
China's Challenge to the Global Economic Order

We know we have to play the game your way now but in ten years we will set the rules!

— Chinese ambassador to the World Trade Organization during China's negotiations to enter the institution

China has become a global economic superpower. It has the second largest national economy¹ and is the second largest exporter.² It has by far the world's largest current account surplus and foreign exchange reserves. Growth has averaged 10 percent for the past 30 years, the most stunning record in history. Real GDP in 2006 was about 13 times the level of 1978, when Deng Xiaoping initiated economic reforms.

A country must meet three criteria to be a global economic superpower. It must be large enough to significantly affect the world economy. It must be dynamic enough to contribute importantly to global growth. It must be sufficiently open to trade and capital flows to have a major impact on other countries.

Three economies now meet these criteria. The United States remains the largest national economy, the issuer of the world's key currency, and in most years the leading host (and home) country for foreign investment. The European Union is now the largest economic entity and the largest trader, even excluding commerce within its membership, and its euro increasingly competes with the dollar as a global currency.

China, however, is far more deeply integrated into the world economy than either of the other economic superpowers. Despite being a continental economy like both of them, and despite three decades of autarky prior to the 1978 reforms, trade accounts for more than twice as much of China's economy as it does for the United States or the European Union as a group. Hence China's dramatic expansion has a powerful effect on the rest of the world. It shared global growth leadership with the much larger United States during the record world expansion of 2004–07 and, with

Box 1.1 Other economic superpowers?

China is often paired with India in discussions of global economic superpowers, but there is no comparison between them at this time. India's GDP is less than half that of China's, and trade accounts for less than half as much of its overall economy. The annual growth in China's trade exceeds the total level of India's trade. China attracts more foreign direct investment each year than India has received in the 60 years since its independence. India is now developing dramatically and could start growing faster than China and is the most likely candidate to become the fourth global economic superpower in a decade or so, but China will totally dominate its Asian neighbor on all three of the key criteria for the foreseeable future.

Japan is the only other possible contender for global economic superpower status. There were indeed periods, in the 1980s and even into the early 1990s, when Japan appeared to be playing such a role. When the yen reached its peak in 1995, at about 80:1 against the dollar, Japan's total GDP was fully 80 percent that of the United States (despite a population that was less than half as large). The country's competitive prowess led to widespread perceptions of "Japan as Number One." But its trade and other economic transactions with the rest of the world remained relatively limited as a share of its economy, its financial markets never liberalized sufficiently to enable the yen to play an important international role, its economy collapsed for the entire decade of the 1990s, and its population is now declining. Japan has already lost to China its regional dominance and with it any pretensions to global leadership. Japan missed its moment.

the current US slowdown, has become the undisputed chief driver of world growth.³ (See box 1.1 on other contenders for economic superpower status.)

China poses a major challenge to the United States and the rest of the world simply by virtue of its status as a new global economic superpower. Such rising powers can disturb the existing international order and trigger security as well as economic conflicts. The most notorious cases are Germany in the late 19th century and Japan and Germany again in the early 20th century. There are, of course, more benign cases as well, notably the United States in the late 19th century and the European Union and Japan in the second half of the 20th century.

The challenge is vastly complicated in the case of contemporary China because it is a historically unique global economic superpower in three very important senses. It is still a poor country with per capita income of around \$3,000, less than 10 percent that of the European Union and United States. It is still a nonmarket economy—one in which the government makes major decisions on prices and allocating goods and resources—to

an important extent despite the dramatic marketization of the past three decades. In political terms, it is, of course, not yet a democracy—and perhaps its greatest challenge to the overall global system is its determination to become a successful high-income country without thorough reform of its authoritarian political system. All three elements reduce the likelihood that China will easily accept the systemic responsibilities that traditionally accompany superpower status, and they in fact lead some to conclude that acceptance of such responsibilities by China would not even be in the interest of the United States. The integration of China into the existing global economic order would in any event be a far more daunting effort than the integration of Japan from the early 1970s, difficult and still incomplete as that task has proved to be.

The challenge posed by China in security terms is less dramatic but still of great significance, as described in chapters 8 to 10. China has been expanding and modernizing its military capacity rapidly and, though it cannot yet match the United States on a global basis, its forces have become capable of much wider projection and will soon enable it to operate outside its region. The country's economic success is expanding its ability to support and deploy military assets with sufficient speed to alarm many of its neighbors and pose potential threats in ever-wider theaters. China, of course, remains a nuclear power with delivery systems that could reach at least some parts of the United States.

A third cluster of political issues is also part of the "China challenge" to existing international norms: nonproliferation, self-determination, human rights, labor standards, and others. International standards, with greater or lesser precision, exist in all these areas. As in the economic domain, China adheres to most of them in principle but often deviates in practice. China's challenge on these topics most frequently arises through its cooperation with countries that are violating the agreed international norms, such as Iran on nuclear proliferation or Burma on human rights, and thus undercuts the ability of the global order to address those problems effectively. Most fundamentally, "there is the strong possibility that China is trying to develop a new model of politics that it will call democratic but that will not include the elements of pluralism, contestation and direct elections that the U.S. regards as essential parts of democracy."⁴ Hence, "the China challenge" ranges well beyond the economic dimension, which is the focus of this chapter.

The Systemic Challenge

The revealed preference of the incumbent powers, in this case primarily the United States and the European Union in terms of the international economic order, is to seek to coopt the powerful newcomer into the global

regime that they have built and defended for a prolonged period. There are increasing signs, however, that China is not comfortable with the current international economic system. As described in chapter 2, both Chinese officials and scholars are actively discussing alternative structures in which China can be present at the creation and thus serve as a coequal partner in constructing the regime. As noted in chapter 3, China “not only wants to sit at the table but also be given a seat at the top.” Mark Leonard concludes that “The first thirty years of the People’s Republic reform program have been mainly about China joining the world . . . [while] the story of the next thirty years will be about how . . . China reaches out and shapes the world.”⁵ By early 2008, China was bold enough to publicly and harshly criticize the United States for its own shortcomings in managing the world economy, especially the failure of its regulatory regime to prevent the global financial crisis; the steady fall of the dollar, which was pushing up oil and other commodity prices; and its allegedly discriminatory rules against incoming foreign investments.⁶

In numerous areas of its economic interaction with other countries, China is now pursuing strategies that conflict with the norms, rules, and institutional arrangements that attempt to structure the global order. This can be viewed simply as the usual free-riding and skirting of responsibility by a powerful player, cleverly exploiting the gaping loopholes in and weak enforcement of existing international rules to pursue its perceived national interests. Moreover, China is hardly alone in deviating from the existing rules of the game. The United States and European Union themselves, the key architects of the current system and its putative defenders, clearly flout those norms on occasion even if they are usually careful to adhere to the letter of the law, as when the United States implements its antidumping rules in ways that violate the spirit (and even perhaps the letter) of the World Trade Organization (WTO) rules. Other major emerging-market economies, such as India and Brazil, also deviate from systemic purity from time to time.

As the powerful newcomer that jars existing economic and political relationships at a systemic level, however, China has a profound interest in the effectiveness of international rules and institutions. It should be seeking to fortify the robustness of the system, whether the present version or an alternative more to its liking, to prevent widespread economic conflict. This chapter attempts to develop a strategy for pursuing that objective that will be attractive to both China itself and the United States and that could therefore play a central role in both future US-China relations and global adjustment to “the China challenge.”

There is no evidence that China’s challenges to the current economic order derive from any cohesive, let alone comprehensive, strategy concocted by the political or even intellectual leadership of the country. It is certainly not based on any desire to restore Marxist or Communist

economic principles. Despite periodic calls for “a new international economic order,” each component seems to have emerged pragmatically within the individual issue-areas. To date, China’s alternative approaches have emerged de facto and piecemeal rather than across-the-board or even with explicit articulation. China’s recent behavior, however, compounds its size as a challenge to the existing world economic regime.

Like the United States and many other countries, China is experiencing considerable negative domestic reaction to its cooperation with other countries and international institutions on economic issues. The nearly universal backlash against globalization, responding mainly to the uneven distributional effects of that phenomenon, is clearly present in China and explains at least part of its current attitude toward the world economy. “New Left” intellectuals are vocal in their criticism of Western models of development and global cooperation as described in chapter 2. Their questioning of China’s present economic strategy pointedly includes its international dimension. A new round of internal debate on all these issues is planned for the post-Olympics period starting in late 2008.

The Chinese version of the backlash, as in most countries, has a unique national flavor. In China’s case, the Communist Party’s claim to continuing authoritarian power now rests primarily on its ability to maintain rapid economic growth. That growth, however, has spawned distributional and environmental consequences that have provoked widespread domestic protests against the Party’s leadership. Hence the government’s response addresses key elements of the present development model, including some of its international aspects, as well as political processes within the country. Economic nationalism is clearly on the rise in China, as manifest in portions of the new Anti-Monopoly Law and the government’s new supervisory role over mergers and acquisitions vis-à-vis foreign firms. China’s challenge to the world economy links directly to its core internal agenda and the debates over how it should proceed on a series of vital domestic issues.

Such a systemic challenge represents a worrisome evolution in China’s behavior over time. At the very outset of its reform process, in the late 1970s, China was eager to join (and to displace Taiwan in) the International Monetary Fund (IMF) and World Bank. These institutional ties subsequently played important, and apparently highly welcome, roles in China’s early development success. Subsequently, China not only endured a lengthy negotiation and ever-escalating set of requirements to join the WTO but proactively used the promarket rules of that institution to overcome domestic resistance to internal reform. It seemed quite willing to operate within the existing system until relatively recently. But the attitudes of countries can change dramatically with changes in their objective circumstances, and China appears to be undergoing a significant evolution in its attitude toward the global economic order as it recognizes its vastly increased capability to influence global events.

Trade

On trade, China has been playing at best a passive and at worst a disruptive role with respect to the global system. Its current account surplus in 2007 approximated 11 percent of its GDP. Its annual global surplus came in at \$372 billion and, even if it declines a bit in 2008, will still be by far the largest in the world. Its hoard of foreign currency exceeded \$1.8 trillion by mid-2008 and is by far the world's largest despite the continued low incomes of the Chinese population. These results are unprecedented for a major trading country and place substantial pressures on the global economy.

Moreover, these surpluses are generated to a large extent by China's massive intervention in the foreign exchange markets to prevent the needed appreciation of its currency, the renminbi. China has the right to peg its currency under IMF rules, but it does not have the right to intervene massively in the foreign exchange market, as it has for the past five years, to maintain a substantially undervalued price for its national currency and thus enormously boost its international competitive position. This behavior violates the most basic norms of the IMF Articles of Agreement, which require members to "avoid manipulating exchange rates . . . to avoid effective balance of payments adjustment or to gain unfair competitive advantage" and whose implementing guidelines explicitly proscribe the use of "prolonged, large-scale, one-way" intervention to maintain competitive undervaluation.⁷ The US current account deficit is, of course, at the heart of the global imbalances and stems largely from internal US economic problems and policy errors. China's large trade surpluses compound the problem substantially, however, and to an important extent result from policies that are widely regarded around the world as unfair and indeed inconsistent with the global rules.

Large and persistent trade and currency imbalances have traditionally been major sources of protectionist pressures in deficit countries. This is particularly true in the United States, where the surges of import relief actions in the early 1970s and mid-1980s were predicated on sizable currency misalignments that ultimately required substantial depreciations of the dollar. Present restrictive attitudes are indicated by the numerous bills proposed in the US Congress to address the China currency issue with trade sanctions if other remedies fail. Similar attitudes can be increasingly observed in Europe as well, especially now that it has replaced the United States as China's largest export market.

On trade policy itself, China makes no effort to hide its preference for low-quality, politically motivated bilateral and regional arrangements over more economically meaningful (and demanding) multilateral liberalization through the WTO or even high-quality agreements with individual trading partners. Since China is the world's largest surplus country and second largest exporter, and thus has enormous impact on world

trading patterns and policies, this poses two important challenges to the existing global regime.

First, China's rejection of the compromise proposed for the Doha Round in July 2008 was a key reason for the historic failure of that multilateral initiative. China in fact declared throughout most of the negotiations that it should have no liberalization obligations whatsoever in the Round and even invented a new category ("recently acceded members") to justify its recalcitrance. Such a stance by a major trading power is akin to rejection or abstention by the United States or the European Union, either of which would have torpedoed the Doha Round or even precluded it from ever getting off the ground.

We know from history that the global trading system is dynamically unstable: It either moves forward toward steady liberalization or falls backward under the constant pressure of protectionism and mercantilism. The demise of the Doha Round represents the first failure of a major multilateral negotiation in the postwar period and places the entire WTO system in jeopardy. Whatever one thinks of the virtues of the Doha initiative, or indeed of the current global rules that proscribe preferential agreements unless they meet fairly rigorous economic criteria, these are central norms of the existing system, the violation of which will, over time, severely undermine the entire regime.

China is, of course, not the only culprit in the Doha drama. The United States and European Union were unwilling to enact the needed reductions in their agricultural support programs, though to their credit they placed extensive offers on the negotiating table and kept the round alive. Other emerging-market economies, especially India, were also unwilling to open their markets meaningfully. But China, with its major stake in open trade because of its heavy dependence on global markets and its huge surpluses, exhibited the sharpest contrast between its objective interests and its revealed policy.

Second, China's pursuit of bilateral and regional trade agreements with neighboring countries is almost wholly political. Its "free trade agreement" with the Association of Southeast Asian Nations (ASEAN) accepts those countries' own penchant for weak accords, covering only a small share of its commerce with them in an effort mainly to assuage their fears of being swamped (especially in terms of attracting foreign investment) by their huge neighbor. When China has agreed to consider liberalization pacts with countries that seek economically meaningful agreements, such as Australia, progress has been limited.⁸

The United States and other major trading powers, of course, factor foreign policy considerations into their selection of partners for regional and especially bilateral trade agreements. But they also insist on reasonably high economic standards that conform to the (admittedly loose and poorly enforced) rules of the WTO, especially coverage of "substantially all" trade. China is able to escape legal application of those rules by con-

tinuing to declare itself a “developing country” and invoking the systemic norm of “special and differential treatment.” But for China, as a major global trading power, to hide behind such loopholes provokes substantial international strains and represents a second fundamental challenge to the global trading system.

In addition to jeopardizing the WTO system directly by undermining both the Doha Round and the norms for multilateralism, China’s trade policy strategy will do so indirectly, and probably even more importantly, by leading to the creation of a loose but potent Asian trading bloc. The network of bilateral and plurilateral agreements in the region, which started with China-ASEAN, is now steadily expanding to include virtually all other possible permutations: parallel Japan-ASEAN and Korea-ASEAN deals; many other bilateral agreements including perhaps China-India; a “10+3” arrangement, which brings together the 10 ASEAN countries and all three northeast Asian countries (China, Korea, and Japan); and maybe even a “10+6,” which broadens the group to include Australia, India, and New Zealand. Especially with the failure of the Doha Round, this evolution is likely to produce an East Asia Free Trade Area led by China within the next decade as part of its broader strategy of promoting regional identity and solidarity.

Such a regional grouping centered on China will, as noted earlier, be full of exceptions and deviations from WTO norms that limit its economic impact. But it is still virtually certain to trigger a sharp backlash from the United States and European Union, and probably numerous developing countries, because of its new discrimination against them (despite their own adoption in the past of similarly discriminatory agreements such as the North American Free Trade Agreement [NAFTA] and the European Union itself). Even more important systemically, it will create a tripolar global regime with a new Asian pole to counterpoise the existing power centers in Europe and North America. Such a configuration is not inherently antithetical to multilateral cooperation, and could even abet it if managed to that end, but would pose a serious threat to the present institutional construct and could accelerate the deterioration of today’s global system. It comports nicely, however, with China’s foreign policy goal of promoting a multipolar world that constrains the global power of the United States.

China’s challenges to the global trading system fuse in its opposition to the US proposal in the Asia Pacific Economic Cooperation (APEC) forum in 2006 for a Free Trade Area of the Asia Pacific. This APEC initiative was immediately endorsed by a number of smaller member economies that fervently want to prevent trade conflict between the group’s two superpowers. It seeks to head off the potential confrontation between an Asia-only trading bloc and the United States, which could “draw a line down the middle of the Pacific,” curb and eventually consolidate the proliferat-

ing “noodle bowl” of preferential pacts in the Asia-Pacific region, and offer an economically meaningful “Plan B” for widespread trade liberalization in the event of a definitive failure of the Doha Round.⁹ China has clearly opposed the idea, however, revealing its preference for bilateral deals without much economic content and its disinterest in pursuing strategies to defend the broader trading order.

International Monetary System

China’s challenge to the international monetary order is at least as serious. Alone among the world’s major economies, China has rejected the adoption of a flexible exchange rate policy, which would promote adjustment of its balance-of-payments position and help avoid a buildup of large imbalances. As noted earlier, it has in fact intervened massively in the currency markets to maintain a substantially undervalued exchange rate, which has produced huge trade and current account surpluses that are by far the largest counterparty to the US trade and current account deficits. These imbalances and the unprecedented flow of international funds that they require could trigger at almost any time a crash of the dollar and “hard landing” of the global economy, severely compounding the current financial crisis (box 1.2). China’s challenge to the international monetary order also adds considerably to the risks it is posing for the global trading system, as noted above.

To date, however, China has resisted the pleas of the United States and others to conform to the international monetary norms. Its announced move to “a managed floating exchange rate based on market supply and demand” in July 2005 has still produced only a modest rise in the trade-weighted rate of its currency, despite the recent acceleration of its bilateral appreciation against the dollar, and a small moderation at best in the continued huge surpluses in its external accounts. Its intervention in the currency markets to block faster appreciation has in fact at least doubled since that time, implying a policy that is less rather than more market-oriented.

Hence China’s behavior poses a fundamental challenge to the operation of the global monetary regime and to the effectiveness of its institutional guardian, the International Monetary Fund. China has in fact questioned the basic concept of international cooperation in dealing with these problems, claiming that the exchange rate is “an issue of national sovereignty” when it is of course a quintessential international question in which foreign counterparties have an equivalent interest. Far from accepting IMF advice, it has strenuously objected even to the principle of Fund involvement in the issue. Underlying this debate is the implicit threat that China might promote creation of an Asian Monetary Fund—based on the Chiang Mai Initiative, which provides the fulcrum for Asian

Box 1.2 Will China dump its dollars?

China's foreign exchange reserves had risen to about \$1.8 trillion, by far the largest national hoard in the world, by May 2008. They were rising by about \$50 billion every month as the authorities intervened in the currency markets to limit the appreciation of the renminbi, and so could easily climb to \$2 trillion or more by the end of the year. China does not publish the composition of its holdings, but most estimates suggest that 60 to 75 percent, or more than \$1 trillion, are invested in dollar assets (with most of the rest in euros and perhaps a smattering in yen and other currencies).

Some observers worry that these holdings represent a major Chinese threat to the United States. They fear that China could "dump" some or all of its dollars, driving down the exchange rate of the US currency in a rapid and disorderly manner. This could trigger a sharp rise in US inflation and interest rates, especially since any such action by the Chinese, or even serious rumors thereof,¹ would presumably lead to panicky dollar sales by other holders around the world. Such a sequence would have particularly costly effects during a period when the US economy is simultaneously hovering near recession and experiencing uncomfortably high inflation, as in 2008.

Such a step by the Chinese is highly unlikely, however, for three reasons: First, any partial sale of their current dollar holdings (or rumors thereof) would drive down the value of their remaining dollar holdings, probably sharply. The Chinese authorities are already under considerable domestic criticism for the sizable losses they have incurred as the dollar has dropped over the past six years, by a cumulative average of 25 to 30 percent against other currencies, by more than 50 percent against the euro and some other plausible alternatives, and by even more against "real" assets such as oil and many other commodities. Since it would be technically impossible for the Chinese to sell anything close to their dollar total of \$1 trillion or so instantaneously, they would be shooting themselves in the financial foot in a major way through such action.

Second, Chinese sales of dollars would drive up the price of whatever currencies they converted into. The authorities would sharply raise the price of their own renminbi if they sold dollars to other Chinese entities, such as banks or companies, for local currency. The resulting appreciation of the renminbi would adversely affect China's trade competitiveness and represent a total reversal of the country's currency policy of the past five years, under which they have bought large amounts of dollars to maintain an undervalued exchange rate. It would thus be more plausible for China to sell dollars for euros and other foreign currencies. Such a move would be highly unwelcome to the Europeans and other recipients of the shifts,

(box continues next page)

Box 1.2 Will China dump its dollars? *(continued)*

however, because their currencies would then become overvalued, with negative effects on their international competitiveness, and could trigger additional protectionist reactions against China as a result.

Third, unlike the sizable but gradual appreciation of the renminbi that China should permit to help correct the global imbalances, China would be branded an international pariah if it were to “dump” its dollars in a precipitous manner that generated global financial and economic instability. This would be opposite the international praise they rightly garnered during the Asian financial crisis in 1997–98 when they helped counter further contagion and possible worldwide panic by avoiding sympathetic depreciation of their own currency. Dollar “dumping” would rightly attract far more international opprobrium than China has already endured in recent years for keeping its currency so undervalued through overt manipulation.

The only plausible circumstance under which China might “dump” its dollars is if it thought the United States might be about to freeze those holdings itself, as it did with Iran’s dollar assets in 1979 after the revolution in that country and its takeover of the US embassy. China has already protected itself against this risk to a considerable extent by holding many of its dollars outside the United States, however, and such a sequence could only occur in the extremely unlikely event of very sharp confrontation between the two countries over Taiwan or some other political “hot spot.” The much more likely scenario is that China will gradually diversify its reserve composition away from the dollar over time, primarily at the margin by converting a modest portion of its additional dollar acquisitions into euros and perhaps other currencies.

1. Rumors that Kuwait planned to sell \$100 million in dollar assets, which were never confirmed, were a major factor in triggering the free fall of the US currency in late 1978, which remains the most serious dollar crisis to this time.

monetary cooperation, in addition to the regional trade plans described earlier—and further erode the global role of the IMF.

Energy

On energy, China’s challenge is less frontal because no body of agreed global doctrine, rules, and institutions exists. Moreover, China’s search for “assured sources of supply” can lead to increased global production of oil and gas and thus help alleviate upward pressure on prices and any possible shortages. The challenge in this area is no less important, however, because China will become the world’s largest consumer of energy over

the next few years and has been a major contributor to the dramatic rise in world oil prices over the past five years (chapter 7).

There are at least two conflicting regimes in this issue-area: the (periodically effective) producer cartel embodied in the Organization of Petroleum Exporting Countries (OPEC) and the (very loose and incomplete) consumer anticartel in the International Energy Agency (IEA). China has essentially challenged both with its drive to line up “secure sources of supply” by providing support to Chinese oil companies in their pursuit of overseas oil investment through tied aid and other types of assistance that member countries of the Organization for Economic Cooperation and Development (OECD) have sought to discipline. Beijing’s efforts in Sudan and Iran have been of particular concern as they have led China to constrain the efforts of the UN Security Council to impose sanctions on those countries. As with the other issue-areas, China is hardly alone in its search for “equity oil” and allegedly preferred access. But as a major driving force of the single most important commodity market in the world, the country has a particular interest in, and responsibility for, forging systemic responses rather than trying to carve out exceptions and special privileges for itself.

The other consuming countries have not sought to engage China in their cooperative arrangements, however, at least until very recently. It has been denied membership in the IEA because it is not a member of the OECD, which requires its members to be committed to an open market economy and democratic pluralism. The United States, for its part, rejected the proposed takeover of Unocal by the China National Offshore Oil Corporation (CNOOC) in 2005 and thus indicated an unwillingness to permit perfectly normal and reasonable Chinese investment in additional energy resources.¹⁰ As indicated in chapter 7, China will become an active and constructive partner in ensuring the security of international energy markets only if it is allowed to help shape energy policy at the multilateral level and if Chinese oil companies are allowed to compete freely for investment opportunities in the United States and other Western countries.

Foreign Aid

On foreign aid, China has already become a major donor (depending on how aid is defined) and poses a direct challenge to prevailing norms by ostentatiously ignoring the types of conditionality that have evolved throughout the donor community over the past quarter century. It rejects not only the social conditions (human rights, labor standards, and environmental norms) that have become prevalent but also the basic economic criteria (starting with poverty alleviation and good governance) that virtually all bilateral and multilateral aid agencies now require as a matter of course.

As with its trade and commodity pacts, China's "conditionality" is almost wholly political: insistence that the recipient countries support China's positions on global issues, in the United Nations and elsewhere, and funnel their primary products to it as reliable suppliers. As with trade, China has now become such a sizable player that its deviation from global norms matters a great deal. It provides its recipients with an escape from despised "Western conditionality" or the Washington Consensus that is both financially profitable and politically satisfying to them but that may vitiate any lasting value they can obtain from Chinese assistance itself and, even more so, from the non-Chinese assistance that it may supplant.

Global Implications

All these policies, and the national mindset they represent, reveal that China's attitude toward its global economic responsibilities has not kept pace with the breathtaking ascent of its security and (especially) economic impact on the rest of the world. China continues to behave primarily like a small country with little systemic effect and therefore systemic responsibility. In economic terms, it acts like a price-taker rather than the price-maker with enormous, sometimes decisive, influence on critical global economic outcomes it has so clearly become.

Such a lag in perceptions is not difficult to understand, particularly for a very conservative leadership that is still guided to an important extent by Deng Xiaoping's directive to maintain a low international profile. Indeed, the central thrust of contemporary Chinese foreign policy is to avoid international developments that could disrupt the country's ability to focus on its huge domestic challenges. Moreover, the speed at which China has assumed international prominence, and its systemic consequences, is difficult for even the most experienced observers to assimilate.

Even the strongest defenders of the current global system would also concede that at least some of China's criticisms are valid. Neither the United Nations, the WTO, the IMF, the World Bank nor their putative steering committees like the Group of Seven (G-7) have been models of effectiveness in recent years or even decades. The Doha Round would have achieved very little liberalization of world trade after almost a decade of effort. The IMF has failed to enforce its own rules and is being forced to downsize. The G-7 has adopted a mutual nonaggression pact among its members, under which they basically agree not to criticize each other very loudly, and their criticisms of outsiders (like China) ring hollow as a result. Global policy cooperation, let alone coordination, has largely gone out of style.

The significance of China's challenge will depend importantly on who else will join its effort. China is, of course, a significant challenger solely on its own because of its massive, and rapidly growing, economic weight

and its formidable, though lesser, security counterpart. It will probably be unable to win widespread acceptance for alternative approaches, however, without a considerable array of important allies—who can be attracted either by persuasion or by coercion. Most of its Asian neighbors can already be counted on to support its initiatives or at least not oppose them, due to its preponderant impact on the region, as already observed in APEC, and an Asian economic bloc is in the making as noted earlier. Its increasing number of close economic partners, especially in Africa, are in a similar position and will tend at least to be neutral to avoid antagonizing a China that has demonstrated its willingness to retaliate against noncooperation. Its alliance with India in blocking the Doha Round bears close watching.

Challenges to the international order are not a new phenomenon, at least at the rhetorical level. “North-South conflict” has ebbed and flowed in intensity for over three decades. OPEC was initially perceived as a champion of the “South” for systemic reform after the first oil shock in the early 1970s (before it became clear that developing countries would suffer even more than rich nations from its manipulation of world energy markets. Abetted by a bevy of nongovernmental organizations (NGOs), some poor countries have continued to press for systemic modifications even as a growing number of emerging-market economies sought to enter the “rich men’s club” and some of its formal institutions (with Korea and Mexico entering the OECD, and those two along with Brazil, China, and India becoming more-or-less regular invitees to side meetings of the G-7/G-8).

The challenge from China is fundamentally new and vastly more important than any of these earlier phases. It is different because it is based on pragmatic pursuit of very specific national interests rather than any ideological attack. It is much more salient because of the massive, and rapidly growing and multifaceted, economic weight of the challenger. OPEC and Japan, the only serious previous challengers to the postwar global order, in fact sought to join rather than alter the system. The challenge from China, though still in its early days, is potentially far more serious.

A New Approach

The United States should, therefore, implement a subtle but sharp change in its basic economic strategy toward China. Instead of focusing on bilateral problems and complaints, and seeking to coopt China into a global economic system that it would try to continue leading by itself, the United States should seek to develop a true partnership with China to provide joint leadership of that system, even if the system requires substantial modifications to persuade China to play that role. The two economic superpowers should begin to pursue together the development of coordinated, or at least cooperative, approaches to global issues that can be re-

solved effectively only through their active co-management. Such a "G-2" approach would accurately recognize, and be perceived by the Chinese as accurately recognizing, the new role of China as a legitimate architect and steward of the international economic order.

The proposed strategy is importantly different from current US policy. The present approach seeks to wean or coopt, whether one wants to use polite or blunt terminology, China into the global economic order that the United States has helped construct and sought to lead for over 60 years. Such a fondness for the status quo is understandable, given both the fundamental success of that regime throughout most of its existence and the prominent role it provides for the United States.

But China is quietly uncomfortable with the very notion of its integration into the current international system, which it had no role in developing. Moreover, the current system has become increasingly ineffective over the past decade or so, as outlined earlier. This is due importantly to its growing political illegitimacy as its decision-making machinery fails to evolve sufficiently to provide adequate voice for the emerging powers, of which China is by far the most important. Systemic reform is needed in any event, and the Chinese catalyst for it could turn out to be quite fortuitous and extremely healthy.

The ineffectiveness of the current system also derives from its failure to address the interrelationships among key issues. Currency imbalances foster trade protectionism. Capital-intensive development strategies accelerate environmental degradation. Energy imbalances lead to financial distortions and even crises. All these economic issues must be seen in the context, and addressed with full recognition, of the broad political and security settings within which they take place. It will be essential to address these seemingly separate topics much more holistically if management of the global economic system is to improve significantly.

Present US policy purports to include tough enforcement measures when China fails to cooperate on specific issues, and Congress frequently calls for much more of that medicine. The United States has in fact taken China to the dispute settlement mechanism at the WTO in a number of cases and has won virtually all of them, mainly through settlements out of court, but with very modest results. There have been a few instances of unilateral US "safeguard actions," but their economic impact has been minuscule. On the much bigger exchange rate issue, the administration has been unable to mobilize the IMF or the G-7 and has itself been unwilling to label China a "currency manipulator" even when its massive intervention has been obvious.¹¹ The Congress has not followed through on any of its own trade or currency threats. The United States has done very little to counter China's moves on energy and aid.

China contends that external pressure, especially when applied publicly, is counterproductive and virtually forces it to reject the proposed courses of action.¹² But the revealed impotence of hard-line US bilateral

efforts derives primarily from three basic domestic factors: the clear benefits to many Americans of attractive Chinese products and financial support, its need for Chinese cooperation on noneconomic issues ranging from North Korea to Iran, and the keen interest of many US-based companies in avoiding confrontations with Beijing for fear of retaliation. There is simply too much US opposition to “tough” policies for them to be sustained, even if adopted on occasion. Foreign allies for a confrontational approach are even harder to find, for similar reasons. The likely continuation of this futility suggests that there is no real alternative to a cooperative approach. It indeed implies that the main, or perhaps only, hope for persuading China to start providing constructive systemic leadership lies in convincing it of the critical importance to itself of doing so and then actively partnering with it to that end.

The proposed strategy would treat old issues in new ways. The United States and China could agree to construct their proposed bilateral and regional trade agreements, including megadeals like the Free Trade Area of the Americas and an East Asia Free Trade Area, in ways that would support subsequent multilateral liberalization and even permit eventual linkage between the regional bodies. There would be recognition that dollar overvaluation has reflected errant US fiscal policy and inadequate US private saving just as renminbi undervaluation has reflected inadequate Chinese internal demand and excessive intervention. Competitive currency misalignments would be treated as deviations from the agreed norms of the IMF and as beggar-thy-neighbor policies that hurt all trading partners, especially including other poor countries (as India and others are now vocally emphasizing). The United States could escort China, figuratively if not literally, into the IEA so that the two together could help organize the response of consuming countries to high global oil prices and longer-run security of supply.

The proposed strategy could apply even more forcefully to the creation of new international norms and institutional arrangements to govern economic issues where no such arrangements have previously existed. The two most important candidates at present are global warming and sovereign wealth funds. China is a central player on both. On the former, it likely has passed the United States as the world's largest emitter of greenhouse gases. On the latter, its recently created sovereign wealth fund—the China Investment Corporation—could quickly become one of the world's largest as China is by far the world's largest holder of foreign exchange reserves, the source of financing for most such funds. There will be no possibility of constructing effective global regimes on these issues without full and active participation by China and indeed close cooperation between China and the United States.

China's challenge to the current global economic order could in fact come to a head on these two topics. To date, China has steadfastly refused to contemplate binding constraints on its aggregate emissions of green-

house gases (and other developing countries, including India, are hiding behind its resistance). So has the United States, but that stance fortunately seems likely to change dramatically with a new US administration in 2009, and the United States may even seek to take an aggressive lead in forging a new international compact on the issue. Moreover, as noted in chapter 7, China now seems willing to commit to “nationally appropriate mitigation actions” under a post-Kyoto framework. Hence there may well be a fruitful opportunity for new US-China collaboration on the issue.

Such a regime, however, could also lead to the installation of trade or other barriers in participating countries against carbon-intensive products from countries with less exacting (or no) standards. A US-China trade war with retaliation and counterretaliation could result unless the two countries cooperate intensively in constructing a new global regime on the issue. Such a regime would, of course, be implemented through a much broader grouping of nations, in which China could maintain its role as a leader of the developing countries, but can be forged in the first instance only through intimate if informal “G-2” collaboration.

China has already indicated some skepticism about the emerging consensus on the adoption of new international guidelines, even if voluntary and nonbinding, on the structure and investment activities of sovereign wealth funds. The United States is championing such codes, primarily to head off the risk of protectionist domestic reactions to specific investments, because it so desperately needs the foreign money to fund its huge external and internal deficits. It is especially dependent on China, with its massive currency reserves and large annual additions to them from its ongoing surpluses. A frontal clash could develop over this issue as well, triggered either by Chinese rejection of proposed new guidelines or US rejection of particularly sensitive Chinese investments (as in the CNOOC case).

Hence the United States should reach out to Beijing on both global warming and sovereign wealth funds, as well as modify its approach in a number of ongoing negotiations, to start implementing the new strategy. The basic idea is to develop a very informal but increasingly effective “G-2” between the United States and China to help guide the global governance process on an increasing number of economic topics. The concept would not apply in the security area, where the issues and relationships are very different, but could have a major impact on both the functioning of the world economy and on the China-US economic relationship.

Such a new steering committee would not seek to displace any of the existing international economic institutions. Other major countries, notably the European Union and on some issues Japan and the large oil exporters, would, of course, need to remain deeply involved as well. The new rules, codes, or norms would frequently be implemented through existing multilateral institutions, like the IMF, WTO, and IEA. Some of them might work through new worldwide organizations created to deal with truly new issues, such as a Global Environmental Organization to manage

climate change policy.¹³ But effective systemic defenses in today's world must start with active cooperation between its two dominant economies, the United States and China.

It would be impolitic for the two governments to use the term "G-2" publicly, and they should not do so. For the strategy to work, however, the United States will have to accord true priority to China as its main partner in managing the world economy. This will be true even vis-à-vis the European Union, the other global economic superpower and traditional partner in any de facto "G-2" that may have existed in the past, in important part because the European Union still has neither a cohesive policy nor an effective spokesman except in a very few issue-areas (like international trade, where it *has* spoken with a single voice from its creation and has thus played a central global role). The European Union, Japan, and perhaps some other traditional US allies might be unhappy with the relative downgrading of their own relationship with the United States. But their pique should be assuaged by the enhanced effectiveness of the global economy, which is the objective of the exercise, and would be minimized if the "G-2" structure were pursued diplomatically without fanfare. In any event, nothing short of the intimate relationship implied by the "G-2" concept is likely to attract China, and engage the United States sufficiently, to create the effective leadership core that the two countries and the world as a whole need so desperately.

Initial steps are already being taken toward implementing this concept. After the initial proposal for a US-China "G-2,"¹⁴ Robert Zoellick as deputy secretary of state in the second George W. Bush administration launched a Senior Dialogue with Chinese counterparts, and Secretary of the Treasury Henry Paulson, Jr. escalated the engagement in 2007 to a Strategic Economic Dialogue (SED) among the leaders of 10 or so cabinet agencies in each country. On the military side, Secretary of Defense Robert Gates recently inaugurated a direct hotline with his Chinese counterparts to respond to any crisis risks. The beginnings of an institutional framework for a working G-2 have thus been put in place, and patterns of cooperation are already developing on some topics, including the environment and international finance. Energy and the environment were in fact central topics of discussion at the third and fourth meetings of the SED in December 2007 and June 2008. These recent innovations have produced useful, if not dramatic, results and should certainly be continued.

But it is not nearly enough to seek to induce China to become a "responsible stakeholder" in the global system, as the US government has sought to do since Zoellick initiated that concept in 2005, though that would be an important step forward. It must be seen, and accorded full rights, as a true leadership partner in the evolving global economy of the 21st century. As Harry Harding has recently testified to the Congress,¹⁵ China "should be invited to participate in the norm drafting process . . . [and] should be treated as a rule-maker and not simply as a rule-taker."¹⁶

It may in fact prove impossible to persuade China to behave like a “responsible stakeholder” without according it full leadership status.

The logical next step is for China and the United States to initiate annual, or even semiannual,¹⁷ summit meetings to both symbolize and implement such a new relationship. Only the heads of government can integrate the wide range of economic and foreign policy/national security issues that must be included in the partnership. Only they can make decisions on the essential trade-offs within and among the key areas, even within the economic domain. Only the regular convocation of summits can galvanize officials of the two countries to develop the intensive procedures for consultation and cooperation that are essential underpinnings for an effective “G-2.” The SED or some equivalent cabinet-level body should prepare for, and carry out the decisions of, the heads of government on an increasingly routinized basis.

A partnership for global economic leadership between a rich developed country and a poor developing country would be unprecedented in human history, as befits the uniqueness of China’s becoming the first poor economic superpower. Examples of such cooperation, however, suggest that converting bilateral disputes into systemic management initiatives can be extremely effective. In the late 1970s, for example, the United States was applying countervailing duties to scores of Brazilian products because Brazil’s export subsidies accounted for almost half the value of all its foreign sales. A frontal assault on the subsidies was politically unacceptable in Brazil, but the two countries agreed to cooperate closely, and in fact took the lead, in negotiating a new Subsidy Code in the General Agreement on Tariffs and Trade (GATT). That code simultaneously became the linchpin of a successful Tokyo Round, a basis for adding an injury clause to the US countervailing duty law, and a foundation for phasing out the Brazilian rebate policy. That US-Brazil trade issue greatly resembles, both bilaterally and systemically, the China currency issue of today.

Are the United States and China ready to substantially reorient their policies toward each other and, indeed, their entire foreign economic policies? At least three shifts in mindset will be needed in the United States: acceptance of a true partner in managing global economic affairs, working intimately with an Asian country rather than the traditional European allies, and collaborating with an authoritarian political regime instead of the usual democracy. All three will pose substantial challenges for any American policymaker seeking to carry out such a new approach, not least because of the domestic political resistance that will be encountered on each of them.

Is China ready for such cooperation with the United States or indeed to play a responsible leadership role in the world economy under any institutional setting?¹⁸ The historical answer is that no country, even the British and American hegemons during their eras of dominance, has been “ready”

for such a role until it was forced upon the country by its own national interests and the realities of the global economic situation. As a country that is still quite poor in the aggregate, and whose currency remains inconvertible and protected by extensive capital controls, China will be sorely tempted to resist and instead maintain its demeanor as a small country or, at most, as a leader of the developing nations. As noted earlier (and in chapter 2), an internal backlash against globalization (as in the United States) is challenging some of the basic tenets of the country's international economic engagement. The revealed preference for systemic challenges outlined earlier indicates a willingness to jeopardize global stability.

It would seem that China is rapidly approaching a position, however, where the consequences of its chosen strategy of integration with the world economy will push it to assume ever-increasing responsibility for the successful functioning of that economy. Its trade exceeds 60 percent of GDP, twice the share in the United States or the European Union as a group, and that ratio continues to rise rapidly. Its foreign financial assets are approaching half the size of its economy and are a major component of its national wealth, and they too will steadily become much larger. China has almost surely passed the point where its leadership can responsibly, or even in its own narrow political interests, pursue a policy of benign neglect.

China's own central interest in an effectively functioning world economy is the cardinal reason why it might be willing to participate in a new joint leadership arrangement with the United States. Its broad foreign policy interests in projecting "soft power" worldwide and avoiding confrontation with the United States reinforce such a stance. So does the Party's desire to solidify central control over the provinces, as discussed in chapter 4, because deeper global engagement (such as participation in the WTO's dispute settlement mechanism and strengthening the independence of monetary policy by adopting a more flexible exchange rate system) will almost always tend to add to the decision-making power of the national authorities. Intellectuals in China are hotly debating whether China should work within the system or proceed unilaterally, perhaps including with harsh criticism of the United States over alternative models of financial regulation and currency management (as has already begun to surface in the wake of the US housing and financial crises of 2007–08). US willingness to pursue genuine partnership in shaping the future international economic order could tilt the outcome in a constructive direction. From China's standpoint, the historic challenge is to alter the global system in its direction without precipitating widespread conflict as other emerging powers have done in the past.

If China proves to be leery of getting too close to the United States and would be more inclined to accept the needed global leadership responsibilities in a different institutional setting, perhaps because the United States maintains a cautious stance toward Beijing on security issues, alternatives are available. The European Union could be a member from the

outset of a “G-3” of the current global economic superpowers, especially now that it has become China’s largest trading partner, source of new technologies, and host to Chinese students. The “new G-5” recently created by the IMF to conduct its intensified multilateral consultative process, which adds Japan and Saudi Arabia (to represent the oil producers) to these three, is another if less promising possibility. China could simply be invited to join the existing G-7 and/or G-8.¹⁹ The central need is to embrace China in an effective leadership compact in light of its critical role in the world economy and its legitimate desire to be engaged in systemic management at all relevant stages of the process, including the creation of any new rules and (formal or informal) institutions. China itself will have to judge which of these institutional approaches would be most attractive and convey that preference to the rest of the world.

But there remains the question whether China would prefer to continue going it largely alone, challenging the existing global system rather than joining with the United States or anyone else in an effort to modify that system in a gradual and orderly manner. Even the closest observers outside China, and maybe even the Chinese themselves, cannot know the answer to that question any more than they can foresee the orientation of overall Chinese foreign policy in the years and decades ahead.

The only way to test these ideas is to try the proposed approach in specific cases. The upcoming negotiations to create a global architecture to counter global warming, with their critically important trade policy dimension and huge implications for energy policy along with the emissions controls themselves, offer a compelling opportunity. As indicated in chapter 7, the United States and China could fruitfully cooperate on a number of climate change issues in addition to working out the needed overarching regime: carbon capture and sequestration, industrial energy efficiency, biofuels, green buildings, and nuclear power. Full Chinese cooperation is essential, and the United States has no chance of succeeding on the issue unilaterally or even in effective partnership with only the Europeans and other rich countries.

The new US administration that will take office in early 2009 is committed to launching a major global initiative on the issue. The two countries have already pledged, at the SED meeting in June 2008, to work closely on energy and the environment for the next 10 years. Hence climate change is a tailor-made test case for a new “G-2,” coupling informal China-US collaboration at the core of the process with the conduct of formal negotiations and implementation in broader groupings that imbed China with other developing as well as industrialized countries.

Under seven successive presidents, the United States has chosen to engage rather than confront China on the eminently sensible view that confrontation could only provoke the evolution of a hostile China, which would be profoundly contrary to US interests. China’s impressive economic advance is likely to continue, perhaps leading it to become the

world's largest economy as well as the world's largest trading nation, and the United States should thus on similar logic make every effort to engage it as a true partner in steering global economic affairs. The initiative could fail, but its success would bring huge benefits, and the effort itself would pay important dividends for the United States in terms of both relations with China itself and the broader US image in Asia and around the world.

Bilateral issues will, of course, remain between the United States and China, in both the economic and security spheres, as between any pair of countries with high levels of trade and investment. But even those issues could be more easily resolved in a relationship that emphasizes the global coleadership responsibilities of the partners by providing a much broader context, and a much wider basis for trust and cooperation, within which to address them than can possibly exist today.

Conclusion

China's challenge to the existing norms, rules, and institutions of a growing number of components of the global economic order could be enormously disruptive both to the United States and to world stability. That challenge could escalate further as China's economic power, military capabilities, and self-confidence continue to grow rapidly and as the effectiveness of the existing regime and the scope for US leadership of it continue to erode. Peaceful transfer of international power has been elusive over the centuries of human history, and the numerous failures thereof have proven to be extremely dangerous.

On the other hand, the opportunity for an orderly realignment of global economic leadership has seldom been so promising. There is very little threat of conflict between China and the United States, nor indeed between any of the other great powers, into which they might be drawn. Overall relations between the two, while wary on both sides, have improved substantially in recent years. Economic, and especially financial, interdependence between them has deepened substantially. Institutional linkages, as noted above, are at an early stage but are clearly being constructed at the direction of the top leadership in both countries. As Henry Kissinger has recently reminded us, US foreign policy must evolve steadily from its transatlantic focus of the past to an inevitable transpacific focus for the future.²⁰

There is considerable risk in continuing to respond to each issue that arises in a primarily bilateral and ad hoc manner. There is very little shared basis, as yet, for seeing such issues in a common framework that can produce routine rather than confrontational solutions. The proposed initiative to create a US-China "G-2" should, at a minimum, limit the risk that individual disputes will escalate and disrupt both the relationship and broader economic activities. At best, it could create a process that will, over time, generate sufficient trust and mutual understanding to produce

active cooperation on at least those occasions when the national interests of the two countries come close to intersection.

It may be difficult for some to foresee such active cooperation between countries that possess such starkly different characteristics. At the same time, those same two countries possess noteworthy similarities, from their entrepreneurial cultures to their global foreign policy perspectives. Their international positions, as the incumbent power retaining great capabilities and the rising power with far-reaching aspirations, are converging on paths that make the proposed cooperation not only possible but also seemingly inevitable at least to an important degree. It will clearly take time to develop the proposed "G-2" and even the essential cooperation on global warming through which it might be launched. But the next administration in the United States should make a major effort to pursue that prospect as a, if not the, central purpose of its overall foreign policy.

Notes

1. With exchange rates calculated at purchasing power parity per the standard practice of the International Monetary Fund and World Bank. Using market exchange rates, China's economy is now the fourth largest in the world but will shortly pass Germany to move into third place behind only the United States and Japan.
2. China is the third largest trading nation but it is running a huge trade surplus so its exports far exceed its imports, and it is the second largest exporter, trailing only Germany and ahead of both Japan and the United States.
3. China accounts for about 10 percent of global output (with exchange rates at purchasing power parity) and is growing at about 10 percent annually. Hence, it alone accounts for about one percentage point of total world growth, or about one-quarter of the current global expansion rate of a bit less than 4 percent.
4. Harry Harding, testimony before the Senate Foreign Relations Committee, Washington, May 15, 2008.
5. Mark Leonard, *What Does China Think?* (New York: PublicAffairs, 2008).
6. Edward Wong, "Booming, China Faults US Policy on the Economy," *New York Times*, June 17, 2008.
7. Morris Goldstein and Nicholas R. Lardy, eds., *Debating China's Exchange Rate Policy* (Washington: Peterson Institute for International Economics, 2008).
8. Its bilateral free trade agreement with New Zealand, signed in early 2008, is an anomalous exception with a very small country (China's 50th largest trading partner) that appears to be largely motivated by gratitude for New Zealand's being the first country to approve China's WTO accession and the first to grant it "market economy" status.
9. C. Fred Bergsten, "A Free Trade Area of the Asia-Pacific in the Wake of the Faltering Doha Round: Trade Policy Alternatives for APEC," in *The APEC Trade Agenda? The Political Economy of a Free Trade Area of the Asia-Pacific*, eds. Charles E.

Morrison and Eduardo Pedrosa (Singapore: Pacific Economic Cooperation Council and APEC Business Advisory Council, 2007).

10. The US “rejection” resulted from an emotional and highly political outburst from Congress when the takeover was proposed rather than from the standard policy procedures of the US government, which were never involved in the case because CNOOC withdrew its bid in the face of the congressional onslaught.

11. C. Randall Henning, *Accountability and Oversight of US Exchange Rate Policy* (Washington: Peterson Institute for International Economic, 2008).

12. Chapter 3 similarly notes that efforts to force liberal democracy on China “remain ineffective and ultimately counterproductive.”

13. Daniel C. Esty, *Greening the GATT: Trade, Environment, and the Future* (Washington: Institute for International Economics, 1994).

14. C. Fred Bergsten and the Institute for International Economics, *The United States and the World Economy: Foreign Economic Policy for the Next Decade* (Washington: Institute for International Economics, 2005).

15. Harding, testimony before the Senate Foreign Relations Committee.

16. In the same vein, but with slightly less ambition, Richard Haass has proposed a “selective partnership” through which China and the United States look for opportunities to work together at high levels on specific issues where their interests intersect, including to “provide a setting to establish rules that would shape international relations and to design institutions for buttressing those rules.” Richard N. Haass, testimony before the Senate Foreign Relations Committee, Washington, May 15, 2008.

17. The other two economic superpowers, the United States and the European Union, have held “home and home” annual summits in each partner area for a number of years. Both their substantive and symbolic value is severely limited, however, by the absence of a single recognizable leader for the European Union as a counterpart to the president of the United States and the limited scope of EU competence on many issues, and their operational results have been minimal. China-US summits, even if they became routinized, would probably command much more attention and have greater policy potential.

18. Robert Kagan asks whether “a determinedly autocratic government can really join a liberal international order?” and argues that “Chinese rulers . . . like all autocrats are most pragmatic about keeping themselves in power (and that) we may want to keep that in mind as we try to bring them into our liberal international order.” Robert Kagan, “Behind the ‘Modern’ China,” *Washington Post*, March 23, 2008.

19. Russia has participated in the annual summit meetings of the traditional G-7 (Canada, France, Germany, Italy, Japan, United Kingdom, and United States) since the early 1990s, so they have become a G-8. The finance ministers of the traditional group, however, continue to function as a G-7. I have earlier suggested including China in the “Finance G-7” but not in the more political G-8 if concerns about its lack of democracy are viewed as barring it from the latter.

20. Henry A. Kissinger, “The Three Revolutions,” *Washington Post*, April 7, 2008.