

**China's G8 Impact**  
**A Discussion Paper**  
**By**  
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**Moving from the Engine Room to the Driver's Seat?**  
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***Summary and Conclusion***

There is little question that China's global economic emergence will have significant effect on developed countries like the G8. The impact will have many standard features already recognizable, but questions of just how great an impact and just how soon the G8 will feel its full force can only be answered with the phrase, "it depends."

For example, given a certain expected level of Chinese economic success, China's G8 impact depends on whether China's development lessons are adopted to some degree by other emerging markets such as those in South Asia and Latin America. Such adoption would in a sense *amplify* Chinese-style development in other large economies and hence amplify a Chinese-style impact on the G8.

China's G8 impact depends most critically on how effectively G8 countries respond to the opportunities and challenges China represents, especially in terms of labor force restructuring, corporate deregulation, attention to G8 domestic demand, openness to foreign visitors, and moderation of politically motivated efforts to demonize China's influence.

G8 countries could lose potential benefits if their responses in these and other areas are inadequate. In a related vein, China's G8 impact will depend on how skillful a role China plays in G8 domestic political developments, to help blunt natural tendencies for denial and protectionism. Finally, China's G8 impact will eventually reflect the nature of the world's post-cold-war order, which will find some middle ground between what is currently a unilateral U.S. preference and a multilateral European preference for shaping international institutions and their influence.

***I. China's Global Reach and Impact***

China's G8 impact already has many standard features, and their significance will only increase with time. One unknown factor is the pace of China's economic expansion. China faces certain risks that its economic miracle will stall, but these risks do not appear to be serious. Most fundamentally, China's G8 impact will appear in the form of shifting relative prices, as prices for manufactured goods and tradable services fail to keep pace with prices for energy and various non-renewable raw materials and productive resources, including land. This shift in relative prices will strengthen competitive forces already so apparent today—inexpensive manufactured imports, manufacturing and services outsourcing, contention for investment, access to Chinese markets, and disputes over responsibility for global environmental degradation.

### ***A. China's continued economic success—likely, with minor risks***

The current pattern of Chinese economic policies and commercial expansion indicates a balance of pragmatism and competition that promises continued high single-digit GDP growth rates for many years if not several decades. The major risks to such a medium-to-long-term pattern of success would be excessively rapid liberalization in critical areas before necessary regulatory and governance standards are enforceable, poorly managed civil unrest over the impact of necessary restructuring, and the possibility of military conflict over Taiwan. But in each of these areas, a policy combination of prudence and flexibility seems to minimize chances for disruption.

One example of premature liberalization would be large-scale privatization of the financial sector before internal governance and external supervision standards can be met. The consequences would be widespread financial failures, breakdown in funding for public investments and possible irreparable damage to growth and employment. Another would be premature excessive opening of China's capital account to short-term financial flows. Neither financial firms nor their non-financial clients would resist the temptation to borrow large sums internationally in patterns with serious mismatches in both currencies and term structure, leading to disruptive financial crisis with long-term damaging macroeconomic consequences. As for long-term economic reversals from civil unrest or military conflict, China might bounce back from adversity, as it did after Tiananmen in 1989, but the risk is substantial that it would not.

None of these risks is worrisome today. Chinese policies, the capacity of government at all levels to carry them out, the salutary effect of growth and income distribution patterns themselves, and cooperative steps by other countries all collaborate to ensure that this remains the case.

### ***B. Relative price shift—the fundamental impact***

China's large labor force and its respectable literacy levels and work ethic, when combined with continuing high levels of capital investment, mean that global production of low-skilled-labor-intensive goods and services will expand at an historically high and accelerating pace in coming years and decades. This output growth will be more rapid than growth in global demand for such products at the same time that global demand, including Chinese demand, for fuels and other minerals and raw materials will grow faster than global production. The result is expected to be a long-term shift in relative prices favoring non-renewable inputs. Products like petroleum, nickel, copper and zinc will become more expensive. Standardized labor-intensive manufactured goods and easily learned and delivered services will become cheaper.

This fundamental and long-term shift in global relative prices will have a range of impacts. As prices rise for relatively scarce and non-renewable fuels and raw materials, their higher cost will automatically stimulate new exploration as well as conservation efforts to reduce the intensity of their use and hence their cost share in final output. Substitutes will be found, and users will choose different patterns of final consumption. But this self-correcting mechanism will only partially offset the impact on businesses and consumer life, and as we shall mention below, the G8 ability to adjust will be an important determinant of China's ultimate impact.

For prices that fall, consumers will enjoy the improved availability of goods and services that enhance their quality of life and work productivity. This is likely to be especially so for lower-income socio-economic groups, for whom a wide range of previously unaffordable goods will become commonplace purchases. The negative side of these developments will be the loss

of competitiveness for production and delivery of these goods and services on the part of G8 countries, unless they experience dramatic—even drastic—deterioration in income distribution skews and declines in effective real minimum working wages. Such declines would undermine the original benefits gained from the affordability and would be just one measure of the success or failure with which G8 countries adapted to China's impact.

### ***C. Competition—Production platforms, jobs and profits***

The natural effect of such dramatic long-term relative price adjustments will be on competition among producers to match lower output prices while adjusting to higher non-renewable input costs. This will also naturally have an impact on demand for labor and will necessitate shifts in location for production platforms that complement the location of suitably skilled and priced labor. In general, G8 countries will lose unskilled and semi-skilled jobs in large numbers; companies that relied on domestic production of a range of products will go bankrupt or relocate; and G8 locations will lose new investment projects for which they once would have competed successfully. These are all standard and well-understood trends already in evidence.

#### ***1. Product life cycle, R&D and supply chains***

The pattern of such an expanding competitive impact on the G8 will not be simple, however. In the past, a whole product and its production process might have been seen as standardized and suitable for outsourcing to lower-wage-cost locations. At the same time, other products and their manufacture required close proximity to ultimate consumers and to the scientific and engineering communities on which innovation and cost cutting improvements depended. But in recent years and decades, better communications and logistics have meant that different aspects of the same production process can be located differently, depending on their labor and skill requirements.

In other words, the concept of a product life cycle no longer captures the situation. Rather, a *process-life-cycle* way of operating is emerging. For the same product, some parts of the design and production process, including R&D, can be located in locations with highly skilled labor while other parts of the same production process requiring lower skill levels can be accomplished in countries like China.

As the volume of trade with countries like China expands, this process of breaking up the R&D, software development, physical production line and after-sales service components of product delivery will become more refined. G8 countries will find that the less skilled parts of the whole process, wherever they are in the production sequence, will be increasingly outsourced. The squeeze on lower-skilled and lower-paid labor will be relentless.

#### ***2. Investment climate—costs, zones and predictability***

This break-up of the production process into its constituent specialized labor needs is altering prospects for local governments in the G8 to attract new job-creating investments to their jurisdictions. Low-cost wages and tax breaks will lose their allure. Instead, prospective investors in G8 localities will increasingly look for just those pools of skilled and technical labor they cannot find in countries like China, together with the logistical and communications support and the lifestyle amenities needed to retain the sophisticated dimensions of their globally partitioned labor force. The investment climate of a successful G8 investment zone will need to

assure investors that they can rely on the predictability and sustainability of profitably locating their more sophisticated labor components in that zone.

### ***3. Tradables and non-tradables: e.g., tourism, education and healthcare***

A natural extension of this division of labor within the production line is that set of less divisible services with few if any tradable components. China's impact on the G8 will include enhancing the value of producing such services competitively in the G8. One of the best examples is tourism. While there may be replicas of the Eiffel Tower, London Bridge, Ryoanji Temple gardens and Las Vegas casinos, there are none for the entire left bank of the Seine, the British Museum, Hakodate with Mount Fuji or the Grand Canyon.

Growth in demand for affordable and convenient visits to one-of-a-kind-in-the-world phenomena located in G8 countries should be major beneficial effects of China's global expansion. China will neither be able to produce nor deliver these final tourist products, although many aspects of tourism in G8 countries are and will increasingly be produced by China—air transportation, post cards, brochures, souvenirs and even snack foods are already and increasingly will be supplied from China. But hotel staff, shop personnel, drivers, guards, tour company personnel and numerous other personal services employees will keep labor-intensive jobs which by their non-tradable nature cannot be outsourced. Cost will be an issue, of course, because the Taj Majal is still a substitute for the cathedral at Chartres, especially if the cost and convenience of the experience is competitive.

Other services with potentially significant non-tradable components are education and healthcare. Where quality of the experience is linked to contact with cutting-edge research and agglomerations of specialized professionals—not to mention world-class students—G8 campuses and medical centers will still command a price premium and strong demand. Indeed, China's growing income and sophistication should provide a direct and expanding beneficial impact on not just demand for skilled professional labor but also for all the ancillary support labor as well, labor doing tasks which by and large are hard to outsource.

### ***D. Chinese Markets—investors, consumers and intellectual property***

The above discussion of non-tradable services opens up the whole area of China's impact on G8 countries as a market-opportunity impact. China's trade is almost balanced with the world because while it exports inexpensive manufactures, it not only imports raw materials and kits, it also imports machinery and equipment in large volumes and will do so even more in the future. This potential growth in Chinese import demand, roughly matching growth in China's export of low-end manufactures, promises G8 growth in production of such technology-rich investment goods and of the parts in their production processes requiring skilled technical and scientific labor.

A second potentially large Chinese market for products embodying non-transferable G8 technical skills and cultural perspectives is high-end consumer goods. Whether for fashions, luxury vehicles, top-of-the-line personal appliances or some other luxury item where status or high cost-to-enhancement features appeal to wealthy consumers, G8 suppliers should find an increasingly affluent and broad-based market in China. Once again, the low-skilled aspects of producing such luxury goods may locate in China, but G8 producers and distributors will by and large capture the high margin commanded by such products.

A major complication in selling to China's rapidly growing market is protection for intellectual property. China's enforcement capabilities lag far behind the challenge facing both foreign and domestic producers of goods and services that are easily copied or infringed. Responses to-date will most likely be guides to future efforts at controlling the losses associated with theft of intellectual property. Solutions to-date include foreign "black-box" production of critical quality components, private investigators working in China and action through Chinese or G8 civil courts, and government-to-government pressure to make local Chinese officials take more responsibility for IPR. An additional strategy applied by some foreign equipment manufacturers is to maintain a high speed of technical innovation at home and sufficiently outpace the ability of copiers to counterfeit a competitive product.

Whatever the approach, selling to China, along with enjoying the affordability of larger volumes of Chinese manufactures, will remain important "win" components in China's impact on G8 countries.

### ***E. Environmental challenges—technology transfer and global leadership***

The final component in this brief round-up of China's G8 impact components is environmental degradation and the economics of doing something about it. The problems in China of water, air, noise pollution as well as grassland degradation, soil erosion and desertification grow more acute with each year of successful economic growth. At low per-capita income levels, the willingness to substitute lower growth in return for slowing or reversing degradation is weak.

Domestically, China's demand for environmental solutions will grow as its standard of living improves. Only as the effort to feed, clothe and house its population adequately becomes less desperate will environmental efforts seem more worthwhile. Then, civil society and related government agencies will be more successful in countering if not overruling the influence of special interests who have the most to lose by curbing pollution and environmental degradation.

The technology behind these needed solutions is most advanced and best understood in G8 countries, and the market potential for both hardware and expertise sales will in the foreseeable future accelerate its growth. This will be especially so for the several hundred million people living in the most affluent and most rapidly growing areas along China's coast and in those areas where tourism as a way of life is increasingly dependent on paying for necessary environmental solutions. The impact on demand for skilled G8 labor will be large.

Internationally, China's economic growth highlights the seriousness of global environmental degradation, such as global warming and ozone depletion. How should the G8 respond to this added challenge? One approach is to demand that China take a leadership role in adjusting emissions, so that its addition to the global problem can be minimized. This approach, however, represents a failure of leadership on the part of the G8, which should arguably concentrate on what can be per-capita standards for global emissions. In this perspective, the best way to influence developments in China is by example, for efforts to persuade China to take steps more difficult than those required of much more affluent G8 countries are unlikely to be successful. Prospects for success of this latter approach are not promising.

Overall, the above partial list of standard components for China's impact on the G8 contains both pluses and minuses. What will be the balance in the actual outcome? What will be the scale of the various impact components? This is where one must say "it depends."

## ***II. Third-world Amplification***

A preliminary but potentially fundamental issue is the degree to which China's impact on the G8 remains a China impact only. If countries like India, Brazil and Vietnam acquire critical components of China's successful development policies and apply them over the coming decade, such diffusion will significantly amplify China's initial impact on the G8. All of the standard impact forces sketched out above will apply in greater force. Just how great China's ultimate G8 impact becomes depends to an important degree on the extent of such diffusion and amplification.

### ***A. China's paradigm for successful globalization***

China's success in sustaining GDP growth and an emphasis on technology acquisition from abroad combined with infrastructure development and market reforms at home are by now obvious to other emerging-market countries. China's 25-year experience has validated what is a particular type of globalizing modernization—one that is opening in a controlled way and liberalizing with strong parallel government administrative mechanisms still in operation.

The most salient aspect of this paradigm is probably the role of the financial sector in financing what are effectively public investments and services. China's implementation of what is derisively called a repressed financial sector in many ways follows an East Asian pattern, in that for a certain phase of growth it has been effective. It superficially resembles efforts in other parts of the developing world to rely on development banks and state-owned banks and postal savings programs to finance government spending, except that China's implementation has been relatively successful while in other parts of the non-Asian developing world the record has not been encouraging.

As in most poor countries, China's need for public investment and services provision far outstrips its ability to raise fiscal revenues through taxation and fees. Rather than relying solely on government sale of bonds, China has kept a government hand in virtually every aspect of its financial sector's activity. It uses a combination of direct government supervision and indirect management through monitoring and by placing members of the Communist Party in financial leadership positions at all administrative levels and instructing them to balance goals of profit-making with additional goals for economic and social development. As a result, China does not have a market-based banking system, and even its capital markets are instruments for directing savings toward government priority sectors and programs. As China becomes more developed, this combination of profit and public programming will need to shift in the direction of profit, and it is doing so. But for recent decades—and perhaps for a decade or more to come—government involvement in financial sector activity has been a lynchpin of China's development success.

A second of many components in China's successful economic paradigm has been its strong emphasis on FDI. This is in fact something of a break with the East Asian tradition. Japan and South Korea, for example, did not encourage FDI, while China has embraced it with limitations. The result has been a rapid transfer of technology—both scientific and managerial—without which growth in China would have been much slower in recent decades. The success of FDI in China is more than the transfer of funds and technology, however. China has used the presence of foreign firms to create a climate of domestic competition in which Chinese firms, with funds from the government guided financial system, have also acquired international technology and management expertise. The result is a robust indigenous corporate sector largely wholly Chinese owned.

Finally, China's accession to the WTO under much more invasive terms than other poor countries, and even more invasive than terms for richer countries, has provided domestic stimulus and competition with far-reaching implications for productivity and global market access. Even here, though, China has placed limits on foreign participation in its financial sector, and convertibility on the current account has not been extended fully to the capital account, especially for short-term capital flows. Nevertheless, China's openness to outside economic activity has actually given it a effective tool for encouraging global markets to stay open to its product and service exports. Foreign special interest groups have become as interested in keeping their access to China as other interest groups have become in trying to introduce protectionist measures to undo their own market openness to Chinese products.

Overall, it is not possible here to catalog the many dimensions of China's successful globalizing paradigm. Suffice it to say that it is different enough from a vision of globalization taken as indiscriminate opening to competition and full retreat of direct government participation in many key aspects of domestic market developments. If other countries can adopt and adapt such a productive mix of policies to their own uses, China's impact on the G8 will find its extension coming from other countries besides China.

### ***B. Adoption potential elsewhere***

But can other countries replicate or successfully adapt China's lessons to their own circumstances? It will not be easy. China has inherited conditions and leadership that other countries may not be able to find. China's income distribution reflects several phases of successful land reform over a fifty-year period, and its emphasis on universal literacy and extension of mandatory schooling to 9<sup>th</sup>-grade levels will be hard to find elsewhere. China has essentially removed discrimination based on caste, and while professional opportunities for women are still hardly the equal of those for men, by developing country standards they are very good. Most importantly, the quality of government and the tools it has to work with, including leadership incentives at the national level, are arguably weaker in other developing countries than they have been in China.

Hence, the chances do not look good that results as dramatic as China's will come easily from efforts to mimic China's globalization paradigm, but many of the lessons are transferable. To the extent that this extension of China's capabilities indeed emerges in coming years and decades, the impact of China's economic success will be much amplified.

### ***III. The G8 Response***

Regardless of whether China's economic emergence is one-of-a-kind or not, the most important variable in determining its G8 impact will be the response of G8 countries themselves. China's rapid appearance as an economic dimension in their domestic economies offers challenges and opportunities to which the G8 can react effectively or defensively. If the reaction within the G8 is an effective one, benefits to the G8 will be enormous. If it is defensive, the result will be slower growth for themselves, internal tensions, and even a backward slide in comparison to competitor G8 regions that successfully embrace China's emergence.

The key ingredients of an effective G8 response will be deregulation, restructuring, domestic demand stimulus and openness for markets in non-tradable services like tourism. In addition, on the political side, success in limiting the demonization of China by domestic interest

groups will enable greater success in all the other dimensions of a successful embrace of the opportunities China represents.

### ***A. Corporate deregulation***

Efficiency in production, corporate management decisions and a competitive environment will be an important component of an effective G8 response to Chinese challenges. This is not only because of requirements to compete with China and benefit from supply-chain innovations. It also will enhance G8 countries as destinations for foreign investment, especially to the degree that China and similar emerging market powers consider G8 productivity and growth potential prerequisites for supporting a global reserve currency. In this regard, the G8 are split between the United States on the one hand, which has deregulated and whose currency is still considered the premier basis for international reserves, and Europe and Japan on the other hand, where by most accounts corporate deregulation lags significantly behind.

The ability to stay ahead of China in R&D and in product-life-cycle sophistication will in large part depend on continued success in systemic and corporate efficiency improvements in the G8.

### ***B. Labor force upgrade and restructuring***

A much more obvious need, and one more difficult to implement for the G8, involves wide-ranging efforts to prepare the G8 labor force for successfully capitalizing on G8 opportunities offered by China's impact.

If the G8 labor force retains its current mix of skilled, semi-skilled and unskilled labor, the domestic political pressures will mount to resist China's encroachment on productive activities seen as the domain of less capable segments of the G8 labor force. If, however, G8 countries mount transformational educational, training and labor-force mobility-enhancing reforms, they will themselves be able to embrace opportunities to break up their production lines into segments for skilled and unskilled labor with less political resistance. If successful, G8 economies will be able to approach full employment by finding jobs for most of their workers in the skilled segment of the internationally required labor pool.

This is a tall order, however, because G8 countries do not see themselves in a category needing educational programs with the urgent appearance of those required for developing economies seeking to reach the most basic levels of literacy and work-place familiarity. But China's impact on the G8 provides just such a need in G8 countries. Heretofore acceptable structures of school graduates and workforce capabilities, especially among young entry-level workers, are no longer adequate for meeting the challenges of China's impact, and only a dramatic shift in G8 mindset can prepare for the labor force requirements of the future.

### ***C. Greater non-U.S. G8 reliance on domestic demand***

If non-U.S. G8 countries are successfully to adapt to China's long-term economic impact, they must adjust their post-world War II strategy of placing priority on global market share in their national economic strategies.

It is not just that competition with China will be increasingly difficult in traditional manufacturing markets. We have seen how opportunities for selling higher-quality products based on newer technologies could also grow dramatically for successful G8 producers. It is

more that if G8 economies other than the United States are to find a more robust platform for benefiting from China's impact they will want stronger domestic demand and even the possibility of long-term trade deficits with the rest of the world. In this way not only their economies but their currencies will assume more of a leadership role, providing the funds and flexibility to scramble ahead of China up the ladder of product sophistication and innovation.

The alternative is to continue to try to compete inappropriately with China for certain segments of global markets rather than adjusting to absorb the benefits China's productivity has to offer local consumers.

#### ***D. Attention to income distribution and health of the middle class***

A corollary to both labor-force restructuring challenges and the need to enhance domestic demand is China's impact on future G8 patterns of income distribution and standards of living.

A potentially damaging impact of China's competition for low-skilled segments of the global supply chain's labor requirements could be deterioration in income distribution patterns. Rather than upgrading skills and educational endowments for all segments of their labor force, some G8 countries might be tempted to allow large portions of their labor force to stay poorly educated and low-skilled. These segments might then try to compete with China's labor force for the global jobs for which they are qualified. To do so, their wages and job benefits would have to remain inferior to others in the G8. The impact on income distribution would have a compounding effect on the ability of poor families to participate in just those educational and skill enhancement programs needed to rectify the overall labor force structure and prepare it for a healthy response to China's impact.

Deterioration in income distribution patterns would also undermine efforts to strengthen domestic consumer demand as a basis for sustained G8 gain from China's impact. The challenge for G8 governments and society at large is to recognize this needed response to China's impact and craft policies that both maintain individual incentives for self-improvement and productivity enhancement while making sure that opportunities are available once the incentives are in place and operating.

#### ***E. Solving visa and other issues for tourism and education***

A final example of needed G8 adjustment to China's economic impact is in the area of access for Chinese consumers to non-tradable G8 services such as those for tourism, education and health.

The clearest example is the United States, where its solution to concerns about terrorist dimensions of foreign travelers in North America has resulted in a restrictive pattern driven by cost considerations as much as by concerns about terrorism. Without adequate resources applied to screening and tracking foreign visitors, major potential gains from China's impact on the U.S. economy will be lost. One example is the U.S. policy of not monitoring travelers that exit the United States for other countries, leaving no systematic record of which visitors are still in the country beyond the limits of their visa. An example of successful change in the opposite direction is Europe's agreement with China for reciprocal ease in arranging tourism visas.

The future market for educating and entertaining increasingly affluent Chinese citizens in wholly domestic G8 service facilities represents a beneficial impact of China's globalization that

should not be lost because of inadequate investment in public management of this market segment.

## ***F. Welcoming China's impact rather than demonizing it***

A final overarching aspect of the G8 response to China's impact is the public relations handling of China's image. Here, there are significantly different tendencies within the G8, especially between Europe and the United States. To the degree that public policy demonizes China's emergence as a looming threat—both economic and military—the job of crafting policies to benefit from Chinese impact opportunities will find itself undermined.

### ***1. The G8 responsibility***

G8 democratic politics tends to emphasize special-interest concerns and attacks on political opponents branding them as lax on looming threats. In this political environment, China has a difficult public relations job, as do those attempting to generate public policies best designed to gain from the opportunities China's impact offers.

A key ingredient in such a public relations effort must emphasize that China's recent emergence is in many ways a return to normalcy for the international commercial relations of what has traditionally been an economic giant in the world. China's return to something approaching a normal scale for its global presence can be presented as a healthy development full of promise for many dimensions of G8 society. But this message must be understood and delivered skillfully in order to compete with the more visceral attacks of interest groups who see their competitive positions slipping because of just this Chinese return to commercial normalcy.

As public policy, promotion of this healthier and more accurate understanding of China's economic impact should become a high priority. It is present behind the scenes in the United States and is more openly embraced by Europe, while the sentiment in Japan is conflicted and unpredictable. As a responsible economic entity, the G8 should do what it can as a group to make progress in this area.

### ***2. China's Political Savvy***

China's role in indirectly influencing G8 political processes is also important. China is already taking steps to soften its apparent economic impact. Its WTO commitments provide for significant safeguards against sudden labor-force dislocation, and accommodation of G8 demands for better IPR protection and moderation in applying permitted non-tariff barriers can all help weaken China's image as a threat. Chinese financial authorities' collaboration with U.S. officials in working to resolve exchange rate issue differences as quickly as possible is a third example of how China's political savvy is essential for maintaining necessary political equilibrium within the G8 regarding the impact of China's economic expansion.

A second longer-term dimension to China's participation in educating G8 political processes can take a page from Japan's strategy of investing in job creating facilities in G8 economies. There is no reason why G8 facilities taking advantage of G8 labor skills cannot also be Chinese-owned. The effect is to blunt criticisms that China's impact is only one that takes jobs away.

Many other Chinese approaches can enhance G8 public appreciation that China's growing impact is a return to global normalcy rather than emergence of an oriental demon to be

feared and opposed. The G8 ability to benefit from China's impact rather than attempt to blunt it will depend in no small part on China's success in applying its political savvy to solving this public relations problem.

### ***3. The world's newly emerging global order***

A final but important aspect of how the G8 reacts to China's impact is the nature of overall emerging global order following the end of the Cold War. Will the world become one most heavily influenced by one predominant power, the United States, largely going it alone while paying only lip service to the role for multilateral international institutions? Or will a European vision of subordination of national interests to collective capabilities ultimately shape world markets and access to them?

One possibility is a world order heavily influenced by U.S. unilateral initiatives along lines important for securing global influence through market-oriented democracies operating as part of its global security presence. In this world order, China will be difficult to place within the orbit of U.S. direct security cooperation, and so it will be seen as a potential adversary and a reason for enhancing the capabilities of this possible version of a future world order. The potential for demonizing China is much greater under this response to China's G8 impact.

A second possibility is one in which international institutions strengthen their mandate and influence over international behavior and the shape of global commercial development. This is at present more a Europe-sponsored direction. In this kind of global vision, China's impact is as an additional pole in the world—commercial and military—in need of absorption and accommodation if the world system is to function smoothly. This version of a future world order is more likely to succeed in presenting China's impact as a normal and desirable one.

The over-simplified juxtaposition of two directions in the evolution of world order does not do justice to the subtlety of these positions in different G8 countries, but it does highlight an important influence on how the image of China's G8 impact depends on powerful shifts in international relations.

A key outcome of this evolution in the world order will be the degree to which price will decide who has access to world resources. Will China be able to bid for the resources it needs, and will this bidding be allowed to shift global relative prices in directions favoring scarce and environmental-friendly resources? To the degree that security alliances in a world order dominated by U.S. military linkages also influence commercial patterns such as those for long-term energy contracts, China's access to certain markets on the basis of price might be more limited than otherwise. In return, Chinese steps to assure its own access by purchase of foreign resource bases and establishing its own commercial and diplomatic alliances might make the necessary G8 public relations job more difficult than otherwise.

It is difficult to say at this point where the G8 will strike a balance in its overarching treatment of China's emergence. But one thing is clear. The G8 itself has a major role to play in the nature and extent of China's impact on G8 economies.