Fulin (2006), "General Research Description of Left-behind Children", *Population Journal*, No. 157.
- Fan, Fang, Su, Linyan and Mary, Gill, Kay and Birmahe, Boris (2010), "Emotional and Behavioral Problems of Chinese Left-behind Children: A Preliminary Study", *Social Psychiatry and Psychiatric Epidemiology*, Jun, 45(6), pp. 655-665.
- Fan, Ping 樊平 (2009), "Chinese Farmer Development Report 2008 中国农民发展报告", <http://www.china.com.cn/aboutchina/zhuanti/09zgzshxs/content_17101490.htm> (Accessed 11th November 2010)
- Fan, Shenggen, Xing, Ni and Cheng, Zhigang (2010), "The West of China", *Research on Public Policy and Rural Poverty*, Science Press Beijing, p. 61.
- Fields, Gary S. (2007), Dual Economy, ILR Working Paper 17. <<http://digitalcommons.ilr.cornell.edu/workingpapers/17>> (Accessed 11th November 2010)
- Fu, Qiyun and Liu, Xiaoyu (2008), "Urban and Rural: Focus on Rural Left Behind Children's Problems, Thought of the Urban and Rural Experiment Areas in Chongqing", *Journal of Hubei University of Economics (Humanities and Social Sciences)*, Vol. 5, No. 7.
- Guo, Lin (2009), "Migration and the Physical Well-being of Left-behind Children in China", Annual meeting of the American Sociological Association.
- Ji, Shengxia and Zhao, Yonghou (2006), "Analysis on the Difficulties of Grassroot Development in China", *Science Information*, Vol. 1. pp 19-20.
- Lau, Clement Chu S. (2009), "The Role of NGOs in China". <<http://www.lsus.edu/Documents/Offices%20and%20Services/CommunityOutreach/JournalOfIdeology/NGOsInChinaarticle.pdf>> (Accessed 11th November 2010)
- Lewis, W. Arthur (1954), "Economic Development with Unlimited Supplies of Labour", *The Manchester School*, Vol. 22, Issue 2, May, pp. 139-191.
- Li, L. (2004), "Social Concerns Raised the Accident of Three Young Girls' Abandoning Home", *Education for Ethnic Minorities in China*, No. 5, pp. 16-18.
- Li, Qingfeng (2002), "Investigation Report on the Impact of Rural Labour Working in the Cities upon Their Children's Development in Three Provinces", *Shanghai Research on Education*, Vol. 9, pp 25-28.
- Li, Qingfeng (2004), "Interpretation of the Data of Children (Series 4): The Development of Left-behind Children". <<http://www.cycs.org/Article.asp?Category=1&Column=71&ID=4181>> (Accessed 12th October 2011)
- Lin, Hong (2003), "The State of Education of Left-behind Children in Fuking", *Fuking Education University*, Vol. 3, pp. 132-134.
- Lu, Deping (2006), Issues and Challenges of Left-behind Children: Based on Results of the Specific Investigation Undertaken by China Youth University of Political Sciences, *US-China Education Review*, Vol. 3, pp. 1-9.
- Lu, Hong and Song, Shunfeng (2004), "Rural Worker Migration and City Transient Crime", in Chen, Aimin, Liu, Gordon G., Zhang, Kevin H. (eds), *Urbanization and Social Welfare in China*, Burlington, VT: Ashgate Publishing, pp. 372-388.

- NBS (National Bureau of Statistics) (2009), *China Statistical Yearbook 2009*, China Statistical Press.
- Qian, M. (2004), "Education of Left-behind Children Not Allowed To Be Neglected", *People's Political Consultation News*, 1st December.
- Ren, Yunchang (2009), "Watch in Empty Village", *Sociological Research on LBC's Education Problem in West China*, Social Science Beijing Press online.
- Reyes, M. Melanie (2008), "Migration and Filipino Children Left-Behind: A Literature Review", Miriam College/Unicef. <www.unicef.org/philippines/Synthesis_StudyJuly12008.pdf>
- Roselia, Cortes (2008), "Children and Women Left Behind in Labor Sending Countries: An Appraisal of Social Risks", Unicef Division of Policy and Practice Working Paper, August. <[http://www.unicef.org/socialpolicy/files/Children_and_women_left_behind\(3\).pdf](http://www.unicef.org/socialpolicy/files/Children_and_women_left_behind(3).pdf)> (Accessed 12th March 2011)
- Tian, Zhengxue and Zhou, Zhongyu (2008), "Psychology Research on Left Behind Children in Three Gorges", *Basic Education*, June, No. 1.
- Wang, Daochun (2006), "The Causes of and Preventive Measures for Juvenile Delinquency in Left-behind Children in Rural China", *Journal of Beijing Youth Politics College*, 15(3), pp. 27-33.
- Wang, Hongna (2009), "Problems and Solutions: Left-behind Children in Rural Areas of Chongqing", *Yangtze Normal University*, Vol. 25, No. 3.
- Ye, Jingzhou and Fan, Lu (2008), *Differentiated Childhoods: Children Left behind in Rural China*, Social Science Academic Press, p. 44.
- Yeoh, Brenda S.A. and Lam, Theodora (2007), *The Cost of (Im)mobility: Children Left Behind and Children Who Migrate with a Parent*, in *United Nations ESCAP, Perspectives on Gender and Migration*, Bangkok: United Nations Economic and Social Commission for Asia and the Pacific, pp. 120-149.
- Yuan, Zhigang (2007), *Rural-urban Migration and Urban Unemployment in China: Theoretical and Empirical Analysis*, Economy Science Press, pp. 36-42.
- Zhang, Qingquan (2008), *Studies of Chinese Peasant Workers under the Binary Economic Conditions*, Economic Science Press, pp. 20-23.
- Zhang, Wenting (2010), "The Analysis of Education of Rural Left-behind", *Journal of Puyang Vocational and Technical College*, Vol. 23, No. 13.
- Zhang, Yi (1994), "Left-behind Children", *Look Out* 瞭望.
- Zhen, Yonghui and Wu, Mingyong (2009), *Countermeasures of Lack Education of Rural Left Behind Children in Chongqing*, Beijing City University, No. 5.

Newspaper Articles

- Chongqing Daily* (2010), "Gives Left-behind Children a Happy Childhood", 7th May 2010.
- Chongqing Daily* (2010), "Bishang County Have Build 'Yu-electric Chunmiao Houses'", 25th October 2010.
- Chongqing Daily* (2010), "Take Care of LBC, Bring Hope of People's Livelihood", 29th July 2011.
- Zhao, H. (2004), "Pay Attention to the Left-behind Children in the Countryside", *People's Daily*, 4th February.

Cyber Public Diplomacy as China's Smart Power Strategy in an Information Age: Case Study of Anti-Carrefour Incident in 2008

*Po-chi Chen**

National Cheng Kung University

Abstract

The Internet and related technologies have played a decisive role in both enhancing productivity in business and facilitating the sociopolitical development of the last decade of the twentieth century. The increase in use of these highly networked modern technologies is also leading to the rise of many new global issues. In the case of China, the government is attempting to use this new technology to bridge the digital divide with the developed world and leapfrog into the advanced information industry. At the same time it is also developing information policies to suit its political interests. This article argues that China's promotion of information is by its nature a "soft power" strategy, and further that this strategy has become one of China's most important governing mechanisms in the modern Information Age.

This article begins with a general literature review on notions of soft power, smart power, and public diplomacy, laying the foundation for the subsequent discussion on China's application of these tools into its governance. It further focuses on China's emerging state-society relations in the Internet Age, focusing largely from citizens' online participation. To approach this issue, a case study of the "Anti-Carrefour Incident" is examined to show China's smart power strategy as incorporating both soft power and public diplomacy. Along with the rising power of citizens' discourse power, the effectiveness and constraint of China's smart power in the modern era of globalisation are also discussed.

Keywords: *soft power, smart power, public diplomacy, cyber public diplomacy, anti-Carrefour incident*

JEL classification: *F51, F59, N45*

1. Introduction: Understanding Soft Power, Smart Power and Public Diplomacy

In 1990 Joseph Nye proposed the idea of “soft power” with the publication of *Soft Power: The Means to Success in World Politics*.¹ This book led to a wave of discussion on soft power in the field of international relations. Nye classified soft power as the ability to affect others behaviour and accomplish individual aims. Hard power on the other hand aims to achieve goals through the use or threat of force. The soft power resources of a nation lie in its culture (their appeal to others), political values (when they are consistent both home and abroad), and its diplomacy (when it is legal, and has moral authority). Nye and Melissen indicated that soft power should be promoted through the use of “public diplomacy”, while Mark Leonard showed how soft power and public diplomacy are intricately linked with his three dimensions of public diplomacy in news management, strategic communications, and relationship building, all being forms of soft power as described by Nye. Nye further argued that countries should not depend solely on either hard power or soft power; instead they should integrate both of these forms of power to create “smart power”² as the new tool of public diplomacy.³

Public diplomacy as a tool of governance was first proposed by Murrow, the former minister of the US Information Agency (USIA), commonly considered to be the propaganda mouthpiece of the government. In a 1963 speech, Murrow stated that the difference between public diplomacy and traditional diplomacy was that the actors are not merely the government, but also non-governmental individuals or organizations. Following from this, Manheim re-classified diplomacy as having four distinct forms in government to government, diplomat to diplomat, people to people, and government to people, and emphasized that public diplomacy should be treated as an important part of foreign affairs.

Evan Potter indicated that, “Public diplomacy⁴ is the behaviour through which a government attempts to affect the opinion of people or elites from other countries, aiming to make the actions of the target country favourable for the concerned government. To promote their national objectives and gain benefits for the public, governments use several methods such as international broadcasting, cultivation of foreign reporters and scholars, cultural activities, educational exchanges and scholarships, planned visits and meetings, and publications”.⁵ In recent years, the differences between strategic needs, research approaches, and practical applications among various countries have created four distinct types of public diplomacy, namely Public Diplomacy, Media Diplomacy, Informal Diplomacy, and Digital Diplomacy. Despite the differences among the four types of public diplomacy, Fisher and Bröckerhoff argued that they all share the key objective of gaining “influence”.

Based on the above literature review on “soft power”, “smart power”, and “public diplomacy”, the key point of this study has been established. This study will regard the hard power of China in the form of its military and economy as a known factor, with the soft power of public diplomacy being the area of interest. In the digital information era, China’s diplomatic resources are no longer restricted to the hard power of its military and economy; with a new emphasis on soft power through public diplomacy, taking China closer to Nye’s idea of “smart power”. Under such a framework, this study will focus on New Media and further explain the meaning, forms, and factors of the Chinese government’s cyber public diplomacy during the “2008 Anti-Carrefour Incident”.

2. The Development of Public Diplomacy in China

In December 2003, the Chinese Premier Wen Jiabao, made a speech at Harvard University entitled “Rediscover China”. In this speech he for the first time comprehensively outlined the strategic thinking behind “China’s Peaceful Rise”, a theory based on the “Harmonious Society”⁶ idea raised in China’s sixteenth plenary session in October 2006. Following this speech Hu Angang stated that “harmony has become the largest soft power resource in China.”⁷

Despite China’s attempt to focus on soft power, its newfound economic and military power gained from being the “World Factory” meant that an image of negative hard power still hung over the country. This negative image led to the rise of the “China Threat Theory” in international public opinion and made the government realize the importance of “discourse power”.⁸ The government realized that, in alongside the development of its hard power, soft power diplomacy should be used to rebuild the image of the country so as to achieve its strategic objective of “China’s Peaceful Rise”.⁹

Not until recent years did the practice of “public diplomacy” and “soft power” appear in China. However, the conceptual thinking behind the practice has existed for a long time.¹⁰ During China’s formative years, the importance of controlling public opinion abroad to strengthen domestic governance was understood by the party leadership. They knew that in order to maintain support from farmers and labourers, while at the same time continuing to develop the economy so as to negate the threat of the USA, they needed to influence public opinion both at home and abroad. Indeed, before the establishment of the Chinese government, Edgar Snow, an American journalist, once interviewed Mao Zedong and published *Red Star over China*, in which Mao was modelled as a hero for liberating the Chinese, leading to initial support for Mao from international public opinion. This trend continued after the establishment of the Chinese government, with the 1957 Panda Diplomacy with Russia being used to symbolize the friendly relationship

between the two countries. This act was later repeated with Pandas also being gifted to the USA, Japan, Korea, and Taiwan.¹¹ A further significant act of soft power was the 1971 Ping-Pong Diplomacy which led directly to the restoration of diplomatic flights between China and the USA during the Cold War.¹² The positive international public opinion was seen to have direct benefits for China, with Deng Xiaoping in 1979 declaring that the success of China's reform and opening to the world was directly related to an increase of support from international public opinion.

This positive image was disrupted with the political transformation of Eastern Europe in 1989, and the disintegration of the Soviet Union in 1991, which made China the leader of the remaining socialistic communist countries. This position saw China become the focus of criticism from the west, with the development of critical theories such as "China Threat Theory"¹³ and "Peace Progress".¹⁴ In response to these, Deng began promoting China's new policy of "Against Peace Progress"¹⁵, while continuing China's process of reform and opening up through the 1990s.

The arduous international environment further led to China emphasizing the necessity of using public diplomacy to remodel its image, and counter unfavourable international public opinion. This recognition led to a focus on "soft power" and the development of the "peaceful rise" theory. This focus was evident during the national conference on publicizing China overseas in 1999, with the General Secretary of the CPC's Central Committee, Jiang Zemin, indicating that "we should stand at a high start-point and review the situation, size up the events, and improve our overseas publicity; we should generate a positive image proportional to our status as a leading nation, as well as work towards reform, opening, and modernization".¹⁶

The core of leadership for public diplomacy in China is the Publicity Department of the CPC Central Committee, while the governmental organizations responsible for overseas publicity are the Information Office of the State Council of China, and the Central Office for Overseas Publicity, CPC. The two organizations are led by the Secretariat of the CPC Central Committee and the State Council, and manage the overseas publicity of the country, while promoting the domestic media to illustrate China to the world.¹⁷

In his research of 2004, Hu Angang revealed that China's media competence, a combination of several key indicators on media development, was about 47 per cent of the USA, but their score for international communication was only 14 per cent of the USA. These figures show that China's media competence is strong but uneven, with the domestic media being strong, while the international media and the economic capability of the media being relatively weak. Owing to this weakness, the western major news organizations such as Associated Press, United Press International, Reuters, and Agence France Press, have dominated international discourse. Responding

to this weakness, the Chinese government has attempted to improve its international media power in order to influence international public opinion.

China has acknowledged that the possession of international discourse power is just as important as having a large military and developed economy. If China is to address the “adverse balance of power”, it needs to integrate its hard power with soft power and make use of smart power. In the “international public opinion arena”, which, as seen above, is currently controlled by the western media, the “adverse balance of soft power” means that the image of the Chinese government is tarnished, its policies distorted, and its culture and values marginalized. This adverse balance of soft power has led to China attempting to address international public opinion.

In order to eliminate the above stated adverse media balance, China has created a series of strategies such as “Step out, welcome in”. The aim of these policies is to brand “China” through the creation of English language websites, the establishment of Confucius Institutes, the export of its cultural industry, and the hosting of large-scale international events such as the Beijing Olympics and the Shanghai Expo. These strategies have helped to establish China’s image and move its policies from the domestic to the international, helping to increase the foreign understanding and thus empathy of China.

3. The Internet, Public Participation and Public Opinion in Current China

In 2008 the number of netizens in China rose to 284 million, overtaking the USA to become the largest Internet market with a popularity rate of 22.6 per cent, exceeding the global average of 21.9 per cent. In the same year, the usage rate of online news in China broke through 80 per cent, and the number of bloggers reached 162 million.¹⁸ Cyber space came to be regarded by the Chinese media and the publicity department as “a public opinion battlefield that cannot be neglected”.¹⁹ By June, 2010, the number of netizens in China reached 420 million, with the popularity rate rising to 31.8 per cent. Although the speed of uptake had slowed down, the growth of netizens still grew at a rate of around 20 per cent yearly.²⁰ Moreover, based on the statistics of China media consumption in the first quarter of 2009,²¹ the Internet had become the most popular source of media consumption with an audience of 83.2 per cent, a figure 30 per cent higher than that of China’s official Central Television (49.2 per cent; with messages from relatives, friends, and colleagues at 66.7 per cent). This shows that the Internet in China now has a high level of influence.

During the Severe Acute Respiratory Syndrome (SARS) epidemic in 2003, the Chinese government reacted by censoring the facts from the public. Based on the political guideline of “maintaining stability as the top priority”

Table 1 Present Situation of the Network and Telecommunications Technology Development in China

	2007	2008	Meaning
Number of netizens	162 million	298 million	Surpassing the USA in 2008 and becoming the largest Internet market in the world. The netizens reached 384 million in 2009, but with slow growth rate. The netizens reached 485 million in June, 2011.
Popularity rate of network	12.3%	22.6%	Surpassing the global average of 21.9% in 2008, rising to 36.2% in June, 2011.
Proportion of the netizens utilizing the search engine of online news	76.3%	81.3%	Cyber space being regarded as “the public opinion publicity battlefield which cannot be neglected” by China media and the publicity department.
Population of bloggers	–	162 million	

Source: China Internet Network Information Centre (CNNIC).²²

and the principle that the China media “report only the good but not the bad”, there was little public reporting on the epidemic. The publicity departments in *Nanfang Daily*, *Nanfang City News*, *Finance*, and the *21st Century Global Report* disputed this policy and insisted instead that eventually news would leak out and the populace would criticise the government censorship which would lead to social and political instability. This proved to be correct with gossip bypassing the official censorship and spreading through the phone network and the Internet, raising a nationwide panic.

Li Xinde, the founder of *www.yuluncn.com*, declared in 2004 that information transparency on the Internet had resulted in public opinion becoming a source of pressure for the government and its officials. At the end of 2007, another sensational event occurred that forced officials to admit fault and be punished, proving Li’s declaration. In this case, netizens questioned the authenticity of pictures of a “*Panthera tigris amoyensis*” that were uploaded by the Department of Forestry in Shaanxi Province. To test the photo’s authenticity, a “cyber manhunt”²³ was launched which found that the tigers in the pictures were actually portraits. The “Shaanxi Province *Panthera tigris amoyensis*”²⁴ incident in 2007 was considered to be a case of corruption with

the officials involved being forced to step down. This was a clear case of an individual using new media and public opinion to expose corruption and gain justice, showing that civil discourse not only enabled freedom of expression, but also that it could act as a form of bottom-up supervision.

The year 2008 saw a large amount of significant online news events in China including the unrest in Tibet, the anti-Carrefour Incident, the group event in Gansu's prefecture-level city of Longnan, the Wenchuan Earthquake in Sichuan Province, the Weng'an Incident, the Beijing Olympics, and the Sanlu poisonous milk scandal. All of these news events witnessed a high participation from netizens as described in Table 2. These cases, along with the earlier SARS and Shaanxi incidents, show that the civil discourse power and public participation enabled by the Internet had helped to develop a vibrant Chinese civil society, with citizens now viewing the protection of their rights through the Internet as a matter of utmost importance.²⁵

Table 2 Classification of Recent Cyber Incidents in China

Incident type	Year	Case
Natural disaster	2005	Flood in Shalan Town Elementary School in Heilongjiang Province
	2008	Wenchuan Earthquake in Sichuan Province, snow disaster in southern China
Accidental Disaster	2005	Water body pollution of Songhua River
	2008	Risk of paraxylene (PX) in Xiamen, dam-break in Xiangfen, Shanxi Province
Public safety	2003	Risk of SARS, event of Sun Zhigang
	2008	Poisoned dumplings exporting to Japan, Sanlu poisonous milk scandal
	2009	Hide and Seek event
Social safety	2007	The shady brick kiln in Shanxi Province, Panthera tigris amoyensis in Shaanxi Province, Nail household in Chongqing
	2008	Unrest in Tibet, Beijing Olympics, anti-Carrefour Incident, Weng'an Incident
	2009	Network stop in Xinjiang, Deng Yujiao and wronged people

Source: Compiled by the author.

With New Media developing alongside political society in China, it is wondered if public participation in policy making will be embraced, changing the traditional diplomacy model from one of confidential exchange to direct public participation, or whether the same new media tools will instead be used by the government as a means of top down control for maintaining a desired national image.

4. Cyber Public Diplomacy in China: Case Study of Anti-Carrefour Incident in 2008

Generally speaking, most examples of Chinese citizens interfering in foreign affairs are related to either nationalism²⁶ or controversial historical issues. Both the Chinese Exclusion Movement in Indonesia of May 1998 and the Chinese embassy bombing in Yugoslavia by the North Atlantic Treaty Organization in 1999 led to netizens participating in foreign affairs. Further examples include the Diaoyutai event between China and Japan, the sovereignty issue in the South China Sea, the 2008 Beijing Olympics, and the 2010 Shanghai Expo. With the popularity of New Media and the application of network information technology, personal thinking and social group actions are enhanced, leading to a new role for public participation. Based on the Anti-Carrefour Incident in 2008, this study analyzes the subjective and objective forms of diplomacy in China to verify the smart power strategy of the new diplomacy model with a focus on digital media, the emergence of cyber public diplomacy, and the governing of the Chinese government in the globalization.

4.1. Anti-Carrefour Incident: Background and Overview

When French media reported on the unrest in Tibet and the failure of the Beijing Olympic Flame relay in Paris on 9th April 2008, the Chinese people launched several online attacks on Carrefour²⁷; expressing their dissatisfaction with the state of affairs and protesting against the distorted French reporting about “Tibetan Independence”. This section will look at the statements made by the Chinese people, Carrefour, the French government, and the Chinese government, with Table 3 reviewing and analyzing the meaning of these statements.

During the unrest in Tibet²⁸ on 14th March 2008, the western media supported the Independence movement and largely criticized the actions of the Chinese government, leading to some Chinese netizens posting texts or editing various reports from the BBC and CNN to evoke a reaction from the wider public.²⁹ On 24th March 2008, the Beijing Olympic Flame was lit in Greece and relayed to cities around the world. When the Flame arrived in

Table 3 Overview of 2008 Anti-Carrefour Incident

2008	Events	Meaning
March 14th	Unrest in Tibet	The background and the fuse of Anti-Carrefour Incident
March 24th	Beijing Olympic Flame lit in Greece to relay to various cities	
March 25th	The French Foreign Minister decried the behaviour of China “suppressing” Tibet; Nicolas Paul Stéphane Sarközy de Nagy-Bocsa claimed “the possibility of boycotting the Beijing Olympics”.	
April 7th	The Flame arrived in Paris and was seized by a Tibetan activist.	
April 9th	Chinese netizens launched a campaign to “boycott French products”.	Cyber activism from virtual to reality: First step of the online propagation leading to social actions. Citizens launched diplomatic communication with the French government and Carrefour.
April 10th	Sheiying, a Chinese netizen, wrote an article titled “Boycott French Products, from Carrefour” and posted on a net community, MOP. More than 5,000 forums responded.	
April 13th	Kittyselly, a netizen from Beijing, took a national flag and posters to the front of Carrefour in Baishiqiao and protested the improper actions of the French government. That was the first step of cyber forums turning to social actions.	
April 14th	The netizens continuously passed the message “Do not shop in Carrefour on May 1st”.	
April 15th	In addition to the Internet, many citizens received other messages through mobile text, MSN, QQ, and BBS, prolonging the boycott from 1 day to 2 weeks.	Beginning of the boycott; citizens utilized the propagation of New Media.
	Jiang Yu, the Foreign Ministry spokeswoman, considered the boycott as an act of “Chinese people expressing their	To some extent, the Chinese government used the civil discourse

Table 3 (continued)

2008	Events	Meaning
	opinions and moods that the French government should rethink their actions. I believe that Chinese people should legally express their appeal.”	power as a tool of diplomatic strategy, but did not “directly” control the behaviour of netizens.
April 16th	The Carrefour Group authorized Carrefour (China) to clarify the untruthful allegations made about its support for Tibet.	The public opinion of Chinese people has led to a response from Carrefour.
	Suho, the French ambassador in China, was interviewed and stressed that the French government supported the Beijing Olympics, and further had an unchanged policy on China with no question about China’s sovereignty in Tibet.	The attitude of the French government changed, as did their diplomatic behaviour.
April 18th	Zhao Jinjun, the former ambassador to France, visited France in private and exchanged opinions about the China-France relationship.	The diplomacy turned from citizen-citizen (non-governmental organization, Carrefour) to government-government with France sending its ambassador to China twice, and China presenting its hard power.
April 20th	Consumer numbers in Carrefour dropped tremendously; some of them were closed with the official reason being “maintenance and renewal”.	The boycott from the netizens had a significant effect.
April 21st	Christian Poncelet, the chairman of the French senate, arrived in Shanghai.	The French government sincerely thanked the Chinese government for beginning to “directly” control its netizens. This was partly done to
April 22nd	China Ministry of Commerce first issued the declaration on Anti-Carrefour Incident.	
April 23rd	Jean-Pierre Raffarin, the former president of France, and two other envoys arrived in Beijing.	

Table 3 (continued)

2008	Events	Meaning
April 26th	“Carrefour” was temporarily blocked by several online search engines, like Baidu, Google (China), and Yahoo (China).	improve China’s image before the Beijing Olympics.

Source: Compiled by the Author.

Paris on April 7th, a Tibetan activist seized the torch from the bearer and extinguished the flame four times. Afterwards, the Agence France Press, Le Figaro and La Liberation all reported that “the torch failed in Paris” delivering “a slap to the face of China”. This incident further angered already enraged Chinese netizens, causing them to launch a campaign to “boycott French products” on April 9th, including famous brands such as Louis Vuitton (LV). Carrefour became the main target of the boycott as LV was its largest shareholder and was suspected of donating money to the Independence of Tibet movement.³⁰ The boycotts were a direct result of the Tibetan hampering of the Beijing Olympic Flame relay and the subsequent unfriendly reporting by the French media.³¹

4.2. Public Participation in China: The Effect of Boycotting French Companies on Diplomacy

On 10th April 2008 a Chinese netizen named Sheiyang wrote an article titled “Boycott French products from Carrefour”³² and posted it first to a net community, MOP, and later to other forums such as “skyline”, “Cisco”, and “Sohu”. More than 5,000 forums, including “YorkBBS” and “Huaren” responded to this post.³³ On April 14th many netizens started transferring the message, “Do not shop in Carrefour on May 1st”, in reaction to a Carrefour plan to reduce prices to beat the boycott.

In addition to Internet campaigns, other forms of electronic communication such as mobile text, MSN, QQ, and BBS, were used to relay messages prolonging the boycott from 1 day to 2 weeks.³⁴ This message stated “from May 8th to 24th, three months before the Beijing Olympics, no one should shop in Carrefour because its largest shareholder donated money to the Dalai Lama and supported the independence of Tibet; while the president of France called for a boycott of the Beijing Olympics. Owing to this, we will boycott Carrefour for 17 days, a period equal to that of the Beijing Olympics, to disrupt French businesses.”

Simultaneously, a second text message was spread³⁵ stating, “one of my friends works in Carrefour and I sent him the message about the boycott. He told me that he has already received the order to respond. They will largely reduce the price on May 1st. Once the price is dropped more than 10 per cent, people will crowd in.” This message pushed the netizens who had not previously remained neutral to join the actions and further spread the messages, ensuring that the online spread of propaganda evolved into offline social action.

On April 13th, Kittysshelly, a Beijing netizen, took a national flag and nationalist posters to the front of Carrefour in Baishiqiao and protested against the statements of the French government. This was the first sign of cyber protests evolving into social actions. Later, the Chinghua Sheimu BBS Community announced a plan “to spread red over China”, intending to “let the French know that we know what you are doing”. Not many people supported the speech,³⁶ a netizen indicated, “I will not propagate the boycott of Carrefour or any other French products; I don’t even think it will help. However, when all of us refuse to shop in Carrefour at the same time, i.e., May 1st, and let the French government understand our attitude, the purpose will be achieved”. About the same period, several places in China, like Qingdao, Xuzhou, Zhengzhou, Wuhan, Xian, Shenzhen, Kunming, and Anhui, appeared the protest, boycott, and demonstration against Carrefour. The online boycott had turned into real offline actions.³⁷ The event resulted in tremendous drop of consumers in Carrefour that, started from April 20th, some of them temporarily closed with the reason of “maintenance and renewal”.³⁸

4.3. Crisis Intervention of Carrefour

On 16th April 2008, the Carrefour Group authorized Carrefour China to clarify their standing on Tibet. They stated, “as a transnational company with more than 500-thousand employees and sites in over 20 countries, Carrefour always aims to promote economic and social development. Carrefour Group has never, and will not, harm the feelings of Chinese people. The news about the Carrefour Group supporting individual non-governmental organizations was fabricated out of nothing, and Carrefour will retain the legal right to sue the organization or individual who spread the malicious rumours. The Carrefour Group has always supported the 2008 Beijing Olympics and has created several supporting activities with the French Advocates. At this moment, Carrefour branches in Beijing are actively preparing for the coming of the Olympics; and, as the legal advisor to Beijing International Business, Carrefour sincerely wishes the success of the 2008 Beijing Olympics. The president of the Carrefour Group and the chief executive of Carrefour (China) would be honoured to witness the historic event that is the opening ceremony of the Beijing Olympics”.³⁹

In addition to denying support for the Tibetan Independence movement, and expressing support for the Beijing Olympics, Carrefour relayed its anger about the Olympic Flame relay being obstructed; urgently communicating its sincerity with China's Ministry of Commerce. These actions led to the Chinese government attempting to calm the protesting crowd by banning searches for Carrefour, and advertising Carrefour's price reductions.⁴⁰

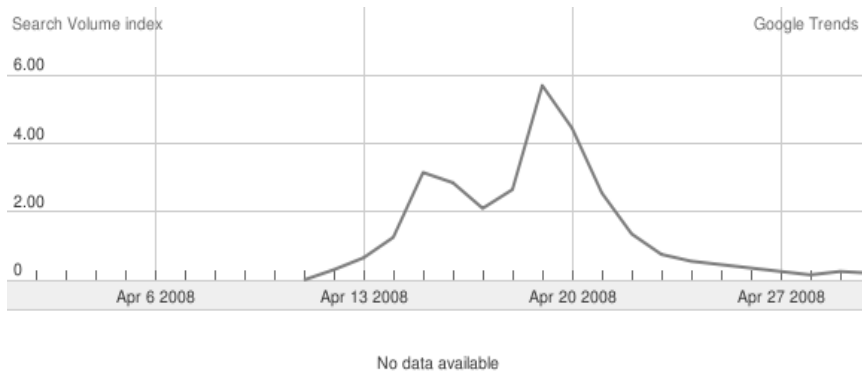
4.4. The Diplomatic Behaviour and Attitude of the French Government: The Victory of Boycott?

In order to appease the feelings of anti-French and anti-Carrefour protestors, the French government had the French ambassador in China stress their support for the Beijing Olympics, their unchanged policy on China, and their unquestioned support for China's sovereignty in Tibet.⁴¹ Furthermore, Christian Poncelet, the chairman of the French senate, arrived in Shanghai on April 21st to visit Chin Ching, the disabled athlete who was hurt in the Olympic Flame relay in Paris, and passed on a letter from Nicolas Paul Stéphane Sarközy de Nagy-Bocsa. Following the visit, Chin Ching appealed to citizens to end the boycott of Carrefour.⁴² On April 23rd, Jean-Pierre Raffarin, the former president of France, arrived in Beijing and again emphasized the French understanding of the feelings of Chinese people, but did not agree that boycott was an appropriate action. He insisted on the friendship between the two countries and invited Chinese netizens to visit his blog, so as to appease the feelings of the Chinese citizens.⁴³ These actions are in stark contrast to France's earlier behaviour, which saw Dominique de Villepin referring to Chinese "suppression" in Tibet, Nicolas Paul Stéphane Sarközy de Nagy-Bocsa claiming "the possibility of boycotting the Beijing Olympics" on March 25th,⁴⁴ and the French City Council declaring the "Dalai Lama to be an honorary citizen of Paris" on April 21st.⁴⁵

4.5. The Rationale of the Chinese Government and the End Result: Signs of a Smart Power Strategy?

Jiang Yu, China's Foreign Ministry spokeswoman indicated on April 15th that the boycott by the netizens in China was a case of "Chinese people expressing their opinion that the French government should rethink their actions. I believe that Chinese people should instead legally express their appeal".⁴⁶ At the same time, the Chinese government appealed to citizens to calm down and turn their anger into strength for the cause of economic development.⁴⁷ Xinhua News Agency and the *People's Daily* published articles, such as "Patriotic passion should turn into rationality", "Transforming patriotism into devotion to the nation", and "How can patriotism become more powerful?".⁴⁸ Hu Jintao

Figure 1 The Word “Anti-Carrefour” Appearing on Google in April 2008



Source: Google Trends.

became concerned about the passion of nationalism becoming unmanageable and forbade students joining in the demonstrations.⁴⁹ China’s Ministry of Commerce first issued a declaration regarding the Anti-Carrefour Incident on April 22nd, stating “We welcome Carrefour’s declared opposition of Independence in Tibet and their support of the Beijing Olympics”.⁵⁰ Words related to the Anti-Carrefour Incident, such as “Carrefour”, “France-China relationship”, and “Independence of Tibet”, were temporarily blocked by several online search engines, like Baidu, Google (China), and Yahoo (China), as shown in Figure 1. After the incident, words like “anti-Carrefour” returned to the search engines in China.⁵¹ However, messages and articles about the boycott on May 1st were censored by the Chinese government, resulting in a small turnout; with only a few hundred people appearing in front of Carrefour in a few cities, while some of the activists were arrested.⁵² As a whole, due to interference by the Chinese government, the boycott was reduced in significance, showing that government control measures had a significant effect on the cool-down.

5. Cyber Public Diplomacy as China’s Smart Power Strategy?

The 2008 Anti-Carrefour case provides a comprehensive illustration of the relationship between China’s New Media, public diplomacy, and smart power. In this incident the Chinese government first temporarily indulged free cyber speech, then later set the agenda, and finally took the lead in directing domestic public opinion by utilizing nationalism. It combined the above actions with the use of hard power in the form of secret diplomacy to set the agenda for international discourse and gain the support of world public opinion.

5.1. Government-led Public Diplomacy in China?

As indicated by Jiang Yu, the Foreign Ministry spokeswoman, there was a reason for the Anti-Carrefour Incident. The Chinese government considered the “Unrest in Tibet”⁵³ to be a domestic issue, with the “failure of the flame relay” being a case of the Tibetans seeking to gain support from the western media. This attempt proved to be successful with western news agencies subsequently giving support for Tibet, demonizing China, and criticizing the upcoming Beijing Olympics. The Chinese government understood that in order to counter this negative campaign, they would need to make use of the new media to seize the international discourse. This was done through the generation of the “Step out, welcome in” policy. China’s actions in this case complied with Potter’s earlier quoted definition that public diplomacy is the behaviour through which a government attempts to affect the opinions of people or elites from other countries, with the aim of generating favourable policy for the home country.

5.2. Cyber Actions and Public Diplomacy: The Inside-out Civil Discourse Power of China?

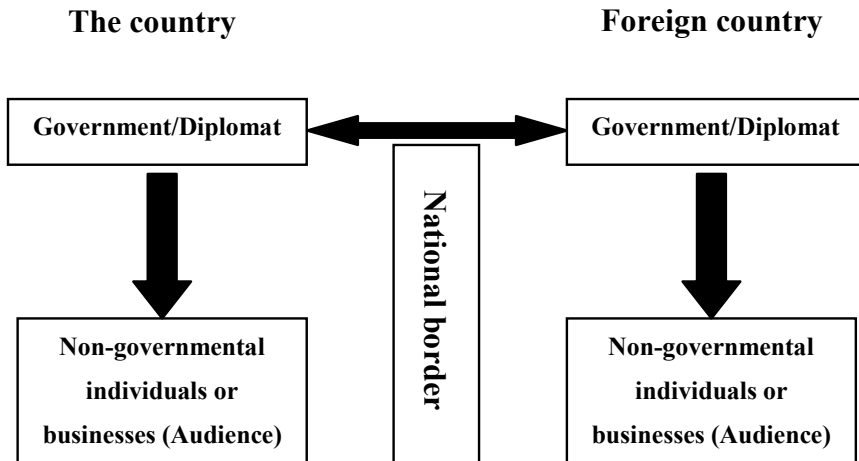
With the popularity and continued development of network information technology in China, concerned netizens could easily use this technology to appeal for citizens to boycott Carrefour. The technology meant that a small fight between domestic citizens and a foreign enterprise was turned into a diplomatic problem between China and France. Since the public diplomacy in this case was not restricted to the government, but featured citizens participating and interfering directly with foreign affairs, it complied with the description of public diplomacy given by Murrow and the US Advisory Commission on Public Diplomacy. As earlier mentioned, they both called for expanding public diplomacy to allow dialogues between non-governmental organizations and individuals. The digital era has enabled the development of a 5th type of diplomacy outside of Manheim’s 1994 classifications; that is of people to government.

In the case of the Anti-Carrefour Incident, the Internet provided citizens with a cheap and fast method to interact with citizens from other countries (along with their governments, and non-governmental organizations). Once the media received foreign information, people could obtain the message from local newspapers, radio stations, or television news reports. If traditional press was the only media in the country, the citizens might have had less opportunity to find foreign information or directly communicate with the netizens of other countries proving that New Media has gradually broken through information restrictions. The application of New Media allows individuals to lead and

participate in activities; no longer leaving them as passive observers in transnational exchanges. The netizens in China directly spread their message through cyber space, through both BBS and net community forums, and other tools such as mobile text messages; placing pressure on both Carrefour and the Chinese government, and leading to direct diplomatic negotiations. In that respect it proved true Kittyshelly’s declaration that “the boycott is being held to let the French government know our anger”. It also proved the statement of Fisher and Bröckerhoff that in spite of the complexity of the definition and the name of public diplomacy, the key was the objective of “influence”.

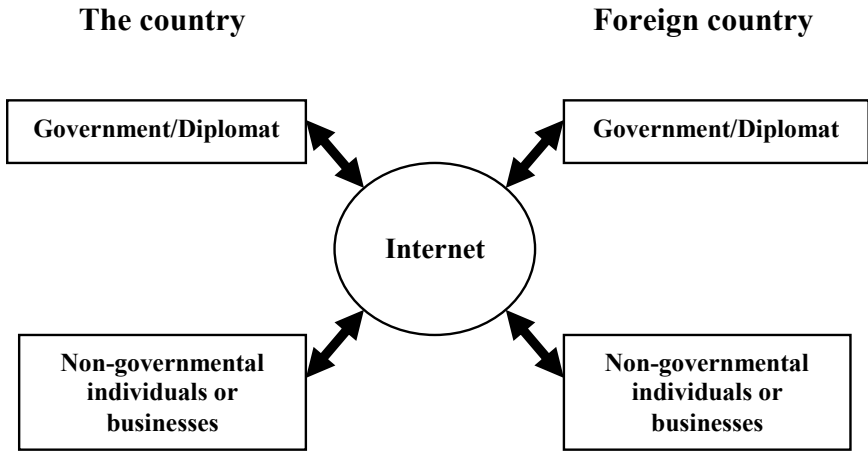
Diplomatic negotiations in the globalized digital age are not simply closed negotiations between diplomats; foreign affairs are no longer only the domain of diplomats (referring to the comparison between Figure 2 and Figure 3). With the tool, skills, and “channels” created by New Media, everyone shares the opportunity to be involved, discuss, and participate in foreign affairs, proving the civil discourse power of the Internet. The public participation enabled by the Internet does not only impact domestic affairs, but also allows citizens to get involved in foreign affairs. The involvement of citizens through New Media is considered to be the grassroots movement of cyber activism.⁵⁴ It departs from the traditional model of government to government diplomacy, and allows for people to non-governmental organizations (Carrefour), and citizen to government (France); both models that were not included in Manheim’s original description of diplomacy, as seen in Figure 4.

Figure 2 Traditional Diplomacy Model: Government-to-Government, Diplomat-to-Diplomat



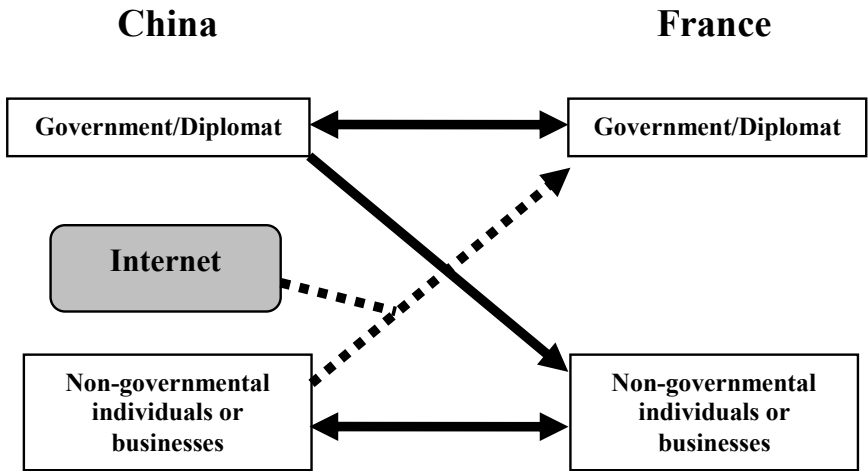
Source: Compiled by the author.

Figure 3 The Ideal Model of Cyber Public Diplomacy



Source: Constructed by the author.

Figure 4 “Citizen-to-Government” Model Appeared in 2008 Anti-Carrefour Incident



Source: Constructed by the author.

5.3. Acquiescence of the Chinese Government in Anti-Carrefour Incident? Public Pressure or Strategy Oriented?

Xu Wu indicated that network technology could lead to more subversive power from the government than the traditional media society, with less freedom of information flow. Network information technology built a space for the growth and exchange of ideas between non-mainstream and non-governmental organizations that appeared in countries with high levels of nationalism or authoritarianism. People in mature democratic societies could introduce the function of democracy to their networks; while in immature democratic societies or authoritarian nations, the Internet and its organizational functions could be used as a tool for nationalist goals. Examples include the B92 station in Serbia, the Zapatistas revolution in Mexico, and the hikers in China,⁵⁵ along with the Anti-Carrefour Incident in China.

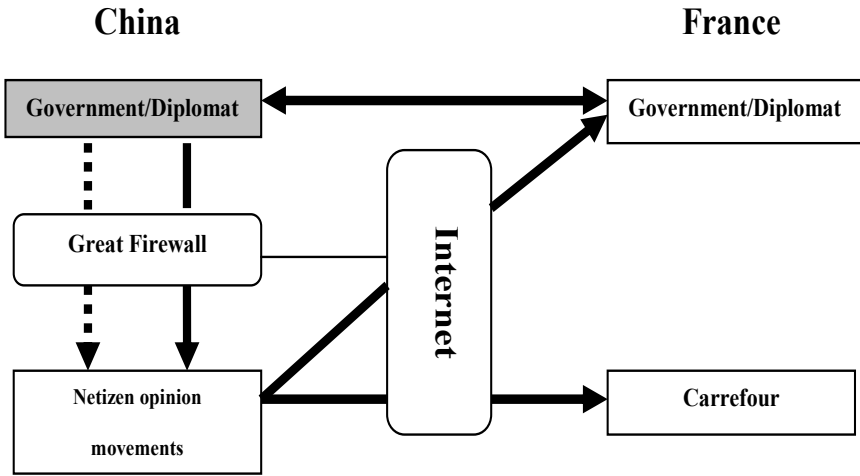
After the outbreak of SARS in 2003, the incidence of cyber news events in China and the subsequent public participation was gradually increased. The Chinese government understood the potential impact of New Media on political stability, but at the same time it also realized the importance of the Internet as a tool of public diplomacy and top down discourse power.

At the time of the Anti-Carrefour Incident, the reporting of the western media towards Tibet largely supported the Tibetan Independence movement and blamed the Chinese government for the unrest, with the French President Nicolas Paul Stéphane Sarközy de Nagy-Bocsa publicly considering “the possibility of boycotting the Beijing Olympics”. The negative reporting of western media caused the Chinese government to embrace a public diplomacy strategy aimed at increasing “overseas publicity”. This was done by “opening” up media freedom, including letting citizens post articles freely on the net and copy images from western reports, with the goal of evoking nationalist ideology in its citizens. The Chinese government, always aware of the importance of social control, realised that the cyber nationalism could get out of their control; but, it did not expect it to damage the relationship between China and France.

The 13-day “Boycott French products, Anti-Carrefour” actions were not controlled until the Chinese Ministry of Commerce declared, “We welcome Carrefour’s stance on the Independence of Tibet and their support for the Beijing Olympics”. Although the Chinese government appealed through both the Xinhua News Agency and the *People’s Daily* for citizens to calm down, China’s Foreign Ministry spokeswoman Jiang Yu betrayed China’s true position by stating “the Chinese people are expressing their personal opinion, and the French government should rethink their position”.

Zhao Jinjun, the former Chinese ambassador to France, visited France as Hu Jintao’s envoy from April 18th to April 22nd. On this trip Zhao

Figure 5 The Process of Anti-Carrefour Incident in China



Source: Constructed by the author.

met Nicolas Paul Stéphane Sarközy de Nagy-Bocsa, Christian Poncelet, the chairman of the French senate, and Jean-Pierre Raffarin, the former president, and passed a letter from Hu to Sarközy, in which the opinions about the relationship between China and France were exchanged.⁵⁶ This trip saw the French authorities respond by densely visiting China during the period April 21st-27th.

While the Chinese government was aware of the amicable relationship between France and Tibet, the Chinese government still expected the French government and related enterprises to appease the Anti-Carrefour Incident. Only when Carrefour claimed to be “against the Independence of Tibet” and the French government declared both “no question about China’s sovereignty of Tibet” and “support for the Beijing Olympics” would the Chinese government attempt to control Chinese netizens (This process is shown in Figure 5). The purpose of this stance was to emphasize that the problems in Tibet were an internal affair of China, preserve the face of the nation, and to successfully promote the Beijing Olympics. The Chinese government could have utilized control methods to keep the amicable relationship with France at an early stage, but instead it chose to allow its citizens to use the new media and public diplomacy to build grassroots nationalism. In other words, the allowing of free speech and public participation for Chinese citizens was a tool for implementing the Chinese government’s soft power diplomacy strategy.

5.4. The Effectiveness of the Chinese Government's Soft Power Strategy of Cyber Public Diplomacy

In the highlighted case-study, the Chinese government temporarily indulged free cyber speech at first; utilizing nationalist passion to guide domestic public opinion with pre-set objectives. They then used their hard power of secret diplomacy to force the French government to soften their stance, so as to seize the discourse power and counter negative global public opinion. To some extent, China can be said to have used the diplomatic strategy of smart power, which is the integration of both soft and hard power. While Nye proposed the promotion of soft power with “public diplomacy” and the integration of soft and hard power, the application of public diplomacy to generate soft power still required an understanding of credibility, self-criticism, and civil society from the government.

In the information era, media is no longer limited to newspapers, broadcasters, or television; the emergence of New Media has led to the rise of public diplomacy globally. The academic world used to consider the Chinese government and the media as having a vertically subordinate relationship with the government controlling and affecting the development of the media through various political and economic means, including both systematic and non-systematic governing. This form of “mouthpiece” media⁵⁷ was supposed to serve the government’s interests by correctly guiding public opinion, and thus enhancing political, societal and economic stability.⁵⁸ Essentially it was argued that the Chinese government utilized the media to censor international public opinion or cover up the truth (public opinion), and further import the government’s core ideology on the populace. Unfortunately this model still resonates in China, with the closed nature of the Chinese media meaning that the “soft power” tool of public diplomacy is still guided by the government, meaning that the motivation and effectiveness of Chinese netizens actions are constantly questioned abroad.

To this date, several key media agencies in China remain controlled by the government, meaning mouthpiece propagation still exists. While the emergence of the cyber communication media has made public participation an important channel for public opinion, the Chinese government still tries to control society through measures such as establishing a network examination system. They have further instituted the Great Firewall of China (GFC), which “administratively interferes”⁵⁹, blocks, or remove any “unhealthy” information, requiring self-censorship and self-regulation⁶⁰ by netizens. An example of this censorship was given during the Anti-Carrefour Incident, with the Chinese government blocking key words so that the online “flowing space” was obstructed.

The continued control by the Chinese government of Chinese cyberspace meant that the western media constantly questioned the authenticity of

Chinese netizens' actions, and continued to "demonize China". To date, the Chinese government still does not appear strong enough to accept external criticism and thus continues to restrain the development of its domestic civil society through measures such as the GFC. The current situation in China is representative of Nye's statement that "the best advertisement does not guarantee the most popular product", in that China's claims on embracing an open new media has not been met by real action.⁶¹

Similar to Nye's idea, Fisher and Bröckerhoff proposed that "the attraction or consumption of any culture does not necessarily benefit its soft power".⁶² While China's soft power campaign has attempted to promote a positive national image, the ongoing censorship in China has meant that the success of this campaign is reduced. Looking at the example of the Chinese government stating that new media was connecting the world, while foreigners could obtain an increased amount of information through China-authorized media (in English), people were still doubting the credibility of the information owing to China's continued guidance and control of its own public opinion.

Even though China is continuously pursuing its soft power diplomacy strategy, it has still not done enough to overcome negative western public opinion. Instead, during the Anti-Carrefour incident, the friendly attitude and relationship between France and Tibet, alongside questions of "reliability" of the Chinese government went against China's strategy. With only a limited amount of soft power at its disposal, it is questioned whether the Chinese government can fully integrate hard power to become smart power. It appears the only way to fully achieve this result is to relax the central control of the media to make for "real" public diplomacy and allow netizens to freely "influence" international public opinion. After all, genuine soft power should be generated from society and non-governmental organizations, not simply by the government.

6. Conclusion

The information society of the digital era has allowed increases in transmission speed, increases in convenience, and reductions of cost. These effects of the new communication networks have effectively shrunk the world and are leading to the development of a global village.⁶³ In the 1990s, any criticism of China by US programmes would see the news censored inside China. Now, with the increased flow of information that came with economic growth in China, its citizens are capable of consuming and utilizing New Media so that the power of the cyber community cannot be neglected. Cyber public participation has gradually emerged in authoritarian China.

Based on the account of China's soft power public diplomacy in the case of the 2008 Anti-Carrefour Incident, this study analyzes public diplomacy

from the aspect of both the government and the citizens (non-governmental organizations or individuals) in China's international relations. The key findings are shown as below.

1. The public participation by Chinese citizens through the Internet is not limited to domestic issues; citizens have used the New Media to generate public opinion and become directly involved in foreign affairs. Furthermore this was not a simple "grassroots movement" but a "public expansion of power" that highlighted the potential of cyber public opinion and the ignored fifth attribute of diplomacy in citizens-to-government (Chinese-French). In other words, through the tools provided by the New Media, everyone has the opportunity to get involved in, discuss, and participate in foreign affairs in the digital era. This is the so called "cyber public diplomacy" mentioned in this study.
2. With the active cyber community forums in Chinese society, the government utilizes tools such as the GFC to "administratively interfere", censor, and remove "unhealthy" information and websites, thus ensuring that public opinion does not impact sensitive issues. This form of cyber control obstructs the online "flowing space". China needs to understand that if it expects to promote active public diplomacy, it needs to ensure that both the government and the citizens share the same ideology. After all, real soft power diplomacy should be generated from the society and non-governmental organizations rather than the government.
3. The guiding of public diplomacy by the Chinese government has created a wide audience, and allowed the government to set the agenda through utilizing the centralized mass media. This has enabled China to eliminate the adverse balance of soft power, thus allowing the government to rebuild the national image, and reduce negative opinion created by the China Threat Theory. It can therefore be seen that the government, to some extent, has achieved the objective of creating a smart power strategy.
4. A smart power strategy of Chinese public diplomacy has been formed, but the synergy needs further observation. In recent years, China has worked hard to eliminate the adverse balance of soft power with western governments through policies such as "Step out, welcome in". These have helped China to change from a strategy of traditional diplomacy using hard power, force, and secret negotiations, to a new strategy of public diplomacy utilizing the media and its citizens. In the included case-study, it can be seen that the soft power of envoy diplomacy and cyber public diplomacy, was aided by the hard power of secret diplomacy, forcing the French government and its enterprises to make a declaration that would be favourable to China. However the supportive attitude of western media

towards Tibet could still not be overcome, leading westerners to continue to criticise the actions of the Chinese government. In other words, China's soft power is still not significant enough to allow the creation of true smart power.

Owing to its model of authoritarianism, the leading of public opinion by the Chinese government is still apparent to western academics who criticize the lack of a citizen diplomatic body, the autonomous international dialogues, and the continued spin and manipulation of the government.⁶⁴ If the Chinese government can further open up the media, reform its governance model, reinforce self-criticism, listen to the western media, and promote "reliability" in its domestic media, it will allow the development of true smart power that will enable the government to eliminate the adverse balance of soft power.

Notes

- * Po-chi Chen 陳柏奇 is a PhD candidate at the Graduate Institute of Political Economy, National Cheng Kung University, Taiwan. Chen obtained his BA in Economics from Soochow University (2003) and his MBA in China Studies from Tamkang University (2005). His research interests include institutional economics, Internet politics, regional political economy and China studies. <Email: u1896102@mail.ncku.edu.tw>
- 1. Please refer to Nye (2004).
- 2. The term Smart Power first appeared here. After the September 11 attacks, Nossel proposed that to resist terrorism the US government should use new tools and forms of diplomacy.
- 3. Please refer to Joseph S. Nye, "Think Again: Soft Power", *Foreign Policy*, February 23, 2006. <http://www.foreignpolicy.com/articles/2006/02/22/think_again_soft_power> Nye (2008: 94-109). Melissen (2007: 3-27)
- 4. Quoted from Pu (2009: 37). Please refer to Snow and Taylor (2009) or USIA website: <<http://www.publicdiplomacy.org/1.htm>>
- 5. Please refer to Potter (2003: 43-64) or Leonard (2002: 1)
- 6. Decision of Central Committee of the Communist Party of China on the major issues of constructing the harmonic society in socialism, *Xinhua net*, October 18th, 2006. <http://news.xinhuanet.com/politics/2006-10/18/content_5218639.htm>
- 7. An-gang Hu 胡鞍鋼, Harmony is a hard truth which has become the major soft power of China, *People's Daily Online*, 13th October 2006. <<http://politics.people.com.cn/GB/1026/4916604.html>>
- 8. The study will look at two aspects of discourse power. (A) It will seek to understand whether Chinese citizens could have complete freedom of speech for public participation, so that it could become a tool for Chinese government to implement diplomatic strategies (gaining power); (B) It will seek to understand how the Chinese government, with international discourse power, constructs the

strategies to acquire the power for leading the international public opinion from the high ground.

9. Please refer to Kurlantzick (2007). This book states how China utilizes the soft power of support, trade, and investment to ease the doubt of developing countries towards economic development in China, particularly to retain bilateral amicable relations with the countries of Southeast Asia, Africa, and Latin America.
10. Regarding the discussions about the rising of China, the role of China internationally, and the opinions of the international towards China, please refer to: Scott (2007).
11. Early in 1941, Mei-ling Song 宋美齡, representing the KMT government, gifted the USA with a pair of pandas for giving relief to Chinese refugees. It was the first Panda Diplomacy in modern history. Please refer to “Panda Dance” implication of Chinese diplomacy trend, *People’s Daily Online*, 5th December 2009. <<http://world.people.com.cn/BIG5/10518452.html>>
12. It refers to the Ping Pong Exchange between China and the USA in 1971. Please refer to “Ping Pong Diplomacy” between China and the USA, *People’s Daily Online*, 6th December 2003. <<http://www.people.com.cn/GB/shizheng/8198/30781/30784/2231841.html>>
13. Please refer to Huntington (1998: 20-21).
14. Peaceful Evolution refers to the western values of human rights and democratization being imported to Chinese society from European countries and the USA, expecting to replace the Chinese socialism strategies with capitalism.
15. Please refer to Zhao (1997: 6-24).
16. An important announcement of the general secretary, Ze-min Jiang 江澤民 in national conference on publicizing China overseas, *People’s Daily*, 27th February 1999, p. 1.
17. Please refer to the Introduction of the website of the State Council Information Office. <<http://www.scio.gov.cn/>>
18. *The 23rd Statistical Report on Internet Development in China*, China Internet Network Information Center, January 2009. <<http://www.cnnic.net.cn/index/0E/00/11/index.htm>>
19. Bin Shu 舒斌 and Chong-Lang Wang 王重浪, Top News Web—The power to develop upward, *Internet Communications*, 1, 2004. <<http://media.people.com.cn/BIG5/22114/46419/46420/3302778.html>>
20. *The 26th Statistical Report on Internet Development in China*, China Internet network Information Center, July 2010. <<http://research.cnnic.cn/html/1279173730d2350.html>>
21. *2009 Q1 China Internet Audience Measurement Data*, Data Center of China Internet, April 2009. <<http://www.dcci.com.cn/List/2009jidu/2.htm>>
22. Sorted from the *20th, 23rd, and 25th Statistical Report on Internet Development in China*. Please refer to China Internet network Information Center. <<http://research.cnnic.cn/>>
23. People Search is a tool in which information searches are undertaken by netizens. In a famous Internet incident in 2007, the netizens discovered the name, address, working place, and telephone number of the persons involved and publishing them online.

24. The investigation of Huanan tigers: The late truth, *People's Daily Online*, 1st July 2008. <<http://society.people.com.cn/BIG5/8217/106495/106496/index.html>>
25. Regarding the discussions of civil society in China, please refer to: Heberer (2008: 87-104).
26. Studies on nationalism are regarded as “terminological jungles” or “terminological chaos”. Please refer to Akzin (1964: 7-10) and Connor (1994: 89). This study does not attempt to sort the various definitions of nationalism, but simply applies this general concept to the analysis of emerging network public diplomacy. In other words, Patriotism, Populism, or Racism could be generalized as a part of nationalism which is the group consciousness or the emotional manifestation derived from identity.
27. Established in 1959, Carrefour is the largest hypermarket group in Europe. The first store was opened in France in 1963. Having merged with Promodes in 1999, it became the largest retailer in Europe and the second largest in the world. Presently, there are more than 11,000 stores in 29 countries around the world; the major management contains Super-Hypermarket, Hypermarket, and Discount Stores.
28. Please refer to “Western Media are giving us a lecture,” *CCTV.COM* (English), 29th April 2008, <<http://www.cctv.com/english/20080429/107405.shtml>> and “76 people sentenced in the 314 incident in Tibet”, *Southern Weekly*, 11th February 2009. <<http://www.infzm.com/content/23499>>
29. Patriotic parade of Chinese people against the dependence of Tibet, *Xinhua net*, 14th April 2008. <http://big5.xinhuanet.com/gate/big5/news.xinhuanet.com/overseas/2008-04/14/content_7970922.htm>
30. The Olympic torch stopped in Paris, netizens argues to boycott French products, *Xinhua net*, 14th April 2008. <http://news.xinhuanet.com/fortune/2008-04/14/content_7974019.htm>
31. Regarding the reports on China during the application for Olympics, the analysis is based on the account of Sun (2009: 41-83).
32. “Strategy of Netizens towards Carrefour, protest emerges everywhere”, *Daqi*, browsed on 29th September 2010. <http://shehui.daqi.com/feature_269242_1_index.html>
33. “An unimaginable boycott”, *SINA*, 29th April 2008. <<http://magazine.sina.com/bg/newtimesweekly/2008013/2008-04-29/ba51903.html>>
34. The government media such as the *People's Daily*, *Southern Weekly*, and *China Youth Daily* attempted to calm public opinion and avoid the expansion of irrational nationalism. For example, “Is it wise to boycott Carrefour? Netizens call on rational patriotism”, *China news*, April 2008, browsed on 29th September 2010. <http://www.china.com.cn/city/node_7043152.htm>; “Yan-song Bai 白岩松 opposes boycott of Carrefour as it is a kind of internal conflict”, *Xinhua net*, 16th April 2008. <http://news.xinhuanet.com/newmedia/2008-04/16/content_7985521.htm>
35. “Strategy of netizen towards Carrefour, protest emerges everywhere”, *Daqi*, browsed on 29th September 2010. <http://shehui.daqi.com/feature_269242_1_index.html>

36. “Trace of netizens boycotting French products: Several Carrefour stores appear rapid declination of customer flow”, *People’s Daily Online*, 21st April 2008. <<http://finance.people.com.cn/GB/7142889.html>>
37. “Aiming at boycott, Carrefour announces supporting Olympics, not supporting illegal organizations”, *People’s Daily Online*, 16th April 2008. <<http://society.people.com.cn/GB/7128887.html>>
38. “The executives of Carrefour communicate with Department of Commerce about boycott”, *People’s Daily Online*, 17th April 2008. <<http://politics.people.com.cn/BIG5/1026/7131886.html>>
39. “Embassy of France: It is malfeasant and meaningless to boycott Carrefour”, *SINA*, 17th April 2008. <<http://news.sina.com.cn/c/2008-04-17/102215375180.shtml>>
40. “About Sarkozy 薩科齊 expressing sympathy for Jing Jin 金晶”, *Xinhua net*, 22nd April 2008. <http://news.xinhuanet.com/politics/2008-04/22/content_8028768.htm>
41. Please refer to “The rage of China, have France be nervous”, *Xinhua net*, 24th April 2008. <http://news.xinhuanet.com/world/2008-04/24/content_8040444.htm>; “French presidential envoy Raffarin 拉法藍 invites Chinese netizens browsing the blog”, *Xinhua net*, 27th April 2008. <http://news.xinhuanet.com/world/2008-04/27/content_8060896.htm>
42. “Ministry of Foreign Affairs responds to Sarkozy’s speech about boycotting Peking Olympics”, *SINA*, 27th March 2008. <<http://news.sina.com.cn/c/2008-03-27/022615232228.shtml>>
43. “Paris honors Dalai Lama of honor resident”, *BBC Chinese*, 7th June 2008. <http://news.bbc.co.uk/chinese/trad/hi/newsid_8080000/newsid_8088200/8088266.stm>
44. “Yu Jiang 姜瑜: France should reflect towards Chinese citizens and emotions”, *Xinhua net*, 15th April 2008. <http://news.xinhuanet.com/newscenter/2008-04/15/content_7981786.htm>
45. “China tends to cool down patriotism”, *BBC Chinese*, 18th April 2008. <http://news.bbc.co.uk/chinese/simp/hi/newsid_7350000/newsid_7355400/7355487.stm>
46. “Chinese people continuously demonstrate against France”, *BBC Chinese*, 20th April 2008. <http://news.bbc.co.uk/chinese/simp/hi/newsid_7350000/newsid_7357000/7357098.stm>
47. “Jin-tao Hu 胡錦濤 prohibits students participating in anti-France movement”, *China Times*, 19th April 2008, pp. A13.
48. “Department of Commerce declares the stands on crowds boycotting Carrefour”, *Xinhua net*, 22nd April 2008. <http://news.xinhuanet.com/newscenter/2008-04/22/content_8031090.htm>
49. “Keyword ‘Carrefour’ goes back to search engines”, *Jinghua Times*, 4th May 2008. <<http://2008.163.com/08/0504/19/4B4E3FLC00742LB9.html>>
50. “China stops protest movement towards Carrefour”, *Financial Times Chinese*, 4th May 2008. <<http://www.ftchinese.com/story/001019078>>
51. It refers to Tibetans demanding self-government of Tibet with the Dalai Lama demanding that the Chinese government provide Tibet with freedom of politics, religion, and speech, stops violating human rights in Tibet, does not

- migrate citizens to Tibet, and stops nuclear tests and the dumping of nuclear waste in Tibet.
52. The network community in this study is regarded as online blogs, websites, or various virtual communities. For more definitions of network community and virtual community, please refer to Holmes (2005). For example, the establishment of Anti-CNN is a new forum applying the mistake or distorting reports of CNN on Tibet riots. One of the famous songs popular among Chinese networks is "Don't be too CNN". In fact, the original business access website (such as China BBS) or "patriotic" forums (like Powerful Country BBS on *People's Daily Online*) have become hotbeds of nationalism.
 53. Please refer to McCaughey and Ayers (2003).
 54. "Present the diplomacy: The envoy of Jin-tao Hu stabilizes China-France relations", *Asia Times*, 24th April 2008. <http://www.atchinese.com/index.php?option=com_content&view=article&id=49139&catid=189%3A2009-03-19-06-15-48&Itemid=90>
 55. Four major media in China: China Central Television (CCTV), China Radio International (CRI), Xinhua News Agency, and *China Daily*.
 56. Regarding the discussions, please refer to Liu (1971), Lee (1990), Lee (2001), Zhao (1998), Lynch (1999), and Pei (1994).
 57. Such administrative intervention mainly comes from Publicity Department, the Ministry of Public Security (cyber police), and Ministry of Industry and Information Technology.
 58. Regarding the regulation and the policy of network in China, please refer to: Harwit and Clark (2006: 12-41).
 59. Please refer to Xi-guang Li 李希光 and Kang Liu 劉康 *et al.* (1996), *Behind the Demonization of China*, Peking: China Social Sciences Press; "Why does CNN demonize China?", *Xinhua net*, 20th April 2008. <http://news.xinhuanet.com/world/2008-04/20/content_8013031.htm>
 60. Please refer to Qing-lian He 何清漣 (2006), Fog blocks China: The secret of Mainland China controlling the media, Taipei: Liming; "The international promotion of China, western media doubt the effectiveness", *Oushinet*, 5th July 2010. <<http://france.oushinet.com/172-570-78389.xhtml>>
 61. Regarding the discussions of globalization, informationization, and social movement, please refer to Castells (2000: 88-109).
 62. Regarding the explanations of public diplomacy, please refer to: Brown (2002: 40-50).
 63. Regarding the discussions of globalization, informatization, and social movement, please refer to Castells (2000: 88-109).
 64. Regarding the explanations of public diplomacy, please refer to: Brown (2002:40-50).

References

- Akzin, Benjamin (1964), *State and Nation*, London: Hutchinson, pp. 7-10.
- Brown, Robin (2002), "Information Operations, Public Diplomacy & Spin: The United States & the Politics of Perception Management," *Journal of Information Warfare*, Vol. 1, No. 3, pp. 40-50.

- Castells, Manuel (2000), *The Power of Identity*, Oxford: Blackwell, pp. 88-109.
- Cohen, Yoel (1986), *Media Diplomacy: The Foreign Office in the Mass Communications Age*, New York: Routledge.
- Connor, Walker (1994), *Ethno-nationalism: The Quest for Understanding*, Princeton: Princeton University Press, p. 89.
- Dizard, Wilson (2001), *Digital Diplomacy: U.S. Foreign Policy in the Information Age*, New York: Praeger.
- Fisher, Ali and Aurélie Bröckerhoff (2008), *Options for Influence: Global Campaigns of Persuasion in the New Worlds of Public Diplomacy*, London: Counterpoint, British Council, pp. 4-7.
- Han, Yong-hong 韓詠紅 (2009), The Prospect of Participating in Politics in front of and behind the Internet, *NFC Magazine*, October 24th. <<http://www.nfcmag.com/articles/1726>>
- Harwit, Eric and Duncan Clark (2006), "Government Policy and Political Control over China's Internet," in Jens Damm and Simona Thomas (eds), *Chinese Cyberspaces: Technological Changes and Political Effects*, New York: Routledge, pp. 12-41.
- Heberer, Thomas (2008), "China: Creating Civil-Society Structures Top-Down?" in Bruno Jobert and Beate Kohler-Koch (eds), *Changing Images of Civil Society*, New York: Routledge, pp. 87-104.
- Holmes, David (2005), *Communication Theory: Media, Technology and Society*, London: Sage Publications, Ch. 6.
- Hu, An-gang 胡鞍鋼 and Xiao-qun Zhang 張曉群 (2004), "The Empirical Analysis of the Rapid Rise of Chinese Media," *Strategy and Management*, Vol. 3, pp. 24-34.
- Hung, Chin-Fu 洪敬富 and Po-Chi Chen 陳柏奇 (2009), "The Governance of China in the Globalized Network Era: From SARS to Poisonous Milk Incident", *Zhan Lue (Strategy)*, Vol. 2, pp. 165-166.
- Huntington, Samuel (1998), *The Clash of Civilizations and the Remaking World Order*, New York: Simon & Schuster, pp. 20-21.
- Jowett, Garth S. and Victoria O'Donnell (1999), *Propaganda and Persuasion*, London: Sage, pp. 1-35.
- Kurlantzick, Joshua (2007), *Charm Offensive: How China's Soft Power is Transforming the World*, New York: Yale University.
- Lee, Chin-Chuan (1990), *Voices of China: The Interplay of Politics and Journalism*, New York and London: The Guilford Press.
- Lee, Chin-Chuan (ed.) (2001), *Power, Money, and Media: Communication Patterns and Bureaucratic Control in Cultural China*, Evanston, Ill.: Northwestern University Press.
- Leonard, Mark (2002), *Public Policy*, London: Foreign Policy Centre, pp. 1, 8-21.
- Li, Xin-de 李新德 (2004), "The First Person of Non-governmental Public Opinion", *SINA*, 18th August. <<http://news.sina.com.cn/c/2004-08-18/13074066091.shtml>>
- Liu, Alan P. L. (1971), *Communications and National Integration in Communist China*, Berkeley: University of California Press.
- Lynch, Daniel C. (1999), *After the Propaganda State: Media, Politics, and "Thought Work" in Reformed China*, Stanford, CA: Stanford University Press.
- Manheim, Jarol B. (1994) *Strategic Public Diplomacy and American Foreign Policy: The Evolution of Influence*, New York: Oxford, pp. 3-4.

- McCaughey, Martha and Michael D. Ayers (2003), *Cyber-activism: Online Activism in Theory and Practice*, New York: Routledge.
- Melissen, Jan (2007), *The New Public Diplomacy: Soft Power in International Relations*, London: Palgrave, pp. 3-27.
- Nossel, Suzanne (2004), "Smart Power", *Foreign Affairs*, Vol. 83, No. 2, pp. 131-142.
- Nye, Joseph S. (2004), *Soft Power: The Means to Success in World Politics*, New York: Public Affairs, pp. 2, 11.
- Nye, Joseph S. (2008), "Public Diplomacy and Soft Power," *The ANNALS of the American Academy of Political and Social Science*, Vol. 616, No. 1, pp. 94-109.
- Pei, Minxin (1994), *From Reform to Revolution: The Demise of Communism in China and the Soviet Union*, Cambridge, Mass. and London: Harvard University Press, Chapter 5.
- Potter, Evan H. (2003), "Canada and the New Public Diplomacy," *International Journal*, Vol. 58, No. 1, pp. 43-64.
- Pu, Zheng-min 卜正珉 (2009), *Public Diplomacy*, Taipei: Asian Culture, pp. 37.
- Rawnsley, Gary D. (2000), *Taiwan's Informal Diplomacy and Propaganda*, New York: Palgrave.
- Scott, David (2007), *China Stands Up: The PRC and the International System*, New York: Routledge.
- Snow, Edgar (1968), *Red Star over China: The Classic Account of the Birth of Chinese Communism*, New York: Grove.
- Snow, Nancy and Phillip M. Taylor (2009), *Public Diplomacy*, New York: Routledge.
- Sun, You-zhong 孫有中 (2009), *Decoding Chinese Image: The Comparison of Reports on China from The New York Times and The Times (1993-2002)*, Beijing: Wap Book, pp. 41-83.
- Wu, Xu 吳旭 (2007), *Chinese Cyber Nationalism: Evolution, Characteristics, and Implications*, New York: Lexington Books, pp.153.
- Wu, Xu (2010), "Reversing the Unfavorable Balance of Soft Power to Build a Chinese Dream", *Public Diplomacy Quarterly* (Beijing), Vol. 2. <http://big5.china.com.cn/international/zhuanti/2010-06/02/content_20169996.htm>
- Xiao, Quan-Zheng 蕭全政 (2004), "A study on China's Peaceful Rise", *Political Science Review*, Vol. 22, pp. 2.
- Zhao, Jian-min 趙建民 (1997), "The Political Movement in China: An Example of Anti-peaceful Evolution", *Mainland China Studies*, Vol. 40, No. 6, pp. 6-24.
- Zhao, Yuezhi (1998), *Media, Market, and Democracy in China: Between the Party Line and the Bottom Line*, Urbana: University of Illinois Press.
- Zhong, Long-biao 鍾龍彪 and Jun Wang 王俊 (2006), "The Evolution of Public Diplomacy in China: The Content and the Style", *Foreign Affairs Review (Peking)*, Vol. 89, pp. 64.



Book Reviews



Book Review

Biwu Zhang, *Chinese Perceptions of the U.S.: An Exploration of China's Foreign Policy Motivations*, Lanham, Maryland: Lexington Books, 2012, 266 pp. + xvi.

Most writings in the English language tend to look at modern China from a Western point of view. There is an excessive focus on those aspects of China that play either to Western strengths or Western fears. The former dwell on the shortcomings of China such as its poor human rights record and its oppressive political system. They also predict that if China were ever to modernize, it has to become more Western. The latter emphasize the China threat, that the rise of China will challenge Western global hegemony. There has however in recent time some attempts not so much to give a Chinese perspective but to give something of a corrective to some of these views. We have a book on China by Henry Kissinger which came out in 2011. Kissinger argues that China is singular or unique, and does not see China as a threat. Another one, published in 2009 and updated in 2012, is by Martin Jacques, a British public intellectual, which is provocatively titled *When China Rules the World*. Among other things, Jacques argues that when China modernizes, it will not necessarily become more Western. These last two are worthy efforts. What is needed however is a study on what the Chinese themselves actually think of world affairs.

The above book is such a one. Written by a Chinese, it gives a Chinese perspective of, in this case, America. The author, Zhang Biwu 张苾芜, an academic in a reputable Chinese University, Xiamen University, sets out to find what the influential elites of China think of the United States and Sino-American relations. The methodology he employs is an analysis of the content of certain selected publications, described in the academic jargon as "content analysis". For this, Zhang analyses articles in six journals on these two subjects written between 1991 and 2000. These journals are *Meiguo Yanjiu* 美国研究 (American Studies), *Xiandai Guoji Guanxi* 现代国际关系 (Contemporary International Relations), *Guoji Wenti Yanjiu* 国际问题研究 (International Political Studies), *Zhanlüe yu Guanli* 战略与管理 (Strategy and Management), *Shijie Jingji yu Zhengzhi* 世界经济与政治 (World Economy and Politics), and *Waijiao Xueyuan Xuebao* 外交学院学报 (Journal of the Foreign Affairs College). Each of these journals is affiliated with one of China's top foreign policy research institutes. These institutes reflect the perceptions of China's foreign ministry and other influential Chinese organizations.

The book seeks to answer the question as to what are the motivations of Chinese foreign policy *vis-à-vis* the United States. Here the author divides the question into two parts. The first, and the more important part, is how the elites perceive Chinese national interests to be, and second, how they perceive the character of the United States. As to the former, the elites first perceive US power to be superior to China in all important aspects. The US economy is much larger; American science and technology are decades ahead; and US military equipment compared to that of China are several generations in advance. American superiority is also seen even in soft power. Such overwhelming superiority has affected Chinese national interests negatively, as it has allowed the US to interfere in the internal affairs of China. For example, US power stands in the way of Chinese reunification with Taiwan, and the US pushing of human rights nearly caused complete chaos in China. China then being so inferior, according to these elites, should practice a policy of appeasement and cooperation with the US unless US interference is of an intolerable kind.

There are however some positive elements. The elites acknowledge that the US commitment to peace and to an engagement policy has ensured a peaceful environment for China. America's vast market, its investment in China and its occasional transfer of technology all help China in its modernization efforts. In addition, US assistance facilitated Chinese entry into the world community and China's status as a world power.

As to the second part, the author states that the dominant Chinese images of the US have been of three kinds, imperialist, degenerate and partner. The imperialist image had been one of the most persistent and salient Chinese image of the US. It ran all the way from the late 19th century to the 1990s. The degenerate image was particularly prevalent during the Maoist period when the US was seen to be a paper tiger. Scholars then tried to put this degenerate image within Marxist terms likening the US to be in the last legs of capitalism. The author does not think such Marxist rationalization to be convincing. And indeed, the degenerate image gave way to the partner image, an image which became dominant in the 1990s, the period of study of this book. This is especially so in the economic arena where Chinese scholars agree that Chinese-US relations is mutually beneficial though asymmetrical. China is more dependent on the US than the US on China. However, cooperation on the security front is seen as not so strong. The Chinese scholars see cooperation as one of the management of conflict rather than the stronger one of mutual need against a common enemy as during the Cold War.

The elites also see the US as a kind of a model. As an economic model, the US is worthy of emulation and the model in this respect is prevalent, strong and explicit. It is more mixed in the political front where the Chinese accept the merits of democracy. Democracy works well in the US, and

that convergence towards the US model should be the direction of Chinese political reform. But few advocate immediate and unconditional acceptance of the US political model.

Zhang's book is a good, systematic study of elite Chinese opinion of the US. Books such as this rarely come by in the English language though it is actually based on a doctorate thesis from the Department of Political Science in Ohio State University. As such it reads like a thesis. Questions however arise. Is Zhang's study overtaken by events? Because of the fast moving nature of Sino-American relations, a study based on perceptions in the 1990s to 2000 may not be totally valid for the years from 2001 to 2012. China in 1990 was not that significant a factor in the world economy but is the second largest economy in the world at the end of the decade of 2000. This together with its remarkable economic prowess in the last decade are increasingly seen by American as a threat to their economic well being. Will this lead to a change in the perception of the Chinese elites of a benign American attitude towards China's economic development? Will the perceived decline in the opinion of many in the world of America just after the Iraq war of 2003, so soon after the American unipolar moment, be that also of these elites? What about the Global Financial Crisis of 2008? Will this affect the Chinese perception of the superiority of the economic model of the US? I suspect it will. All these questions aside, this is a book worth reading.

Dr Lee Poh Ping
Senior Research Fellow
Institute of China Studies
University of Malaya, Malaysia

Dr Lee Poh Ping 李保平 graduated with a Bachelor of Arts in History from University of Malaya in 1967, and received his PhD in Government from Cornell University, United States of America, in 1974. He was a professor and chairperson of the Division of Public Administration, Faculty of Economics and Administration, University of Malaya, from 1992 to 1997, and continued as a principal fellow at the Institute of Malaysian and International Studies (IKMAS), Universiti Kebangsaan Malaysia, from 1999 to 2009. Dr Lee was a member of the International House of Japan, and an international associate member of F.A.I.R. (Foundation of Advanced Information and Research) at the Institute of Fiscal and Monetary Policy, Ministry of Finance, Tokyo, Japan. He is also the former president and current patron of the Malaysian Association of Japanese Studies (MAJAS), and a senior research fellow at the Institute of China Studies, University of Malaya. For his dedication and contribution to create further understanding towards Japanese politics, economy, culture and social affairs, as one of his efforts to develop Japanese studies in Malaysia, Dr Lee was awarded The Order of the Rising Sun by His Majesty the Emperor of Japan in 2010. <Email: pohpinglee@um.edu.my, pohpinglee@yahoo.com>



Book Review

A.W. Callahan and E. Barabantseva (eds), *China Orders the World: Normative Soft Power and Foreign Policy*, Washington, D.C: Woodrow Wilson Press, 2011, 280 pp. + xiv

This is a very rich opus which presents us with a complex discussion of the relationship between China's historical ideas and China's foreign policy. The book comes out during the time of China taking a high profile in international affairs. President Hu's "Harmonious World" pronouncements, and the Beijing-championed economic initiatives come from a different understanding of the world by China's foreign policy elite, which goes beyond merely being a *status quo* power, and implicitly challenge the Western-led international order. Therefore to understand China and its intentions, we must first look inside the country, and understand how China sees itself and the world, which is precisely what the book engages in. Based on a panel "Tradition and Modernity in China's Foreign Policy", which was a part of the launch conference for the British Inter-University China Centre, the edited volume features a collection of eight essays written by both Chinese and Western scholars who engage in Chinese philosophy and international relations. According to Callahan, one of the editors, the book strives to explain China's intellectual debates in the search for a post-Western world order and to raise new questions about a topic that is growing in importance.

The edited volume is thematically divided into three parts. The first part shows the richness of international relations theorizing in China and features three Chinese scholars invoking distinct Chinese conceptual themes to think about the world. In the second and the third parts, Western scholars analyze how the past and present are put together in Chinese discussions of domestic and international politics.

The first section of the book is perhaps the most interesting and innovative, and crosses the boundaries between philosophy and international relations. Zhao, Qin and Yan are not only distinguished scholars but also part of the policy-making elite in China, which makes their ideas even more pertinent. In their respective chapters, Zhao discusses the traditional Chinese concept of world governance, the "All under the Heaven" (*tianxia* 天下), Qin ponders the possibility of a Chinese school of international

relations theory, and Yan tries to explain the thought of the ancient Chinese philosopher Xunzi 荀子 from the perspective of international relations. Particularly intriguing is Zhao's essay in Chapter 2, where he argues that *tianxia* would provide a better alternative to the current anarchic international system, which is, according to him, not capable of solving global issues efficiently. Zhao's approach is also interesting from the methodology aspect; he shifts the attention to the international system, where only the solution to the world's problems can be found. Nevertheless, while Zhao discusses the nature of *tianxia* in detail, he is silent about how can it be achieved.

Many of the ideas invoked in the first section are further discussed in the later parts of the book. In Chapter 5, which is perhaps the most analytical one, Callahan critically discusses the Chinese concept of world governance, *tianxia*. After a meticulous interrogation of the geographical, psychological and institutional meanings of *tianxia*, he concludes that rather than a solution for the world, it is merely a new version of hegemony. In Chapter 6, Hughes argues that Chinese exceptionalism cannot be successful on its own, but only when it is combined with thought from other systems. In the remaining chapters, Kerr suggests an understanding of China's foreign policy based on the interactions between China and Islam; and Barabantseva draws upon insights from contemporary Chinese cinema to analyze how China negotiates its relationship with the world. Finally, in another absorbing essay, Billiard traces the re-emergence of traditional culture as well as Confucius in the official discourse in China. Through a careful examination of official documents, Billiard demonstrates how Confucius and his ideas have been increasingly drawn upon and whether the dynamics between Confucian rhetoric and Marxist orthodoxy in the official discourse can be sustained.

China Orders the World not only shows the richness of international relations theorizing in China, but also offers insights of how China perceives both itself and the world and how that impacts international relations. Although written mainly for political science scholars, the book is also rich in discussions of Chinese philosophy, and even culture. All chapters are meticulously researched and contain many useful references for future research. One of the themes alluded to by all contributors is the connection between China's past and the present, how both the past and Chinese philosophy inform China's present understanding of the world. Nevertheless, the diversity of the volume is also its weakness, as the chapters make an incoherent whole and some hardly engage with international relations at all. Fortunately, the introduction and the conclusion, both written by Callahan, wrap up nicely the themes discussed and make the diverse volume a bit

more consistent. All in all, the edited volume contains a very stimulating and diverse collection of essays and should be recommended to anyone attempting to understand the international relations of China.

Filip Viskupic
Department of Political Science
Lingnan University
Hong Kong

Filip Viskupic is an M.Phil. candidate at the Department of Political Science, Lingnan University, Hong Kong. He graduated with a BA Politics from the School of Oriental and African Studies, University of London. Filip's research interests include the international relations theory and the international relations of China. He enjoys traveling around Asia and likes to eat Chinese dumplings. <Email: *filipviskupic@ln.hk*>

International Journal of China Studies

Volume 3

Number 1

April 2012

ISSN 2180-3250

Articles

New Assertiveness and New Confidence?: How Does China Perceive Its Own Rise? – A Critical Discourse Analysis of the *People's Daily* Editorials and Commentaries on the 2008 Beijing Olympics

Weidong Zhang

1

Services Trade in China and India

Kwok Tong Soo

25

The Impact of ASEAN-China Free Trade Area Agreement on ASEAN's Manufacturing Industry

Mohamed Aslam

43

A Socio-Political Approach to Cultural Resurgence in Contemporary China: Case Study of the Approval of Traditional Festivals as Public Holidays

Qin Pang

79

Special Feature

Democracy, Globalization and the Future of History:

A Chinese Interview with Francis Fukuyama

Li Yitian, Chen Jiagang, Xue Xiaoyuan

and Lai Hairong (translator)

95

Book Review

Guoguang Wu and Helen Lansdowne, «Socialist China, Capitalist China: Social Tension and Political Adaptation under Economic Globalization»

reviewed by Tan Bee Piang

111



UNIVERSITY
OF MALAYA

Institute of China Studies



