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Brian Krusell
Dickinson College

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Professor Bova

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A specter is haunting America. It is not the specter of communism as Marx foretold, but rather a more subtle political economic system – state capitalism. This ideology is not a new idea, and it is certainly not foreign to American history. Alexander Hamilton, the 18th-century economist, was actually an adamant proponent of economic nationalism, as state capitalism was referred to during that time period. However, just as communism only became a true threat following its establishment by the Soviet Union, so now does state capitalism endanger the United States' primacy in the international system since its adoption by the People's Republic of China. The Beijing Consensus, as it has been termed, represents a direct assault on the values and goals of the liberal economic order and by association the Washington Consensus. These competing economic models will become a defining element of the twenty-first century and will overshadow the continuing threat of terrorism as the most pressing foreign policy challenge. The Beijing Consensus will develop over the next couple decades into an ideological binary that may cause conflict and protectionism between pro-neoliberal governments led by the United States, and pro-state capitalist nations led by China. However, by about the middle of the twenty-first century, the Beijing Consensus is bound to fail because of an array of misplaced incentives and vulnerability to changing populist pressures in China, thereby countering the acceptance of state capitalism worldwide.

The World in the 21st Century

State capitalism has emerged as a competing economic ideology in the era of globalization, a period characterized by a monumental increase in the ability of ideas, people, and businesses to traverse the globe. This trend has propelled many non-Western countries into the limelight. Leading the emergence of newly rich countries is the People's Republic of China (PRC). The PRC's exponential GDP growth, averaging just under ten percent per year, has been based on the authoritarian government's initiatives and goal of stability through state intervention. The undeniable success of the Chinese has become a central factor in the debate about whether or not the United States is in relative decline. Projections that China will overtake the United States in economic might during the next century are contingent upon current trends, but central to the discussion is the issue of economic ideology. China's ability to reject many of the Western economic and social principles such as the need for democracy and reliance on Smith's conception of the "invisible hand" challenges American soft power worldwide. In particular, the recent financial crisis has become a litmus test for evaluating the merits of China's statist model in the context of globalization.

Prior to examining the advantages and disadvantages of the Beijing Consensus, it is essential to understand the core tenets and practices of each model and the international economic system as a whole. Free market capitalism gained popular support following World War II with the Bretton Woods agreements. The United States established a world economic system built on so-called 'liberal values,' namely free trade and exchange rate stability. The leading developed powers hoped that this improved system would avoid another Great Depression by making economic success a common goal.[i] During the 1970s, Milton Friedman and his cohort of Monetarists revolutionized American economic thought with their complete rejection of Keynesian government involvement.[ii] The Monetarists argued, "the pursuit of society's greater good… was upheld by the pursuit of liberty and freedom for the individual."[iii] As the Monetarists gained policy predominance, they extended their ideas to international institutions, especially the World Bank and IMF.[iv] Collectively, this adaptation to an exportable version spawned the term Washington Consensus in 1989 by John Williamson.[v] In 1982 it gained its first case study in the developing world to combat the Latin American debt crisis.

These countries were pressured to reduce government inefficiencies by focusing on privatization, fiscal discipline and deregulation.[vi] Despite the mixed results of these structural adjustment programs, many still praised the Washington Consensus and its economic foundation. To use the words of Francis Fukuyama, liberal democratic capitalism had ushered in the "end of history" because it was "the political-economic system that satisfied mankind's basic want for both a say in the political process and the opportunity to get rich."[vii]

State capitalism refutes the argument that the most stable, resilient, and prosperous system lacks any government interference. In contrast, by definition state capitalism is "a system in which the state plays the role of leading economic actor and uses markets primarily for political gain."[viii] To use the language of Wen Jiabao, the Premier and economic leader of China, state capitalism is superior because it is able to "ensure that both the visible hand and invisible hand are given full play in regulating the market forces."[ix] It is this proclivity toward political involvement (the visible hand) that challenges the theory of liberal democratic capitalist systems most directly. Governments that practice state capitalism value a strong state because of its ability to generate social cohesion, protect the national sovereignty, and place human development as the foremost priority.[x] For a country such as China, these objectives trump Western countries' priorities such as democratic reform and human rights. While the Politburo has adopted some liberal market doctrines such as protection of private property and privatization,[xi] these market reforms have been achieved without democratization. Additionally, Chinese leaders have established their economy with a focus on "equality and harmony in the process of development" and a sense of self-reliance and separation from other countries and international institutions.[xii] The current supreme leader of China, Hu Jintao articulates these nationalistic sentiments well – "we must defend our national development interests while also maintaining our openness to the outside world."[xiii] The Beijing Consensus, named by Time magazine's Joshua Cooper Ramo,[xiv] is gaining notoriety but at this stage still lacks a cogent and exportable framework.

Positive performance

The Chinese state capitalist model has numerous positive characteristics that explain its attractiveness to developing and developed states alike, especially in light of the global economic recession. For instance, China has long boasted about the success of central planning for industrialization. The Communist Party argues that governments, not markets, can implement the necessary technology to convert from an agricultural to industrial economy.[xv] Many advocates of the model take an even broader approach to the issue of development, asserting in one case, "If the liberal economic order is to remain shared globally, it must rely on commitment emerging from within, not one imposed from without. The tenet of self-reliance within the Beijing Consensus can promote diversity in the liberal economic order, thereby complementing it."[xvi] After years of such heavy-handed economic impositions, much of the developing world is eager for this sort of diversity of thought to address their needs and problems.

Furthermore, another key benefit of state capitalism is speed. By directly injecting money into state-owned companies, banks, and infrastructure projects, China is able to direct immediate investment where it is most politically (and often economically) useful. This capacity has proven very necessary and useful given the challenges to China from the recent financial crisis. Despite China's heavy dependence on demand for their goods from the West, China has led the recovery largely due to rapid steps taken by the Chinese government to provide the guiding "visible hand." In another sense, Beijing has expanded the protectionist infant industry argument to the overall economy, contending that as a developing country, China deserves a chance to subsidize its economy to make it competitive with the developed world.

What's more, the Beijing Consensus is attractive because it does not require any sort of regime change,[xvii] which coincides with "Asian values" of stability. Whether or not "Asian values" truly exist, many Chinese have accepted an East West dichotomy and argue that a different style of government is required to match cultural disparities. The Beijing Consensus and its prescription for an efficient government with a mandate to run the economy connects well with these Asian, or at least "non-Western" sensibilities. Furthermore, the argument of superiority in the realm of stability has gained credence with the collapse of the market-driven economies from 2007 until the present. Author Ian Bremmer uses the metaphor of a firewall in his recent book *The End of Free Market Capitalism* to describe the ability of China, and state capitalism more generally, to withstand exterior shocks due to financial crises: "others had used national oil companies and sovereign wealth funds to build themselves a firewall – by amassing deep financial reserves, bailing out struggling domestic companies and banks, and investing abroad where crisis created opportunities."[xviii] To the chagrin of many leaders of these state capitalist nations, Washington and the West resorted to surprisingly high levels of state action,[xix] such as bailouts of firms that are 'too big to fail.' Having strayed so far toward neo-classical market glorification over the past decades and with the Washington Consensus, the United States is in a difficult position of not only repairing its economy, but also its image as a responsible economic leader of the world.

Difficulties and constraints

While the Beijing Consensus may be growing in popularity, it exhibits a plethora of disadvantages and constraints that will undoubtedly jeopardize its longevity. Critics of state capitalism have always pointed to the misplaced incentives inherent in the system. In particular, a leading argument is that leaders who practice state capitalism will always value preserving the regime or government above improving the prosperity of their citizens.[xx] So while one of the advantages of the Beijing Consensus is its ability to alleviate poverty on a grand scale, it is important to remember that this will always be secondary to retaining power. The motif of misplaced incentives extends further to the issue of innovation. The United States, and more open societies in general, remain the world leaders in technological advancement, most famously with companies such as Google, Apple, and Facebook.[xxi] Looking back into the history of China, economic historian Joel Mokyr highlights how the lack of political competition did not completely inhibit technological advancement, but "it did mean that one decision maker could deal it a mortal blow."[xxii] This issue connects directly to the incentive for the Chinese government to thwart technological advancement if it means a loss of control over the populace.

Even the argument that Chinese state capitalism reduces the shortsightedness problem of liberal economic societies does not hold up upon closer scrutiny. For one, party members have a similar incentive to seek short-term goals in order to move up to positions of higher power. Also, since politicians are charged with interfering with the economy, this arrangement breeds corruption. Special interest groups can take advantage of the lack of restraints, unless China begins to incorporate more democratic institutions, which would undermine the ideals of the Beijing Consensus.[xxiii] Moreover, this susceptibility to corruption is likely to lead to protectionism, an argument that free market believers can use to denigrate the Chinese statist model. Specifically, this motivation toward protectionism is caused by a lack of transparency (especially between government and business leaders) and the fact that government officials feel the obligation to cater to important businesses or industries.[xxiv] The line between business and politics is nearly nonexistent in many cases in China, and it is this characteristic which will likely lead to crippling levels of corruption and inefficiency.

The Chinese economic miracle produced by the Beijing Consensus is also inherently at risk because of the prospect of populist uprising. Chinese leaders are cognizant of the growing number of 'civil disturbances,' and are constantly fearful of another large-scale uprising like that in 1989 at Tiananmen Square. The state capitalist model is mainly to blame because of its contradiction of giving the Chinese people more rights as consumers, but withholding political rights, which becomes more difficult to sustain as incomes rise.[xxv] Furthermore, the Chinese argument for superiority is weakened because of its legitimacy constraint. The Communist Party, having not been popularly elected, is dependent upon economic performance to justify its leadership position. This situation has worked well for them in the past, but it is precarious. For one, income inequality in China is a looming threat to social stability and faith in the Chinese ruling party. As one author notes, "Chinese city dwellers are now earning three and a half times as much as their fellow citizens in the countryside, the highest urban-rural income gap in the world."[xxvi] The Beijing Consensus's reliance on export-growth comes with the disadvantage of making some citizens much wealthier than others. In the case of China, it is those from the Eastern coast who have benefited since 90% of China's exports originate from there.[xxvii] Complicating the inequitable economic situation is the potential that China may hit the so-called "middle-income trap -- a situation that often arises when a country's per-capita GDP reaches the range of $3,000 to $8,000, the economy stops growing, income inequality increases, and social conflicts erupt."[xxviii] The Beijing model, although admired for its ability to produce wealth, lacks measures to combat these potential conflicts, besides the use of state force, which would undoubtedly compromise economic progress.

In addition, populist pressures are also closely linked to state capitalist methods because of the lack of individual rights and opportunity. The Chinese often lack the right to safe working conditions, labor unions, or freedom of speech and search on the Internet. While these rights may be accounted for by the CCP as luxuries, ordinary Chinese citizens may begin to seek these luxuries as their incomes rise. State capitalism cannot compare with the ability of free markets to empower virtually anyone.[xxix] The Chinese government's attempts to use "pain relievers"[xxx] or preemptive programs to help the poor are more a sign of weakness than an example of effective governing. The trend toward more social disorder and dissatisfaction reflects the overall inability of state capitalism to place the interests of its citizens first.

Finally, from a logistical and theoretical perspective, the potential for the spread of state capitalism as an ideology is restricted because, as author Ian Bremmer directly explains, "State capitalism is less a coherent political philosophy than a set of management techniques."[xxxi] Bremmer insists that since state capitalism does not have a worldwide cause, like combating injustice, its followers will be largely fragmented. States like China and Russia, even though they both value the ability to place state profits above societal prosperity, will nevertheless be less inclined to cooperate since it would require a reduction in state sovereignty. In fact, many of the states who are current or potential followers of the Beijing Consensus are actually natural rivals since they often depend on energy and natural resource markets.[xxxii] Collectively, the misguided incentives, possibility of rebellion, and difficulty forming coalitions account for a considerable level of constraint on the Beijing Consensus in the twenty-first century.

Signs of Strength

The Beijing Consensus may be a new term in the lexicon of world affairs, but its ideas and manifestations have already begun to reshape the world order. China has entered a new era, distinct from Deng Xiaoping's strategic advice to "conceal brilliance and cultivate internal strength."[xxxiii] In contrast, China has become a preeminent leader of the developing world and candidate for replication. The PRC has even made efforts to connect with other rising developing countries like Brazil and India. All three of these countries "perceive their national interests as tied to exporting a variation of 'the developmental state' as a new model."[xxxiv] However, the Beijing Consensus, and its advice of postponing democracy in order to create a scenario of effective state intervention in the economy, is arguably the most compelling and established. Furthermore, while the United States and other Western powers refuse to interact with dangerous or unstable states, the PRC fills the void. China has also been able to manifest itself as a development giant because of its neglect of human rights. Many of these other developing states favor the lack of conditionalities from the Chinese, other than acknowledgement of the "one China" policy.[xxxv] For the Beijing Consensus to expand to a level that threatens the hegemony of the United States, both China and the model must continue expanding and creating results in the developing world.

China's immense, strained and imbalanced ties with the United States have also exhibited the potential effects of the Beijing Consensus. Although China appears to value international relationships (based on their extensive trading), the foundation of state capitalism demands that leaders act in ways that promote sovereignty before other goals. This issue is perfectly demonstrated by China's recent efforts to create an alternative reserve currency. One author aptly notes that the Chinese have revolutionized the Beijing Consensus from basically "an alternative development model to a new economic order by adding currency arrangements to it."[xxxvi] By challenging the liberal economic order's faith in the U.S. dollar as the world's stable currency, the Chinese government is basically challenging the United States government's right and ability to lead the global economy. Beijing's strategy connects to the motives of the Beijing

Consensus because a less dominant dollar would mean that the Chinese economy might finally be able to escape what Lawrence Summers calls the "financial balance of terror."[xxxvii] Authors of *The End of Influence* Stephen S. Cohen and Bradford DeLong rationalize the susceptibility from both the Chinese and American point of view when it comes to currency and debt: "If you owe the bank $1 million, the bank has you; if you owe $1 billion, you have the bank. The implication is that China, the biggest and most important holder of U.S. debt, is trapped into a strange, unwanted, and uncomfortable embrace with the indebted United States."[xxxviii] Therefore, it is perfectly logical that as a state capitalist-oriented country, the PRC would want to maximize its sovereignty by continuing to advocate for currency reform that serves their national interest better.

Two other manifestations of China's practice of state capitalism that cannot be ignored are their use of sovereign wealth funds (SWFs) and state-owned enterprises (SOEs). According to the Sovereign Wealth Fund Institute, a SWF is a "state-owned investment fund composed of financial assets such as stocks, bonds, real estate, or other financial instruments funded by foreign exchange assets."[xxxix] Although SWFs have existed for decades, they were named only recently in 2005, a sign of their growing significance as a component of state capitalism. China owns four of the largest ten SWFs, each with over $100 billion in assets.[xl] The United States does not have any similar federal fund, but several American states have established funds, making criticism of this practice more difficult. These funds' lack of transparency and regulation is a massive challenge for free market governments like the United States who desire the investment of these funds in their country's businesses. The secrecy of SWFs also creates the possibility that they may be instruments for achieving political goals.[xli]

On the other hand, SOEs are more obviously utilized as instruments for achieving political objectives. The Chinese government owns or controls a variety of "large strategic sectors, such as steel, aluminum, energy, transport, communications, and the banking system."[xlii] The Beijing Consensus claims that by managing these critical industries (especially the banking system), more harmony between state and business can be achieved, leading to greater civil prosperity and stronger government. Yet, like other instruments of state capitalism, SOEs exemplify both advantages and disadvantages. For example, by ceding jurisdiction to the state, these companies benefit with cheap finance, less fixation on share price, and even a helping hand from the government during negotiations. In contrast, the Chinese have also been forced to repeatedly overpay for foreign assets because of their vision of promoting their economic national interest with a lack of transparency. In the future, this trend could become a major constraint on the profitability of SOEs and state capitalism in general.[xliii] What's more, SOEs also face different incentives than their private sector counterparts because of potential political consequences for failing to advance state interests.[xliv] Both SWFs and SOEs are examples of the means by which the Beijing model of development functions and expands.

Conversely, China's struggle to create a quality patent system highlights a contradiction to this argument of state capitalism's success. Again, state involvement leads to a lack of effectiveness because of misplaced incentives. In this case, the Chinese government is basically attempting to create incentives for domestic innovation by rewarding individuals and companies for filing patents. For example, Chinese professors are enticed to file patents so that they have a better chance of gaining tenure, and Chinese companies that apply for many patents may receive a reduction in their corporate income tax.[xlv] The net result of such oversight is that the number of patents is growing, but the quality of these patents is poor. The fact that Thomson Reuters predicts that China will become "the world's largest publisher of patents next year," a potential bragging point for state capitalist believers, is off-set by the reality that "only a fifth of professionals working with patents…believed that Chinese patents were of high quality."[xlvi] So while communist China is unquestionably growing more powerful by using state capitalism, in practice there are serious constraints.

Reducing American primacy

While it is evident that the Beijing Consensus has already affected the world economy, it is still unclear to what extent "Chinese capitalism" will be able to overtake the American liberal economic order, leading to a reduction in American primacy. In order for the Beijing Consensus to generate a decrease in U.S. hegemony, China must not only maintain its unparalleled economic development, it must also convince developed and undeveloped countries alike that state capitalism trumps unfettered markets and democracy in producing stability and prosperity. Four large categories of analysis indicate that the Beijing Consensus does in fact pose a challenge to American authority, at least in the short-term. These categories of evidence are: China's reaction to the recent financial crisis, China's expansion of influence and business ties in the developing world, Chinese SOEs' trend of buying Western companies, and finally the PRC's dealings with international institutions.

Few would dispute the claim that the Beijing Consensus's attractiveness and viability were substantially enhanced by the American financial crisis. As competing models, the struggles of America's free-market system was seen throughout the world as a sign that perhaps the United States did not have the best solution for economic stability and growth. Chinese officials have used the insufficiency of free market regulation to argue that governments must be more involved in the economy to prevent such market failures. An article in the New York Times from June of 2008, after a meeting between top Chinese and American economic leaders noted, "American officials now say the Chinese are citing the failure to regulate subprime mortgages as a reason for not moving faster [toward financial sector liberalization]."[xlvii] The distinction between American acceptance of regulation of markets and Chinese confidence in actively guiding markets has become blurred now that Western governments have resorted to enormous Keynesian stimulus packages to restart their economies. Some criticize President Obama for not articulating the American free-market philosophy more coherently, to stand up to criticism led by the Chinese. For example, one author complained, "Unfortunately, Obama began his presidency by portraying large-scale government intervention in the U.S. economy more as an unwanted burden than a necessary evil."[xlviii] As a consequence of the financial crisis and lack of decisive action to return the liberal economy to its potential, China has been able to boast a far more vibrant economy and gain a greater voice in sharing concerns about America's market liberalism. After all, the 4-trillion-renminbi ($601 billion) stimulus package in China allowed the country to boost the world economy by an amazing 1.19 percent, given the far-reaching effect of the downturn.[xlix] In a sense, America's free market capitalism caused the recession, and China's state capitalism restored the world economy.

Additionally, there is also considerable evidence that the Beijing Consensus is gaining leverage based on Chinese involvement in the developing world. This front is particularly crucial for the Beijing Consensus because it is predominantly where the United States exported (or imposed) its Washington Consensus, with very limited success. Some experts even believe that developing countries may appreciate the Beijing Consensus for its "suggestion of an alternative power in the global political economy" rather than actual practical prescriptions.[l] Nevertheless, the Chinese have been engaging developing countries in Africa, South America, and the Middle East with much less compulsion, but similar promises of growth. So far, the results indicate that China's high levels of investment and demand for natural resources are causing long-awaited progress and, more importantly for the US, are leading to closer diplomatic relations. For example, China is now the leading trading partner of Saudi Arabia, one of America's closest allies in the Middle East. It is estimated that by 2030, China will import four-fifths of its oil consumption, a statistic that highlights the potential for commercial ties between the PRC and developing countries endowed with precious resources.[li] Furthermore, the Chinese have already encouraged many of these states to utilize state intervention in order to leverage national resources for maximum economic growth, an example of Chinese active guidance that could become more commonplace given the emergence of a Beijing Consensus.[lii] If China is successful in continuing to forge these ties within the developing world, it will lead not only to the desired growth for the Chinese economy, but also more exposure in the developing world to the practices and potential of the Beijing Consensus.

Given the expectation of increasing multi-polarity and "rise of the rest,"[liii] it will be ever more important that China create diplomatic alliances with other BRICI and G20 countries, if the hegemony of the United States is to be reduced. Many of these rising powers already value state-led development, but others are more skeptical of state capitalism. Therefore, China's ability to recruit or build partnerships with other practitioners of state capitalism is a factor in China's potential to dominate the developing regions with a new consensus. Russia has already shown a strong belief in state capitalism, but there is reason to believe that both China and Russia will have difficulty cooperating, and most certainly building an alternative "consensus" because each country values its sovereignty and national economic performance above any ideological goals. China has also demonstrated a keen interest in partnering with India, another rising economic giant in the region. An India-China alliance could certainly have balancing potential against the United States, but again is highly unlikely. China's Prime Minister Wen Jiabao recently visited India in an effort to forge closer diplomatic and commercial ties. The International Herald Tribune reported, "'From the Indian side, there has been a lot of suspicion of the strategic intentions of state-owned Chinese enterprises,' said Jonathan Holslag, a research fellow at the Brussels Institute of Contemporary China Studies. 'Over all, it has been very difficult for Chinese companies to get their share of the Indian market.'"[liv] China and India seem much more destined for competition rather than cooperation in the coming decades, in part because of China's aggressive state capitalist model for development. All in all, it is unlikely that the Beijing model will be effective as a unifying force among powerful states like China, India and Russia.

A leading indicator that the Chinese state capitalism model is thriving in the global economy is the prevailing success of Chinese state-owned enterprises (SOEs). A 2010 World Bank report found that the proportion of industrial production completed by SOEs increased relative to private production.[lv] In fact, the magnitude of SOE power and influence is perhaps best demonstrated by the fact that of the "100 largest publicly listed Chinese companies, all but one are majority state owned" as of this year.[lvi] Economists generally agree that this trend may be partially due to government stimulus during the financial crisis. However, as Western governments have found out in years past, it is often very difficult to scale back state involvement in the 'commanding heights.' Importantly, this lack of competitiveness on the part of private firms is not inherent, but rather generated by unequal assistance from the state in the form of access to financing from state banks, as well as stimulus and bailout money to deal with economic downturns.[lvii] As the Chinese maxim, "the state advances, the private sector retreats" implies, state capitalism discourages individuals from investing by creating what amounts to an uneven playing field.[lviii]

Many of these SOEs have not limited their control to their domestic economy. Rather, in accordance with the Beijing Consensus's goal of expansion, the latest trend involves the purchase of foreign (predominately Western) companies by Chinese firms. China's share of foreign direct investment, an indicator of economic ascendancy, is at six percent, and on the rise: "this year buyers based in China and Hong Kong have accounted for a tenth of global deals by value, including investments in oil and landmark takeovers in industry, such as Geely's purchase of Volvo, a Swedish carmaker."[lix] Given China's level of foreign currency reserves, this type of behavior is not only affordable, but also strategically sound. The Chinese Communist Party hopes to acquire more technical expertise, satiate its need for raw materials, and gain access to foreign markets.[lx] These three goals are common to many other countries besides China, so the fact that the PRC is in the position of buyer, and the United States and Europe are largely marked as sellers, indicates a conspicuous victory for state capitalism and its corresponding reward for foreign currency accumulation.

On the other hand, SOEs are not without drawbacks. Although SOEs are admired for their ability to expand operations and assets during an economic downturn, they are simultaneously being criticized and impeded. For example, Western firms and governments often resist advances by state-controlled firms. One famous case was the Chinese oil company CNOOC's attempted buyout of Unocal in 2005. In this case, American politicians thwarted the attempt by citing national security concerns.[lxi] This example reflects a much broader unwillingness and resistance to these agents of state capitalism, because free market societies also want to protect their sovereignty. Therefore, although SOEs may help the Chinese economy to grow, many other states, regardless of income levels, will likely be averse to their unfair advantages combined with far-reaching influence.

Finally, China's covert attempts to replace the American-led economic order with its own modified version are also evidenced by its dealings with existing and newly created institutions and networks. To some extent, the PRC values the stability that the Bretton Woods System (BWS) provides, choosing to work to advance the "traditional Westphalian conception of sovereign national economic development within the existing Bretton Woods system, rather than replacing it."[lxii] For example, China has become a key participant in the WTO since its controversial admittance in 2001. As of 2009, China is the world's leading exporter, and not coincidentally it was involved in half of the trade dispute claims brought to the WTO that year.[lxiii] In fact, China has revealed a new trend of developing countries' greater confidence and utilization of the dispute mechanism.[lxiv] This type of responsible behavior lends credence to the idea that China is slowly adjusting to accommodate Western values and practices.

However, there are still signs that the PRC is interested in significantly reshaping the global framework. For instance, Beijing has been forming regional networks like the Asian Development Bank and the Central Asian Regional Economic Cooperation, and organizing trade agreements within the ASEAN Free Trade Area, to create a niche where their ideas and philosophies can spread without Western impediments. These regional organizations are absolutely critical to the success or failure of the Beijing Consensus because they could serve as forums for debate and increasing the attractiveness of China's practices. To a large extent, the economic, diplomatic and even cultural primacy of the United States is in jeopardy because of China's progressive regionalism.

Looking long-term

Extrapolating China's future, and by association the future of the Beijing Consensus, beyond the next ten to twenty years is a formidable task, given the many uncertainties pertaining to China's rise. In particular, these uncertainties are generated by internal weaknesses such as the prospect for political and economic instability, as well as external vulnerabilities such as hard and soft balancing by other states. Several future scenarios are possible, ranging from continued stable growth to regime collapse and complete pandemonium. It is in the strategic best interests of the United States to investigate and coordinate responses to these potential situations. While it is beyond the scope of this paper to address all of the possibilities, this section will focus on four possibilities, in order to give a sense of what the US-China relationship may be characterized as in the future:

Scenario One: China will be the world's largest economy and new leader of the globalized economy, exporting its vision of a Beijing Consensus throughout the developing world. China's state-owned companies will be the wealthiest and most powerful, which will enrich the glorified PRC. The communist regime will have tremendous popular support for ending rural and urban poverty in China, although income-disparities will also be second to none. China will dominate its own newly created international organizations, which it created to replace the defunct American versions. Protectionism will threaten the harmony between the world's leading economic powers, but China will be buffered because of its immense domestic economy. The United States will be reduced to a second-tier economic power, refusing to adhere to the Beijing Consensus's goal of more state involvement in the economy. American leaders will avoid hard and soft balancing for fear of negative consequences on the American economy.

Scenario Two: China's economic nationalist strategy will lead to its emergence as the world's most powerful economy based on GDP, but GDP per capita will remain well below other developed countries, notably the United States. The PRC will survive several large-scale uprisings by spending huge amounts of state funds on development and social appeasement initiatives. China will be an active, but self-interested participant in many international organizations, and the efficacy of these groups will be limited by disagreements between the coalition of free market, democratic states and state capitalist, authoritarian nations. The United States will use soft balancing frequently as a tool to limit China's advances outside of the Far East. Both the United States and China will maintain regional hegemony through soft and hard power.

Scenario Three: China's leadership will liberalize economically and politically (abandoning the ideas of the Beijing Consensus) because of effective soft-balancing and international and domestic pressure for reform and transparency. China will discontinue expensive subsidies and cheap loans for companies, thereby reverting to market forces with high levels of regulation. China will develop its own version of democracy, by holding wide-scale local and regional elections, from which national leaders will be chosen. China's economic growth will slow to 4-5%, but social and economic stability will be more evident. China and the United States will cooperate to solve international issues and spread liberal economic reforms, but some competition will remain, especially over natural resources.

Scenario Four: China will implode. The corruption and social imbalances from state capitalist policies will lead to a grass-roots revolution that will overthrow the communist regime. The global economy will struggle as the world's second greatest economy enters a crisis. Influenced by American soft power, China will settle on a new semi-democratic government, which will institute market-driven economic reforms and work toward creating a Chinese Constitution. China will take decades to recover from the political and economic instability and the United

States will reacquire world primacy. A new era of unipolarity will exist, and state capitalism will be widely regarded as destabilizing and unfavorable.

In each of these scenarios, the success or failure of the Beijing Consensus is closely tied to the success of failure of China as a whole. This fact is not coincidental. After all, both of the criteria for the model's acceptance, a thriving national economy and influence abroad, also promote national success. It is evident that the first and last scenarios are not in the best interest of the United States and global stability in general, but fortunately these outcomes are also the least likely. Rather, by the midpoint of the century, the United States should hope to encounter either a powerful, but constrained state capitalist giant or a reformed, democratic and more sustainable China. Given the fact that in the long run, as a practitioner of economic nationalism, the PRC is prone to civil unrest and costly political miscalculations, the United States can anticipate a greater level of convergence to market-liberalism, but this must not be taken for granted.

Flexible response to a complex rival

The United States must continue to act to fulfill its self-interest, both by protecting and advocating for the liberal economic system, since this methodology has enabled the world to integrate and grow. Yet, as friction increases between the American liberal model and the Chinese statist model, the United States is best served by avoiding a static and comprehensive diplomatic stance. Instead, the United States must exploit its system's superior ability to innovate and reward creative thought, as well as generate international support. Countering China's diplomatic decisions, in a sort of defensive offense, can leverage these advantages. Such a policy is distinct from containment because it includes no deliberate efforts to thwart China's economic (or even diplomatic) rise, allowing China to function in a way that avoids war or protectionist flare-ups. It would be based on the “tit-for-tat strategy” in game theory, in that China will never be labeled as either friend or foe for more than one ‘round,’ but depending on China’s prior actions, the United States will act in a predictably appropriate (by international law) and reciprocal manner. The key to this arrangement is a reliable means of communication and consistency.

As of now, the Obama administration has adopted a dual strategy of overt engagement and covert hedging. However, as a special report by the *Economist* articulates, “In principle, the policy’s two tracks fit together well. Engagement is designed to reward good behaviour and hedging to deter bad. In practice, however, the hedge risks are undermining the engagement.”[lxv] This quandary is caused by the realist argument that no state can ever fully trust another state, especially when the words and actions of that state do not align. As this article points out, world hegemons, like the United States and potentially China in the future, have the power and ability to forgo international rules and norms. Therefore, it is impractical to believe that a peaceful transition of power from the U.S. to China within the existing international system is possible. As a result, the United States must be very cautious when using a strategy of engagement because, “The shadow overhanging America’s engagement policy is that China will not change enough to satisfy America, and America will not yield enough to satisfy China.”[lxvi] With two very different conceptions of how states should develop, satisfying each country’s envisioned future will require more communication, involvement and mediation by the international community.

The United States can also facilitate its hegemony and soft power by repairing strained relationships with countries in the developing world, especially those who have been adversely affected by the Washington Consensus. Furthermore, the United States must continue to invest throughout the world, especially in the fields of agricultural sustainability and renewable energies, which will be increasingly critical for development. Our government should continue to create incentives for companies to seek solutions for global warming and other international dilemmas. Despite pressure from the advances of state capitalist states like China, the United States is strategically compelled to provide a contrast with Beijing's willingness to overlook state values when conducting business. After all, part of the reason why the American model of liberal democratic capitalism has thrived is because states typically admire its practitioners as more altruistic and moral.

The future of state capitalism

Given the strength of the Chinese-led state capitalism movement, it is necessary that Westerners, as one South Korean journalist articulated, "embrace the Beijing Consensus into a more productive discourse."[lxvii] However, entertaining the notion of more government involvement does not imply that the United States or other Western allies should adopt state capitalist measures. State capitalism has reached a point in the hands of the People's Republic of China that it must be tested for its ability to provide *lasting prosperity and stability* against the backdrop of ongoing American and liberal economic advancement. The United States would be wasting valuable resources if it attempted to stop the spread of state capitalism in the developing world. America is far better suited to continue being a beacon of liberty, openness, and prosperity. The challenge posed by Chinese state capitalism to liberal markets democracies will come to define the diplomatic and economic dynamics of the international system throughout the twenty-first century, but as long as America stands by its ideals, it will remain the far more attractive destination for the world's tired, poor, huddled masses yearning to be free.[1]

[1] Reference to "The New Colossus" by Emma Lazarus located on the Statue of Liberty.

Notes

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[ii] Stefan Halper, *The Beijing consensus : how China's authoritarian model will dominate the twenty-first century.* (New York: Basic Books, 2010), 53-55.

[iii] Halper, *The Beijing consensus : how China's authoritarian model will dominate the twenty-first century,* 53.

[iv] Ibid., 53.

[v] Ibid., 57.

[vi] Seonjou, "A new world order with the Beijing Consensus."

[vii] Halper, *The Beijing consensus : how China's authoritarian model will dominate the twenty-first century,* 66.

[viii] Ian Bremmer, *The End of the Free Market: Who Wins the War Between States and Corporations?* (New York: Penguin Group, 2010), 33.

[ixix] Ibid.,129.

[x] Gregory Chin and Ramesh Thakur, "Will China Change the Rules of Global Order?" *The Washington Quarterly* 33, no. 4 (October 2010): 122, http://www.twq.com/10october/docs/10oct_Chin_Thakur.pdf (accessed December 17, 2010).

[xi] Yao, "The End of the Beijing Consensus: Can China's Model of Authoritarian Growth Survive?"

[xii] Seonjou, "A new world order with the Beijing Consensus."

[xiii] Chin and Thakur, "Will China Change the Rules of Global Order?" 121.

[xiv] Yang Yao, "The End of the Beijing Consensus: Can China's Model of Authoritarian Growth Survive?" *Foreign Affairs*, February 2, 2010, http://www.foreignaffairs.com/articles/65947/the-end-of-the-beijing-consensus?page=2 (accessed December 17, 2010).

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[xvi] Seonjou, "A new world order with the Beijing Consensus."

[xvii] Halper, *The Beijing consensus : how China's authoritarian model will dominate the twenty-first century,*128

[xviii] Bremmer, *The End of the Free Market: Who Wins the War Between States and Corporations?* 165.

[xix] Ibid.,164.

[xx] Ibid.,175.

[xxi] Freeland, "The dangers of a Beijing consensus."

[xxii] Joel Mokyr, *The Lever of Riches: technological creativity and economic progress* (New York:
Oxford University Press, 1990), 231, http://books.google.com/books?id=zo_8L4lT1z0C&printsec=frontcover&dq=The+lever+of+riches:+technological+creativity+and+economic+progress;+Joel+Mokyr&hl=en&src=bmrr&ei=gq8LTcyfEcL78AbxwLjUDQ&sa=X&oi=book_result&ct=result&resnum=1&ved=0CCYQ6AEwAA#v=onepage&q&f=false (accessed December 17, 2010).

[xxiii] Yao, "The End of the Beijing Consensus: Can China's Model of Authoritarian Growth Survive?"

[xxiv] Bremmer, *The End of the Free Market: Who Wins the War Between States and Corporations?* 160-161.

[xxv] Freeland, "The dangers of a Beijing consensus."

[xxvi] Yao, "The End of the Beijing Consensus: Can China's Model of Authoritarian Growth Survive?"

[xxvii] Ibid.

[xxviii] Ibid.

[xxix] Bremmer, *The End of the Free Market: Who Wins the War Between States and Corporations?* 175.
[xxx] Ibid.

[xxxi] Bremmer, *The End of the Free Market: Who Wins the War Between States and Corporations?* 172.

[xxxii] Ibid., 173.

[xxxiii] Chin and Thakur, "Will China Change the Rules of Global Order?" 121

[xxxiv] Ibid., 120

[xxxv] Ibid., 130.

[xxxvi] Seonjou, "A new world order with the Beijing Consensus."

[xxxvii] Stephen S. Cohen and J. Bradford DeLong, *The End of Influence: What Happens When Other Countries Have the Money* (New York: Basic Books, 2010), 25.

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[xxxix]"What is a SWF?" SWF Institute, http://www.swfinstitute.org/what-is-a-swf/ (accessed December 17, 2010).

[xl] Ibid.

[xli] Bremmer, *The End of the Free Market: Who Wins the War Between States and Corporations?* 167.

[xlii] Halper, *The Beijing consensus : how China's authoritarian model will dominate the twenty-first century,* 124.

[xliii]*The Economist*, "Being eaten by the dragon," November 13, 2010, 83.

[xliv] Ibid., 82.

[xlv] *The Economist*, "Patents, yes; ideas, maybe," October 16, 2010, 78.

[xlvi] Ibid.

[xlvii]Steven R. Weisman, "U.S. Tells China Subprime Woes Are No Reason to Keep Markets Closed," *The New York Times*, June 18, 2008, http://www.nytimes.com/2008/06/18/business/worldbusiness/18trade.html?_r=2&scp=9&sq=chinese%20officials%20criticize%20america%20financial%20crisis&st=cse (accessed December 17, 2010).

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[xlix]Alan Wheatley, "What's Next for China After Saving the World?" *The New York Times*, November 8, 2010, http://www.nytimes.com/2010/11/09/business/global/

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[l] Seonjou, "A new world order with the Beijing Consensus."

[li] *The Economist*, "Less biding and hiding," December 2, 2010, http://www.economist.com/node/17601475 (accessed December 17, 2010).

[lii] Chin and Thakur, "Will China Change the Rules of Global Order?" 125.

[liii] Fareed Zakaria, *The Post-American World* (New York: W. W. Norton and Company, 2009), 1.

[liv]Heather Timmons, "China Leader Calls on India to Be a Partner in Asia," *The New York Times*, December 15, 2010, http://www.nytimes.com/2010/12/16/business/global/ 16rupee.html?_r=1&adxnnl=1&ref=global-home&adxnnlx=1292425411-cvha5aEDvUag6ZYF7afIpQ (accessed December 17, 2010).

[lv] Michael Wines, "China Fortifies State Businesses to Fuel Growth," *The New York Times*, August 29, 2010, http://www.nytimes.com/2010/08/30/world/asia/ 30china.html?scp=1&sq=%22largest%20publicly%20listed%20Chinese%20companies,%20all %22&st=cse (accessed December 17, 2010).

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[lvii] Ibid.

[lviii] Ibid.

[lix] "Being eaten by the dragon," 81.

[lx] Ibid.

[lxi] Ibid.

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[lxvi] *The Economist*, "Friends, or else," December 2, 2010, http://www.economist.com/

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