

System Effect in Decision Making¹

--Rethinking the "Chinese Economic Assertiveness" in European Eyes

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1. Abstract

It is not exaggerated to say the European-China relation was generated from economic activities by the Silk Road 2000 years ago. Nowadays, the economic issues are also the dominating topics between the European Union (EU) and China, as the first one is the largest destination of Chinese products while the later one the second largest for the EU products. However, the economic boom is always coupled with quarrels, which are increasingly influential to the EU-China relations.

In the sizzling debates, the EU side complains that China has been increasingly showing "Economic Assertiveness" that means China frequently employs the economic weapon to realize its political purposes. The rare earth export control and the demanding status in the Eurozone bailout are two remarkable cases.

Traditional evaluation ascribes the reasons to the enhanced Chinese economic muscle and its mushroomed global political ambition. Robert Jarvis initiates the analysis to the "system effect" in international relations. Different from other scholars paying attention on power politics and domestic factors, Jarvis focuses on the "system effect" on the decision-making. In his argument, a certain foreign policy is not necessarily made for the one who is influenced by the policy, but rather, made for someone else

outside the game. A certain policy also could lay down the result unexpected, and these unexpected results are inevitable and difficult to predict. Jervis raises massive cases to prove the "system effect" in international relations.

My paper would try to account for the "Chinese Economic Assertiveness" from the perspective of the "system effect". Through exploring the origin and development of these policies, this paper argues that some alleged "Chinese Economic Assertiveness", such as rare earth export control and demanding condition to get involved in Eurozone bailout, could be difficult to be explained by endogenous reasons in the EU-China relations itself. Instead, they are the consequences of the "system effects" of China's relation with other global players. The EU, due to its loosen system position with China, has been influenced by other tighter relations in the whole system, such as the Sino-US and Sino-Japan.

2. Background of “Chinese Economic Assertiveness” in European Eyes

In recent years, “*Assertiveness*” becomes key word to portray China’s foreign policy performance. In most cases, this term refers to, from external observation, China’s uncooperative and arbitrary policies in global affairs, especially on some controversial topics. This term is quite well mentioned in Asian countries² and the United State³ (US) recently, because of the increasing territory and natural resources disputes and military conflicts, even other wider political issues,⁴ like Europe feels it in economic sense.

It is not exaggerated to say the relations between China and Europe have derived from business and trade, as the oldest link between the Han Empire and Roman Empire was generated on the “Silk Road” in two thousand years ago. Since the fall of the Berlin Wall, both the rise of China and the formal establishment of the European Union (EU) could be called the most arresting international political phenomena. It would not be surprising that the economic ties have played peerless role in the process. At the end

of the 2010s, the European Union (EU) becomes the biggest destination of Chinese made products while China was the second largest market for the European Union, merely after the US.⁵ Under the global economic gloom, most European based multinational companies maintain exceptional performance in China.⁶ Meanwhile, China's investments in Europe increase as well.⁷ Almost all proofs suggest that the EU-China economic relation could be on the positive tendency.

Under the increasing economic interdependence, ironically, the consensus on related economic issues between China and the EU have not been enlarged. Instead, an increasing number of quarrels have been presented in the Europe-China economic relations. On European side, it views that in economic activities, China has demonstrated the assertiveness in economic dimension and top level politicians on both sides started airing their sounds, especially when the problems start sprawling from the traditional issues like intellectual property rights, currency manipulation to some new battlefields, such as China's restriction to its rare earth export, China's filibustering the global effort to preventing climate change and the overheated political ambition and ambitious conditionality in Eurozone bailout.⁸

Actually, with the empirical absence of high political issues clashes, such as territory dispute and military conflicts, "Chinese Economic Assertiveness" could be regarded as a remarkable obstacle for the development of the EU-China relation, especially when the EU is not assertive enough due to the problems in the process of integration.⁹

It would not be surprising that, in responding to European criticism, Chinese side always explains that this is mere misunderstanding or ignorance from the EU while China did nothing wrong, and interestingly China also wishes the EU should stop politicizing the China-European economic and trade relations.¹⁰

Therefore, although there are different views between China and the EU, both sides

share a common view that these problems are not simple economic matters, and lots of political implications have been merged into the public debate and policy making. Thus, how to interpret these disputes? And what implications these cases embrace for international relations? These are very important for both policy practioners and academics.

This paper is planning to address the question, why China, in its recent economic policies, demonstrates such “assertiveness”. However, the paper does not try to portray a whole picture of China’s economic policy decision making to the EU, rather, the paper tries to argue that the current most explanations to the problem embedding serious backwards that could not make constructive policy suggestion to politicians. As an alternative, this paper establishes argument based on the system effect analysis, especially in decision making, to suggest that the “Chinese Economic Assertiveness” against the EU is not based on the purpose per se, but a “byproduct” of China’s relation with other political bodies who have tighter geopolitical structure with China.

The research starts with the review to current literature concerning “Chinese Economic Assertiveness”. Then the paper will introduce the concept of system effect and establish the scenario of politicians’ decision making under the system effects. Subsequently, two cases, including China’s rare earth export control and China’s demanding role for joining the Eurozone bailout. Through the analyses to difference between current interpretations and the explanations based on the system effects in decision making. The paper will link the “Chinese Economic Assertiveness” with some factors that are seemingly irrelevant. Finally, the paper will summarize the theoretical and practical implication from the paper.

3. Cases Introduction and Existing Interpretation:

The paper selects two representative and high profile cases to illustrate the system effects in the decision making on China’s EU economic policies. The two cases

involved in this paper, China's rare earth policy shift and China's role in the Eurozone bailout, are not strange for most observers in Europe-China relations, as both cases caused so turbulent debates.

The rationale of selecting these two cases, because initially both them are the most recent phenomena. At the same time, the EU and its member states are highly influenced by the policies changes in the two cases. For example, as the US, Russia and Brazil have considerable natural reserve of rare earth and Japan has undertaken man-made reserve for many years, European advanced economies could be the most victims of China's policy shift. In the case of Eurozone bailout, it has no doubt the problem with the unique European feature and the problem itself is almost the central topic for European economy recently.

Rare Earth, even in China, only becomes a hot topic very recently. In non-technical terms, rare earth is a family of chemical elements that are very unpopular for ordinary people. They attract public attention, because nowadays they are crucial and even necessary to the key parts in high-tech products like renewable energy cars, smartphones, and other electronics apparatus with civil and military purposes.

China has been a dominantly big player in rare earth's reservation and product for quite long time, according to the statistics from China domestic, China's rare earth reservation currently occupies about 50% globally.¹¹ Before China conducts its recent strict regulation to rare earth products and exports, China provides more than 90 percent market share globally, with the dramatic increasing demand of rare earth.¹² In 2010, the State Council of China officially announced that China was prepared to reform and regulates its rare earth industry and promoted it to the national strategic industry level. The most immediate result of the policy shift is the sudden drop of production and export control. Under the policy instrument, naturally the price of rare earth in international market was increasing sharply in short term.

From Chinese side, the officially external explanations to these behaviors were quite simple. First, because China is not able to rely on its limited rare earth resources to provide so large share of the increasing international market¹³ and hints some countries have intentionally accumulated Chinese made rare earth by low price with strategic purpose¹⁴. At the same time, the mining and processing of rare earth would generate heavy pollution, which violate the long term plan of sustainable development and the preventing climate change strategy.¹⁵

Because of the important role of China in international rare earth market, China's action caused lots of policy adjustment in many countries. The US started to re-open some mines of rare earth that were closed due to the Chinese provides. And Russia also showed similar thoughts,¹⁶ as the two countries have considerable reserve of rare earth.¹⁷

The EU showed disappointing attitude and acute reaction to China's policy shift, and prepare to appeal this problem through the WTO channel. The EU's attitude and action are understandable, because among the major economies in the world, only the EU and Japan has no substantial rare earth natural reservation. Additionally compared with the EU, Japan has prepared this day's come for a long time, thus in Japan there are also considerable man-made reservations. Therefore, it would not be surprising that European feeling toward the policy shift is not positive, and most of European sounds ascribe the problem with rise of Chinese political confidence with its increasing economic capacity, namely the assertiveness.

The first sound directly links the question to the China's role of breaking free trade principles. Based on this argument, China's rare earth policy is substantive protection, and through the monopoly market to manipulate the price. And this understanding suggests the further appeal to the World Trade Organization (WTO).¹⁸

There are also some sounds accounting for Chinese rare earth from developmental

perspective, they analyze that coupled with economic growth, Chinese industrialized capacity correspondingly has been promoted, under this background, China is no longer willing to export raw materials, instead, China wishes to attract world class rare earth processing companies to invest and setup factories in China to promote Chinese comprehensive rare earth industrial capacity, rather than being a simple primitive products exporters.¹⁹

Someone also argue that the rare earth is simply becoming the diplomatic leverage for Chinese government. Through natural resources way, China could revenge to some unfavorable foreign political behaviors by other international players.²⁰ Because the EU and European states are Dragon-Slaughter in many political issues like human rights and political liberalization, it is reasonable to generate this interpretation.

It was obvious that the explanations of rare earth policy shift from Chinese side were not accepted by European side, To claim this issue to the Chinese assertiveness and complaining were the mainstream media tones in major European media, as the EU is the most innocent and most miserable victims, the China's policy shift could be too sudden from European perspective, and of course is neither friendly nor cooperative. Therefore, the European side naturally legitimizes this policy as "assertiveness".

Another empirical evidence to claim "Chinese Economic Assertiveness" is China's role in the Eurozone bailout. The Eurozone financial crisis was brook out in 2009, led by sovereignty debt crises in some countries in the Eurozone, such as Greece and Ireland at the beginning and other Southern European countries later. The EU is the largest economy in the world, and the most important economies of the EU belong to Euronzone, the sprawl of these countries' sovereignty debt crises and the potential danger in default could be regard as detrimental treat to the existence of the Euro, and the economic stability in the EU and the world. After the outbreak of the Eurozone financial crisis, many parties, proposed and paid effort to the bailout plan to assist these countries to survive in the crisis.

Barely 20 years after Chinese market-economy transition, China has achieved the a success in economic growth and particularly international trade, coupled with the trade surpluses and lasting inflow of Foreign Direct Investment (FDI), Chinese government has accumulated the biggest foreign currency reserve of single countries in the world, meanwhile the EU is the top trade partner with China. Therefore, China's role in the Eurozone bailout became a public topic.

Although China has shown some actions to get involved into the Eurozone bailout, such as increasing the debts of related countries, encouraging Chinese companies to invest in Europe, while some Chinese state-owned companies also engaged some mergers and acquisitions (M&A) of the companies in Eurozone²¹, all above actions are positive to mitigate the cash tension of debts-troubled countries. The feedback from the European side seems not so nice, the questioning sounds raised as well.

First, Chinese attitude in the Eurozone bailout seems not so active. In the Eurozone bailout, China always emphasizes its status of a developing country and the policy priority of easing domestic problems and thinks China saving Europe is a "false question".²²The point always hints a reluctant position on the bailout issue.

Moreover, another reason driving the EU considering Chinese assertiveness in the Eurozone bailout was that China was trying to link the action in Eurozone bailout with the full-recognition of Chinese Full Market Economy (FME) Status from the EU.²³The FME is one of policy leverages in the EU's political arsenal, which has no too many weapons so far, to impose political influence to China,²⁴ thus the demand from Chinese side did not received cooperative feedback from European side, not to mention to be accepted. Naturally China's demand of FME recognition is regarded as the political conditionality from Chinese in the case of Europe in financial trouble.²⁵

At the same time, the EU and member states keep high sensitiveness toward the

high-tech know-how acquisition coupled with Chinese investment and M&A during the Eurozone crisis. Especially when Chinese moneys touch the companies in European key industries, the comments from European media are really not optimistic.²⁶ In the story, China was portrayed as an aggressive economic expansionist, equipped with irresistible cash.

To sum up, although European politicians still welcome China can do more in the Eurozone bailout, but the EU side is still alerting to China's other attention during the action and political side effect.²⁷

4. System Effect in International Relations

4.1 System Effect in Original Implication

The study to system is almost the inborn work for scholars engaging in forming international relations as an independent discipline that could provide a scientific understanding and predictable conclusion.²⁸ The scholars' effort reached its periodical peak when Kenneth Waltz publicizes his influential book about international political theory.²⁹

The effort of seeking "system effect" in decision making is importantly developed by Robert Jervis in describing the complexity in international politics. In the development of international politics, to explore the reason, sometimes named independent variable in scientific term, accounting for international political outcomes becomes a key question. In the Waltzian tradition, scholars obviously put their attention on strengthen of structure, and relying on the research and calculation to the structure, the study to international politics becomes a scientific work. As the direct opponent, new liberalism argues that the policy could be only made in domestic politics, the power mobilization between state and society is decisive to the forming of international political outcome.³⁰ In Jervis's argument, the whole story is

generated in a very much complex system, in which neither is decisive per se, each unit plays according to their position in system, but their power is influenced by configuration.³¹

System effect discourse suggests that there would be very difficult to have a bilateral relation in real meaning, instead, the interaction of variables in international politics makes the process extraordinarily complex. At least, in Jervis's discourse, three interactions exist in the generation of international political outcomes. First, separate action does not account for result. Second, strategies depends each other. Third, the choice changes the environment where it dependent on. Through these interactions, the international political outcomes do not depend on intention in a linear way.³²

In Jervis's framework, the simplest scenario to portrait the system effect is the triangular, rather than bilateral, relations. The triangular relation reveals the importance from the third country to the foreign polices between other two. In the triangular relation, there is always *pivot* one among the three, *which can align with either of the other two who lack this flexibility*.³³

In the "means-end" approach, China's uncooperative economic behaviors against the EU would be the proof that China's shift on its policy and attitude to the EU. However, Jervis's system effect discourse suggests that the true driving cause behind the policy could be from outside game, namely China's relation with other players in international politics.

4.2 System Effect on Economic Issues

In Jervis's discourse of system effect in international relations, most cases are about traditional security and high politics. In economic dimension, there are some specific features that are notice-worthy.

First, in economic activities are more constrained by international institution. In game theory, traditional national security is more homogeneous with the zero-sum game, in which survival and bargaining are fierce. In comparison, economic issues are closer to the liberal scenario due to the interdependence nature of economy, especially in the highly globalizing and institutionalizing world. Because of the independence feature of economic activities, the institution could be more powerful in economic arena. With international institution, state could be less able to make policy with full autonomy, but rather the policy making autonomy is ossified. For example, because of the non-discrimination principle in the WTO, the trade policy making from a certain state must be even toward almost all countries. That's to say, the institutionalistic feature of economic activities could intensify the system effect in decision making.

At the same time, in economic matters, politicians in today's political games, both democracy and autocracy, have to face the pressure about policy accountability and transparency. In traditional security issues, politicians always have more policy making autonomy in the "blackbox", due to the confidential characteristics of high politics. However, on economic issues, such "blackbox" has less space to exist, and politicians have to demonstrate policy rationality with performance, to public or ruling clique, to win the incumbency. Under this situation, a result in certain policy would cause comprehensive review to the decision making, the chain reaction could also enlarge the system effect in decision making.

On economic issues, compared with security questions, the system effect would be more obvious. This point means that re-evaluate the so-called "Chinese Economic Assertiveness" through the lens of system effect is necessary.

5. The Argument from System Effect Discourse

The story going to above stage, the game seems in a stale. Both side, the EU and China feel that the justice is standing on their own side, and fingering opponent with

the name of the “misunderstanding”, or a sin of “ignorance”. However, there are still many reasons that have too substantial influence to Chinese political elites in decision making to be neglected. Namely, the system effect in decision making matters.

On the issue of rare earth export control, the decision making is highly influenced by China’s dilemma on international raw material market. The rare earth, compared other natural resources like petroleum and coal, seldom has been known by public, due to its technical feature and absence from daily life. The empirical origin of the rare earth becoming a public topic in China was the China’s failure in international market, especially like ironstones price negotiation and other raw materials access, notably with Australia and Brazil, which firstly was becoming a public debate topic in 2008.

China is today’s absolute biggest steel producer in today’s world. According to the statistics of 2011 from the World Steel Organization, Chinese steel production was 683 million tons, almost half of world production, 1490 million tons.³⁴ The large scale steel production must stimulate the consumption and import of ironstones, the ironstones’ international market basically has been monopolized by Australian companies BHP Billiton, Rio Tinto, and Brazilian company Vale. The result was that the international ironstone future price was decided between the ironstone companies and Japanese and Korean steel companies. Although China is the biggest client, and the situation has not been improved in sequent several years, even in today. The ironstone business triggers dramatic turbulence in China, like the “Rio Tinto Spy Case”³⁵, in which China claims the employees of Rio Tinto got involved into bribery to key personals of Chinese steel companies to espionage the secret information in ironstone price negotiation.

More importantly, in Chinese domestic, long lasting public debates about economic security and current policies to resources-based industry have been heated. In the process, China’s rare earth export as a political topic started to be mentioned, this is too exceptional when China imports most natural resources, even like rich-reserved

coal. Meanwhile, nationalistic emotion was also brewed during the debate, especially when Japan's action in importing rare earth with low price from China and establish reservation.³⁶

Under the background abovementioned, Chinese government made an almost direct respond to reform Chinese rare earth industrial policies. Before 2008, when the Chinese failure in international ironstone price was reported, there was little opinion, including academic and public debates, covered the topic of rare earth implication to China's economic security. And before then, the politics-based academic thesis about rare earth was also minority, and most of them are scientific based.³⁷

Similar with the case of China's rare earth policy shift, Chinese actions on the Eurozone bailout is also influenced by profound domestic public debates, which is not tightly related with the EU.

China was not economic strong state in many ways for quite long time. Even after 30 years high speed economic growth, in terms of many socioeconomic indexes, China is still a developing country. This point decides China could be a very starter in overseas investors. In past many years, Chinese government purchased the US dollar priced assets as major overseas investment, and it has been well-know that the US public and private bonds occupied a considerable portions in the Chinese government investment portfolios.³⁸ However, with the outbreak of the financial crisis in the US and the US government's several times quantitative easing policies, these investments inevitably face danger of depreciation and losses.

Around the dilemma of Chinese overseas investment and the investment loss in the US, a wild ranged public debates merged, and some of criticisms are really harsh and even some member of the National People's Congress, constitutionally the Chinese counterpart of Western parliament, aired opinion that investigate the related decision makers' legal responsibility and the possible corruption in the decision making

process.³⁹ At the same time, the major two Chinese investors are competitive. The China Investment Corporation (CIC) and State Administration of Foreign Exchange (SAFE) belong to the Ministry of Finance and the Central Bank respectively, and they have to prove their competitiveness through careful investment.⁴⁰

Based on this background, it could be very rational that Chinese politician must be sensitive to all overseas investment and always to seek visible and short-term beneficial return to alleviate the pressure from domestic politics. Under this situation, high profile exposure of some M&A in Europe and further request to Full Market Economy status could be necessary to explain to Chinese domestic why the government should put money to a place where is far richer than China, in terms of GDP per capita.

To sum up, the typical examples of “Chinese Economic Assertiveness” from European perspective embeds little Chinese assertive thought against the EU and Europe, rather, they are the results of domestic political mobilization in China and interaction between China and third party countries, like the US, Japan and even Australia.

6. The Remark and Suggestion

Through the above analysis, the so-called “Chinese Economic Assertiveness” against the EU and its member states should not be understood as the China’s attitude shift or venomous purpose backing by increasing economic muscle. Instead, this paper argues that “Chinese Economic Assertiveness” is a policy consequence under complex system effect. The third party country, the USA, or Japan or Australia, is the key laying down the influence to China’s foreign policy to the EU.

The EU, or Europe as a whole, is definitely important player in international politics. However, from Chinese policy decision maker’s perspective, the EU is less linked

with China in a system, especially when compared with some international political players like the US and Japan. Due to the institutionalization of international community in economic dimension, China's decision making to the more linked players must influence the policy to less linked players, like the EU-China economic relation case.

Going along with the discourse of system effect, the best respond from the EU to the "Chinese Economic Assertiveness" is not pushing these issues into political agenda of international authority, because such approach would not eradicate the substantial causes influencing these decision makings, the system effect from China's relation with other international players. Given the fact that the EU-China economic relation is very difficult to shun the system effect from other international players, thus a better way to address these problems is case by case dialogue, and strengthens the research to China's relation and interaction with other global geopolitical players.

Notes:

¹ This paper is originally reformatted and developed based on the presentation on the workshop "China and Europe in 21st Century: Partnership, Competition or Co-Evolution", March of 2012, Renmin University, Beijing. Presentation's paper name was "Beyond Might and Mind: the 'Chinese Economic Assertiveness' from European Perspective and Its Implication to International Relations Theories"

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