Between Chinese and Western Norms: Local Policy Deliberation and Cross-issue-area Variations in China’s Global Governance Strategies

by

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A thesis submitted in conformity with the requirements for the degree of Doctor of Philosophy
Department of Political Science
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2019

Abstract

As a rising power, China sometimes plays an ideational leadership role in global governance by constructing homegrown norms and policy ideas, but at other times it embraces Western global governance norms and rules and even imports them for domestic reforms. When will China provide alternative global governance ideas, and when will it learn from the West? This study argues that varied Chinese global governance strategies are produced by varied trajectories of the local policy deliberation mechanism. Local policy deliberation is a pragmatic mechanism of ideational change taking place within local policy communities (i.e., communities of ministry-level bureaucrats and their advisors). Its trajectories are shaped by two conditions. First, uncertainty build-up and problematization of local orthodoxy trigger local ideational change and determine the scope of change. Second, local policy communities’ evaluations of local-idea-informed policy experiments determine the outcome of policy selection. While local policy communities facing uncertainty tend to prioritize local-centric policy innovation, idea importation incentives emerge when the governance performance of such local-centric innovations are perceived as negative. The two conditions can be influenced by multiple factors but are profoundly shaped by policy communities’ interpretations and interests. I illustrate the theory using a comparative case study and process tracing. In the international development cooperation (IDC) case, two rounds of local policy deliberations have focused on absorbing
novel local ideas for policy innovation, and local-centric policy experiments were politically endorsed by a passive local policy community. The products were homegrown IDC norms and practices. In the climate case, although local policy deliberation initially brought in local ideas (i.e., the command and control measure), the governance performance of local-centric policy experiments was seen as negative. This generated strong incentives for importing foreign ideas (e.g., ET). In the finance case, a lack of local financial governance knowledge gave Western actors more influence over Chinese financial policy community’s beliefs in the very beginning. The local commitment to norm integration has been robust since the 1990s.
Acknowledgments

I am grateful for having gone through the Ph.D. journey with the help and support of so many wonderful people.

My supervisor, Matthew Hoffmann, is an invaluable mentor. Much of my thinking about global governance and social change has been influenced by his remarkable work on experimental governance. He encouraged me to pursue my own research agenda. His ability to distill key ideas from complex arguments helped to clarify my confusion and made my theoretical framework clearer and more condensed. I gained a lot of knowledge and research skills from working with him in this project and in his “Pathways to Decarbonization” project (for which I have served as a research assistant). Matt is also a warm and supportive person and a human being who cares very much about the fate of mankind. He will inspire my own research and teaching for many years to come.

I am indebted to my other committee members, Lynette Ong, and Louis Pauly. Lynette provided me with very valuable suggestions on the contents related to Chinese politics and Chinese bureaucracy. Her comments from a domestic politics perspective were crucial for the improvement of my theoretical framework. Lou was a key source of knowledge on financial governance and IPE theories. His emphasis on clarity of writing was much appreciated. My two reviewers, Steven Bernstein and Hongying Wang, read the dissertation under a tight timeline and managed to provide penetrating and constructive comments. I am very grateful for their support.

Beyond my committee and reviewers, many other professors influenced my study and research at different stages of my Ph.D. I am especially indebted to Emanuel Adler, who gave me an incredible training on IR theory in the early stage of my Ph.D. I also want to thank other professors who taught me, especially Seva Gunitsky, Kanta Murali, Wilson Prichard, Dickson Eyoh, Lee Ann Fujii, and Kenichi Ariga. Their excellent teaching enriched my knowledge of IR theory, development studies, and research methods. I could not have completed this project without the knowledge and skills obtained from their excellent courses.

I also appreciate many other scholars’ comments on early versions of my work at various occasions such as International Studies Association annual meeting, American Political Science Association annual meeting, and workshops at the Munk School of Global Affairs at the University of Toronto.
I am grateful to my all friends at the University of Toronto and elsewhere who have supported me intellectually and made my Ph.D. life so enjoyable, especially Steven Loleski, Wen Yao, Asif Farooq, Zhang Huiquan, Hamish van der Ven, Karl Yan, Steven Yet, Zhang Yiwen, Zhao Zhen, and Sun Yixian. I enjoyed the many long and fruitful discussions about my theory and empirical studies with Steven Loleski and Wen Yao. In addition, without my high-school classmate and close friend Pan Xiaoyi’s kind host, my many trips to Beijing during 2017 would have been much less pleasant and costlier.

A number of institutions provided practical and financial support for my Ph.D. study and research. The University of Toronto and China Scholarship Council jointly offered me a five-year doctoral scholarship. My fieldwork in China was financially supported by the Department of Political Science at the University of Toronto, the School of Graduate Studies at the University of Toronto, and my supervisor Matthew Hoffmann. I also want to thank Yu Hongyuan who hosted my stay as a visiting scholar at the Shanghai Institutes for International Studies. I also acknowledge my many interviewees who spared their precious time and insights with me.

I could not have completed this project without the support of my mother, Guo Qi, my grandmother, Song Xiufen, and my uncle, Yu Haihong. My deepest gratitude goes to my wife Long Fei, who has always supported me throughout the Ph.D.’s highs and lows. Her love is the source of happiness in my life.

Finally, I want to dedicate my work to my father, Yu Haifeng. He was an extremely brilliant man and is always my idol. I regret that I never had the chance to prove myself to him. But I know he is watching and happy with my accomplishment thus far. I miss him.

Bowen Yu
Toronto, Canada
May 25, 2019
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With regard to reference of Chinese elites, experts, and authors in the main text, I adopt the Chinese method of naming. That is, the surname name comes before the first name (e.g., Xi Jinping, Deng Xiaoping). In the footnotes, however, Chinese people’s names are cited following a Western method of naming as managed automatically by the reference software (i.e., the first name comes before the surname).
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Chapter 1
Introduction: The Complexity of China’s Global Governance Strategies

The world is so big, and challenges are so many. The international community expects to hear China’s voice and see China’s plans. China cannot be absent.

Chinese President Xi Jinping’s New Year Message, December 31, 2015

1 Introduction: Puzzle and Argument

As a rising power, China has become increasingly capable of shaping existing global governance regimes based on its preferences. Yet its attitudes to Western global governance rules and norms still vary across issue areas. In some issue areas, China applies unique homegrown governance rules, norms, and practices and seeks to promote them to the world. In other issue areas, it still acts as a learner or taker of Western rules and ideas, who is willing to import those foreign ideas and revise domestic policies accordingly. This dissertation seeks to provide a coherent theoretical framework to explain this variation in China’s international behavior.

Since the new millennium, China has emerged as a major player in global politics. Although its overall material power still falls behind that of the United States (US), China already has a strong political influence over world affairs. In the realm of global governance,

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China is now a key provider of global public goods in issue areas such as global financial governance, international development cooperation (IDC), climate governance, and peacekeeping. In this context, when discussing the transformation of global governance, a key theme is China’s global leadership. Observers expect China to be an increasingly proactive reformer of the global governance system, many components of which are shaped by Western norms and rules. Indeed, some of China’s foreign policy discourses and practices seem to support such an expectation. China’s top leaders, especially president Xi Jinping, have stressed that China should move beyond passive participation in global governance and pursue a leadership role and promote systemic reforms. In 2017, Xi stated that it was an important task for China to “guide the international society to jointly build a more just and equitable new world order.” This statement is much more proactive than the Hu Jintao government’s “peaceful development” discourse. As a result, the Chinese government has crafted many new concepts of foreign affairs over the last few years, with the most noticeable example being “A Community of a Shared Future for Mankind.” These efforts denote an emerging general strategic interest in constructing Chinese global governance leadership not only in the power-sharing dimension but also in the normative and regulatory dimensions.

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2 I am not claiming that every part of the global governance architecture is Western-dominated. I simply argue that Western domination can be seen in many important issue areas of global governance. It is my analytic interest to study China’s engagement with global governance norms and rules that are made by the West.
5 Xi anchors China’s foreign policy around the task of building “a Community of a Shared Future for Mankind,” see Jinping Xi, “Secure a Decisive Victory in Building a Moderately Prosperous Society in All Respects and Strive for the Great Success of Socialism with Chinese Characteristics for a New Era” (CPC Central Committee report delivered at the 19th National Congress of the Communist Party of China, 2017).
Although new concepts are often praised by the Chinese media as examples of “Chinese knowledge” and “Chinese solutions,” it is undeniable that those vague political discourses often do not translate into global “governance strategies,” which, as Jacqueline Best defines, are “constellations of practices that are linked by their connection to a concrete problem and a way of defining and tackling it.”\(^6\) Compared with inspiring but empty words, governance strategies need rules, norms, and practices that can provide clear guidance on the resolution of global problems. Therefore, one key indicator of China’s global leadership is its capacity to construct operational Chinese rules and norms for global governance, or Chinese global governance strategies. This focus on the regulatory/normative dimension of China’s activities narrows down the scope of this dissertation and sets it apart from studies on China’s engagement with the system in the material and power-sharing dimensions. China can take reformist actions on the power-sharing dimension and still adhere to Western norms and rules (see chapter 5). The latter dimension is the focus of this study. To be sure, I do not claim that focusing on rules and norms is the only or best way of studying China’s engagement with global governance. I simply argue that China’s behavior in the regulatory/normative dimension is an equally important topic and should be studied more carefully.\(^7\)

Looking at rules and norms for the governance of specific global problems, as well as the policy measures that build on them, we can easily observe a cross-issue-area variation in


\(^7\) This focus on social dimension of world order is similar to Adler’s focus on international practices and “world ordering,” see Emanuel Adler, *World Ordering: A Social Theory of Cognitive Evolution* (Cambridge University Press, 2019); This is also Acharya’s focus, see Amitav Acharya, *The End of American World Order* (John Wiley & Sons, 2018), 12.
China’s choices. On the one hand, in a few issue areas of global governance, China is acting as a rule/norm innovator, providing concrete governance strategies that are different from the dominant Western ones. Such rule/norm innovation practices can be seen in cases like IDC and peacekeeping. For example, as I will discuss in detail in chapter 3, in the IDC field, China has long worked independently from Western donors and constructed an IDC strategy with Chinese characteristics. It has conducted a series of “local” governance experiments that have drawn heavily on China’s own development experience and knowledge. Contrary to the Western approach that emphasizes comprehensive long-term aid programs, soft-infrastructure (e.g., promoting institutional reform), and untied aid; China stresses stand-alone projects, hard-infrastructure and productive sectors, and the integration of aid and business mechanisms. Such a governance strategy not merely consists of vague discourses but contains clear and operational problem-solving guidelines. These IDC norms and policies are also being upgraded under the Belt and Road Initiative (BRI). Therefore, China is indeed providing a Chinese global governance plan in the IDC field, which offers an alternative to the Western IDC model and attracts followers from the developing world. In this sense, China is acting as a normative revisionist in the IDC area, challenging the monopoly of Western norms and thus weakening

8 For a review of Chinese norms of peacekeeping, which is labeled as “development peace” (in contrast with the Western “democracy peace” approach), see Yin He, “Guifan Jingzheng Yu Guifan Hubu: Yi Jianshe Heping Weili [Norm Competition and Norm Complementary: The Case of Peace-Building],” Shijie Jinji Yu Zhengzhi [World Economy and Politics], no. 4 (2014): 105–121.

9 In this project, “local” means “national.” I use this term because it is used by IR theorists (e.g., Amitav Acharya) when referring to norms that are “not global.” See Amitav Acharya, “How Ideas Spread: Whose Norms Matter? Norm Localization and Institutional Change in Asian Regionalism,” International Organization 58, no. 2 (2004): 239–275.

Western authority.11 As a result, for some observers, China, together with other emerging donors, is driving a “silent revolution” in IDC.12

On the other hand, in other issue areas, we are witnessing the convergence of Chinese and Western governance norms and rules. In issue areas such as global climate governance and global financial governance, China’s activities take the form of learning and idea importation. For example, as I will show in chapter 4, in the global climate governance field, China’s approach has changed from defending southern exceptionalism to close collaboration with the West. On the multilateral level, China collaborated with the United States in the negotiations prior to the 2015 Paris Conference of Parties (COP) and revised the interpretation of the principle of Common but Differentiated Responsibilities and Respective Capabilities (CBDR-RC). Normative convergence in the climate field goes deeper. The adoption of the Emissions Trading (ET) measure further reflected Chinese policymakers’ willingness to import foreign ideas—though these ideas may not fit well with pre-existing local normative and institutional settings. In this sense, the adoption of ET is not only a case of domestic public policy-making but also an indicator of a pro-learning environment in the climate field in China. It thus has important international implications. Similarly, as chapter 5 will present, in the global financial governance issue area, China still prioritizes incremental integration in the International Monetary Fund’s (IMF) regulatory system despite the presence of widespread frustration with the latter’s governance performance. Although China is acting as a reformer in the power-sharing dimension (e.g., pushing for the adjustment of IMF’s quota and voting shares), it continuously

11 For example, Angola has seen China as a “more supportive and less critical partner” than Wester donors in the IDC issue area. John Reed, “China on Track to Win Friends in Oil-Rich Angola,” Financial Times, March 4, 2006.
supports the IMF’s (incremental) capital freedom norm and its central role in the global financial safety net. In these two cases, China not only tends not to challenge Western norms and rules on the global level but even actively uses global norms and policy ideas to revise the domestic policies and practices. In this sense, it is still a follower (or what Robert Zoellick called “responsible stakeholder”) viewed from the normative/regulatory lens.¹³

This cross-issue-area variation is puzzling. We know from system level theories (e.g., realism, power transition, and social identity theories) that countries’ behavior in world affairs is often guided by their grand strategic concerns. From the above analysis of China’s foreign policy discourses, we can see that, under Xi’s leadership, China is seemingly committed to building ideational leadership in global governance. However, despite top leaders’ public statements, China’s actual choices in different issue areas still vary. Although the slogan of “proposing Chinese plans and sharing Chinese knowledge” is widely used by Chinese policymakers in most issue areas of global governance, only in selected issue areas (e.g., IDC) can we observe actual practices of constructing concrete alternative governance plans. As I will discuss later, in both climate and finance cases, China had the capacity and opportunity to construct global governance strategies that contain more localized characteristics but ended up not doing so. The two cases denote that China in some fields is still actively engaging in transnational learning despite its top leaders’ call for promoting Chinese solutions. As a result, some scholars argue that “there is no single answer to the question of whether China intends to embrace the rules-based international order, nor is there a monolithic way to characterize the type of great power that China aspires to be.”¹⁴ Therefore, in this dissertation, I propose to move the attention away from the debate on

¹⁴ Richard Fontaine and Mira Rapp-Hooper, “How China Sees World Order,” The National Interest, May-June, 2016; See also, Falin Zhang, “Holism Failure: China’s Inconsistent Stances and Consistent Interests in Global
China’s general international identity (revisionist vs. status-quo) and try to analyze the causes of the cross-issue-area variation in China’s choices. The complexity of China’s choices generates my research questions: Why this variation? Under what conditions and through what mechanisms do Chinese global governance policymakers form the belief that “the Chinese way” is the appropriate approach to global governance? Under what conditions and through what mechanisms will China choose to actively learn from Western governance approaches and revise (or replace) local ones? Why do the solution-constituting mechanisms function successfully in some issue areas, while the idea importation mechanism dominates others? It is worth noting that this study does not focus on China’s idea promotion activities but focus instead on the genesis and dynamics of local ideas. After all, to promote normative and regulatory changes in global governance, ideas with local characteristics must be constructed in the first place.

In this dissertation, I comparatively study the social construction of China’s global governance strategies in three issue areas—IDC, climate governance, and financial governance. I argue that variations in China’s global governance strategies—local innovation versus idea importation—are largely determined by varied policy deliberation outcomes within local policy communities (i.e., communities consist of ministry-level bureaucrats in charge of specific issue areas, government researchers, and other policy advisers). The local policy deliberation mechanism functions in the following ways. First, uncertainty about the local orthodoxy generates the possibility of local norm/practice change. Second, when local policy communities are faced with uncertainty, they tend to use local ideas—from other issue areas or generated

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through improvisation—for local innovation, rather than importing foreign ideas directly. Third, policy experiments using local ideas, when generating desired governance performance, will produce new governance strategies that continue to have distinctive local features. On the contrary, if the local policy community fails to develop an effective governance strategy using local ideas, they will gain strong political incentives to import foreign ones. My argument builds on the pragmatist theory of norm change and a community level of analysis. I claim that to better understand China’s choices of global governance strategies, a socio-political dimension of policy-making must be added to the analysis. It is not simply a story of general strategic change or rational calculation of interests, but also concerns local policy communities’ pragmatic deliberations. To put differently, my theory and empirical research focus on breaking open the black box of Chinese bureaucracies’ functioning. I believe that China’s varied approaches to Western global governance norms and rules are traceable to domestic processes of policy formation.

Before moving on, two points are worth clarifying. First, although some parts of my empirical studies concern processes of domestic public policy-making, those cases are used to help us make sense of the cognitive status of relevant local policy communities. The implication is that if a local policy community can go that far to adopt Western ideas and reform domestic policies accordingly (e.g., see chapters 4 and 5), it is much less likely to develop policy norms and rules that pose significant challenges to Western rules and norms on the global level. Therefore, these studies still intend to engage with the general theme—Sino-Western normative interaction in global governance. In addition, as a major power in global governance, China’s domestic practices can set examples for the rest of the world and influence international norms. Second, the generalizability of the theoretical framework to be presented in chapter 2 is conditional. My major arguments about the local policy deliberation mechanism (i.e., uncertainty
triggers innovation, the presence of local-centric policy innovation, and communal evaluation’s determinative role in policy selection) are generalizable. However, because the configurations of policy systems may vary depending on national contexts, the role of core bureaucracies in other countries may not be as central as those in China. This may call for revisions of some specific assumptions about the policy deliberation trajectories, which I will discuss in detail in chapter 2.

In the rest of this introductory chapter, I first clarify several key concepts used in this dissertation, including “global governance,” “norms,” “practices,” and “governance strategy.” This is followed by a discussion of the value and importance of this research: deepening our understanding of the transformation of global governance and China’s rise. The following section then critically reviews the existing literature on China’s global governance choices. I show that the practical variation paradox challenges approaches that assume unitary Chinese global identity and strategy. I also show that my specific focus on the regulatory/normative dimension of global governance requires a constructivist framework instead of pure rationalist approaches. In the last section, I provide a preview of the rest of the dissertation.

2 Global Governance, Governance Strategy, and China’s Rise

This study aims to engage with the heated debate on the transformation of global governance and China’s rise. There is a rich International Relations (IR) literature on global governance. Scholars believe that global governance is not simply about the provision of global public goods or the management of global problems through global collective action, but also

15 For instance, the UN Commission on Global Governance defined “global governance” in an apolitical way, as “the sum of the many ways individuals and institutions, public and private, manage their common affairs. It is a continuing process through which conflicting or diverse interests may be accommodated and cooperative action may
has a power and political dimension. For instance, James Rosenau defines global governance as “systems of rule at all levels of human activity—from the family to the international organization—in which the pursuit of goals through the exercise of control has transnational repercussions.”

This definition captures a key feature of global governance: the authoritative control over human activities. As David Lake notes, global governance is the “exercise of authority on the global level.” He further points out that authority is not always exercised fairly, but “is always wielded by someone for some purpose.”

Deborah Avant and colleagues echo Lake’s understanding of global governance. They note that “global governance does not unfold naturally or smoothly toward a unique equilibrium. Governance, where it occurs, is the result of a political process and is shaped by power, access, mobilization, leadership, and other political variables.”

Although global governance as a system has several dimensions—the definition of issues, the identity of governors, the decision-making procedure (or power structure), and the nature of governance norms and rules—the regulatory/normative dimension is the focus of my dissertation. Governance rules, norms, and practices are key points of struggle in global governance, for they define legitimate actions and thus constrain and constitute activities of the governed. Norms and practices are closely related. The former refers to intersubjective beliefs

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19 For instance, Zhang Falin defines global governance as a network with many nodes, which includes countries, NGOs, formal and informal institutions, and so on. See Zhang, “Holism Failure.”

about “standard[s] of appropriate behavior for actors with a given identity,” while the latter can be understood as “socially meaningful patterns of action which…embody, act out, and possibly reify” unreflective background knowledge. In other words, norms and practices can be seen as two sides of the same coin. Norms are the deliberate and representational dimension of knowing, while practices and practical knowledge are the unreflective and non-representational dimension of knowing. Because global governance policies may be based on either codified norms or practices (or both), in this dissertation, I use a special term “governance strategy” as an umbrella concept that covers norms, practices, and specific policies. As Best defines, a governance strategy is different from a wartime or grand strategy that is based on rational calculations of general national interests. Rather governance strategies “link together several policies, often across more than one institution. In so doing, they work to problematize certain aspects of social, political and economic life: to draw a line between one issue and another, to make an issue visible, to suggest a direction or a point of attack—in brief, to make things governable.” This concept is thus broad enough to cover governance norms, practices, rules, and policies, while it keeps a distance from other concepts like formal institutions and power structure of global governance.

Because of global governance’s political and power dimension, dominant global governance norms and practices (or governance strategies) in an issue area always belong to some actors. In other words, rules and norms in global governance are neither universal nor

power neutral. They are pillars of a particular version of authority structure in global governance.\textsuperscript{25} Building on their authority, global governors have the power to shape global governance—“create issues, set agendas, establish and implement rules or programs, and evaluate and/or adjudicate outcomes”—based on their interests and beliefs.\textsuperscript{26} The norms and rules global governors created then serve to reinforce their own authority and power. This understanding of global governance is in similar to Henry Kissinger’s way of defining “world order” as “the concept held by a region or civilization about the nature of just arrangements and the distribution of power thought to be applicable to the entire world.”\textsuperscript{27}

Building on the above discussion, we can now talk about types of global governance rules and norms, or the question “whose global governance norms and rules matter.” Many dominant norms and rules in contemporary global governance are by nature Western.\textsuperscript{28} Western countries and Western non-state global governors have enjoyed a first-mover advantage in the building of the post-WWII global governance system. They have strong bases of authority, derived from their formal institutions, their governance expertise and capacity, and the socialization effects of their governance norms and practices.\textsuperscript{29} The dominance of Western norms and rules is observable in a range of global governance issue areas, such as trade, finance, development, peacekeeping, and climate change. For example, the World Bank and the IMF’s strong influence

\textsuperscript{26} Avant, Finnemore, and Sell, \textit{Who Governs the Globe?}, 2.
\textsuperscript{28} Shambaugh, \textit{China Goes Global}, 124–25; See also Gu, Humphrey, and Messner, “Global Governance and Developing Countries.”
\textsuperscript{29} See a theoretical discussion about sources of authority in international politics, Michael Barnett and Martha Finnemore, \textit{Rules for the World: International Organizations in Global Politics} (Cornell University Press, 2004), chap. 1.
in their respective fields and the absence of developing country ideas are well documented.\textsuperscript{30}

Even in global climate governance, which has seen active participation of developing countries in its regime-building process, many Western ideas—such as ET (an idea first developed in Europe and the United States)—are still widespread across the system. In this way, although quarrels between the West and developing countries always exist in the realm of global governance,\textsuperscript{31} the latter’s counter moves have focused on power balancing (e.g., criticizing Western rules, fighting for favorable treatments). In the regulatory/normative dimension, developing countries have been passive actors as they have long lacked alternative knowledge, power, and resources to posit concrete alternative governance strategies.\textsuperscript{32}

Under this context, the rise of emerging powers, especially China, are considered forces that may disturb the Western global governance system. Since norms and practices and the authority structure they adhere to are dynamic and can be challenged and replaced by powerful actors,\textsuperscript{33} the rise of new political powers in the system may generate pressure for change. In this sense, from a power transition or social identity perspective (see section 3), China, a powerful new global governance leader and a non-Western power with unique local culture and ideas, must be willing to challenge the dominant global governance rules and norms. In other words, China is supposed to be dissatisfied with many components of the current global governance architecture that are designed to support Western supremacy. Therefore, as early as the 1990s, scholars began to explore the “China threat” (or China challenge) argument, which predicted

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\textsuperscript{32} Avant, Finnemore, and Sell, \textit{Who Governs the Globe?}, 360.

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strategic competition between China and the United States over the balance of power and a series of norms and institutional arrangements.\textsuperscript{34} In a newer article, Pu Xiaoyu and Randall Schweller argue that China might seek to conduct a maneuver called “rightful resistance,” which aimed to delegitimize the hegemonic order incrementally by crafting alternative Chinese visions on world order.\textsuperscript{35} However, this “China challenge” argument is not without criticisms. The “China Integration” argument views China as a status-quo power, a “responsible stakeholder” (or “norm-taking power”) that adopts Western norms and implements Western governance approaches.\textsuperscript{36} For example, Davide Shambaugh finds that China has remained a passive actor in global governance, despite its growing influence in the global market.\textsuperscript{37} Ann Kent also finds that by 2005, China had complied with most of the international norms and rules under her investigation.\textsuperscript{38}

Based on the analysis in the first section, it seems that both the “China challenge” and the “China integration” arguments can find some support in the real world. Therefore, it is fair to argue that the “holism-based” debate misses the point.\textsuperscript{39} China can be both a revisionist and a status-quo power at a given time. This means its choices in global governance may not be entirely determined by a unitary grand strategy or identity. There must be factors and

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\textsuperscript{37} Shambaugh, \textit{China Goes Global}, chap. 4.
\textsuperscript{39} In the sense of methodology, the dichotomous debates tend to select on the dependent variable—only focusing on cases that support the theory. Alastair Iain Johnston, “How New and Assertive Is China’s New Assertiveness?,” \textit{International Security} 37, no. 4 (April 1, 2013): 7–48.
mechanisms besides those on the system level that influence China’s policy-making. In this sense, understanding China’s behavioral variations will contribute to IR theorization of rising power behavior. As will be explained in chapter 2, my attention in this dissertation shifts from a systemic level of analysis to the domestic level of analysis. I pay more attention to bureaucracy, and, to be more precise, the normative dynamics within ministerial bureaucracies. In addition, the focus on social construction mechanisms also calls for more work on the origins of ideas and their normalization. This new point of focus calls for theories beyond mere discourse-based approaches.

Besides the theoretical value, understanding China’s global governance choices will shed more light on the evolution of the global governance system and interactions between the Western and the non-Western countries. By studying how one of the most powerful global governors makes decisions about innovation and learning, we can lay a foundation for a broader research agenda that includes bigger themes such as non-Western challenges to global governance and the logic of norm innovation in general.

3 Explaining China’s Varied Choices in Global Governance

Explaining variations in China’s choices of global governance rules and norms is a challenging task for existing IR approaches. In this section, I critically review several IR approaches to rising power behavior and discuss their limitation. In the first two sub-sections, I argue that structural approaches such as neorealism, power transition theories, and liberal optimism fall short of explaining China’s behavioral variation because they assume that a rising power’s behavior would be dominated by a unitary grand strategy. In the third and fourth sub-sections, I show that although national interest and domestic interest approaches can indeed
explain China’s behavioral variation, they cannot offer satisfying accounts for its specific choices of governance rules and norms. As empirical chapters will show, in each case, China had multiple options of governance strategies that would possibly allow it to achieve its interests. In addition, some of China’s choices were effectively counterproductive or brought uncertain material benefits. Domestic interests are important, but their policy influence is often constrained by the bureaucratic system. Finally, constructivist approaches can certainly provide important insights into the origin and change in China’s normative and interest beliefs. However, the approach that stresses a country’s international identity cannot explain variations in China’s choices either. In addition, the socialization approaches’ focus on transnational idea diffusion has limited their capacity to explain local innovation.

3.1 Power Transition and Institutional Competition

Structural realists and power transition theorists both stress the determinative role of power-seeking incentives in countries’ strategic reasoning.40 The power transition approach argues that “uneven patterns of growth due to industrialization lead not only to the emergence of a dominant power in the international arena but also to subsequent challenges to the dominant state's global leadership by great powers undergoing dramatic internal development…If a rising power is dissatisfied with its own place in the international hierarchy, it may wish to challenge the existing international order.”41 Similarly, Robert Gilpin argues that as “the differential

growth in power of the various states in the system causes a fundamental redistribution of power in the system,” “the international system moves from a condition of equilibrium to one of disequilibrium.” In this context, the disjuncture between components of the system (e.g., its rules) and the changed the power structure will incentivize rising powers to pursue political changes.42

Countries do not just focus on increasing material power (e.g., military, territory), but they also seek to expand political influence on other dimensions (e.g., rules, norms, etc.) of world politics.43 Combining this understanding of power with the power transition theory, we can expect that the change in international power structure will lead to changes in international regimes. As John Mearsheimer argues, “institutions largely mirror the distribution of power in the system.”44 Some scholars modified the power transition approach and argue that the power transition process often has a “delegitimation phase,” which is a “response to the erosion of the phase of leadership, order, and peak concentration found in the world power/execution period.”45 In this phase, a rising power will focus on crafting and promoting alternatives institutions and visions of world order, so as to promote relatively peaceful systemic changes instead of military expansion.46

This theoretical perspective has been applied to studies of China’s rise. Realists and power transition theorists are often pessimistic about China’s impacts on the international

system. This view is most clearly presented in Mearsheimer’s piece “China’s Unpeaceful Rise.” Yves-Heng Lim’s work also shows that China is a strongly dissatisfied power according to several indicators (derived from power transition theories). In addition, echoing theorists’ emphasis on the delegitimation phase of power transition, Pu and Schweller studied “the art of resistance” China would likely practice, such as proposing the discourse of Tianxia System as an alternative vision of world order. Some Chinese scholars further view China’s activities in realms like financial governance and development cooperation (e.g., the building of Asian Infrastructure Investment Bank [AIIB]) as engaging in “institutional competition” with the United States.

Although the aforementioned approaches provide intriguing explanations of China’s international behavior, they cannot fully explain the puzzle at hand for at least two reasons. On the one hand, because they tend to “treat China as a unitary actor in global governance and explicitly assume consistency and uniformity of China’s foreign policies in different fields of global governance,” they suffer “holism failure”—failing to explain the cross-issue-area variation in China’s global governance strategies. As discussed in section 1, although China is well positioned to be a global governance reformer, in practice, it still supports Western rules

51 Zhang, “Holism Failure,” 2.
and norms in many issue areas (e.g., climate, finance) and contests Western-dominated rules and norms in relatively rare occasions (e.g., development).

On the other hand, because these approaches focus on countries’ institutional participation/creation activities in general, rather than the normative/rule elements of their policies, they may overestimate China’s challenges to the system and treat some status-quo institution-creation efforts as tools for power competition. For example, as I will discuss in empirical chapters, while realists and power transition theorists treat China-led Multilateral Development Banks (MDBs) (e.g., AIIB) and mini-lateral financial arrangements (e.g., Chiang Mai Initiative Multilateralization [CMIM], BRICS Contingent Reserve Arrangement [BRICS CRA]) as alternatives to Western institutions, a closer look at the rules and norms embedded in these “new” institutions may lead to a different conclusion: they are in line with Western norms, rather than challenging them. As discussed in section 2, in the system of global governance, the nature of rules and norms often have stronger strategic implications than ownership of the initiatives. If regional financial institutions use IMF rules, they cannot be treated as posing a real threat to the latter.

3.2 Liberal Optimism

There are some liberal theorists who believe that complex interdependence and liberal institutions will stabilize world order around liberal rules and norms. This is because countries have vested interests in those liberal institutions: countries value international institutions’ cooperation-facilitating functions (e.g., increasing certainty, reducing transaction costs,
providing information and monitoring, facilitating communication, etc.). Therefore, some liberals, most notably John Ikenberry, argue that China will have no choice but to integrate itself into the Western-dominated system since the system is highly institutionalized and costly to overturn. However, this argument is challenged by the fact that China is indeed attempting to construct alternatives to Western global governance strategies in selected issue areas (e.g., IDC). Similar to power transition approaches, this liberal approach treats both the global system and countries as unitary entities, also suffering holism failure.

### 3.3 National Interests

Compared with Ikenberry’s holistic understanding of the liberal order, institutional theorists are not surprised by China’s varied approaches to international institutions. Building on a rational choice model, Robert Keohane argues that countries will support certain regimes when “they expect the benefits of membership to outweigh the costs,” and exit when they do not. In a newer piece, Keohane and Julia Morse develop a theory of “contested multilateralism,” arguing that international actors may “shift their focus from one existing institution to another or create an alternative multilateral institution to compete with existing ones” when they “are dissatisfied with an existing institution.” Dissatisfied actors’ choices are further influenced by the

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54 Keohane, “The Demand for International Regimes,” 331. However, Keohane’s empirical focus in this article and his later book is on countries’ integration in the international institutions, rather than their exit.

availability of outside options, the credibility of their coalitions, and the presence of veto power in the challenged institutions.56

Based on this theoretical approach, scholars argue that China may engage with different global governance institutions *pragmatically*, based on rational calculations of its national interests.57 For example, labeling China as a “reform-minded status-quo power,” Ren Xiao argues that China “does not aspire to overthrow this system from which it has benefited,” but simultaneously wants to change the parts of the system that are deemed “flawed” and “unjust.”58 Scott Kastner and colleagues argue that China’s institutional behavior depends on “two variables: the balance of outside options and the perceived indispensability of...[its]...participation in a particular institutional setting.”59 For them, unfavorable outside options (i.e., what happens if cooperation fails) will drive China to actively contribute to multilateralism, favorable outside options plus a belief in its indispensability (i.e., to what extent do others need China) will lead to conditional contribution, and favorable outside options plus disbelief in its indispensability will lead to passive participation or free-riding. In this way, they see China’s regime participation/creation activities as functions of “the strategic setting of a particular issue area.”60

56 Morse and Keohane, 391.
60 Scott L. Kastner, Margaret M. Pearson, and Chad Rector, *China’s Strategic Multilateralism: Investing in Global Governance* (Cambridge University Press, 2018), 2.
Certainly, national interest is an important factor in determining a country’s behavior. After all, countries will not apply a policy that will certainly harm their own interest. However, the link between national interests and global governance norms and rules a country applies is not always straightforward. As Rosenau notes, “national interest” is not a very useful analytic tool due to “the ambiguous nature of the nation and the difficulty of specifying whose interests it encompasses.”

Four points can be raised on the rationalist national interest approach. First, in pursuing a particular set of national interests, multiple policy options are usually available. Rational choice approaches often have a hard time explaining the choice of certain options over others. Although Kastner and colleagues successfully explain China’s conditional participation (or “hold-up” strategy in their terms) in IMF using a rationalist approach, they cannot explain China’s choice to limit its “conditions” to reforming IMF’s quota and voting shares, without proposing changes in IMF’s governance rules and norms. In addition, by emphasizing international contexts in issue areas, Kastner and colleagues implicitly assume that China would want to change the system if it has the favorable conditions, which is not necessarily the case in the regulatory/normative dimension.

Second, due to the inherent uncertainties around policy-making, policymakers do not always make policy choices based on an entirely clear cost-benefit analysis, but instead, rely a lot on their cost-benefit beliefs. Such beliefs are key factors driving the construction of national

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62 Kastner, Pearson, and Rector, “Invest, Hold up, or Accept?”
64 Granted, the focus of their research is not on China’s choices of specific norms, but on China’s behavior regrading “second-order cooperation”—its decision to, or not to invest in institutional creation and/or enforcement. Their theory is useful in their own realm. See Kastner, Pearson, and Rector, 13–15.
interests, which are not exogenously given as many rationalists would assume (i.e., policymakers may make assumptions of countries’ materials interests without checking the actual beliefs). As Rosenau so elegantly puts it: “Since values are not susceptible of scientific proof, the objectivists have never been able to demonstrate the validity of their assessments of the extent to which foreign-policy actions reflect a nation’s interest.” Third, as constructivists would argue, it may also be possible that policy choices are influenced by policymakers’ understanding of appropriate governance approaches. Fourth, purely material interest-driven activities may not end up becoming stable policy norms. Material interests may incentivize norm development, but the completion of the process requires socialization on the domestic level.

As the empirical chapters will show, China’s choices in cases under investigation cannot be fully accounted for by the rationalist approaches. For instance, the general interest of governing climate change does not necessarily lead to the adoption of the controversial ET measure. China could have chosen a command-and-control based approach or carbon taxation. Similarly, China’s infrastructure-oriented development cooperation approach and its project financing methods are risky and costly. If China’s goals were commercial interests or natural resources, it could have also applied conditions to its loans and focused more on profitable projects. In this case, adopting Western norms does not seem to have any negative impacts on China’s interests. In the financial governance case, although “China…has long been dissatisfied

with the international monetary system, it still largely adopts IMF’s rules and norms, rather than pursuing governance innovations. Some of its financial reforms also negatively influenced China’s economy. Therefore, in all these cases, China has both interests and opportunities to conduct rule/norm innovation. But it did not always do so. When it did conduct innovation of governance norms and rules, the approaches it chose might not be the ones that would benefit itself the most. The gap between hypothesized national interests and policy outcomes means that adding ideas and beliefs in the analysis of policy reasoning is of great importance.

To sum up, what I am proposing here is not a theory that excludes calculations of material interests. I simply argue that rationalist approaches often make too many materialistic assumptions of national interests, which either disagree with the reality or cannot reach the regulatory/normative dimension state behavior. To fully understand the genesis of China’s global governance strategies, we need to give more weight to policymakers’ shared beliefs—formed based both on constrained rationality and on normative beliefs—and to study the origins of these beliefs.71

### 3.4 Domestic Interest Groups

Another liberal approach that focuses on domestic actors’ influence on foreign policy provides a potentially useful analytic lens. This approach suggests that a country’s behavior is determined by the interests of domestic actors, such as domestic companies, subnational governments, and other interests groups.72 Some even argue that “what is often perceived as

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70 Zhang, “Holism Failure,” 9.
71 Fearon and Wendt, “Rationalism v. Constructivism.”
menacing evidence of ‘grand strategy’ may actually involve multilevel, inter-agency struggles and local economic imperatives. In this way, this approach can help to account for anomalous policy outcomes in the eyes of other approaches. For example, some researchers argue that China’s distinctive IDC strategy may simply be a tool designed to support the “going-out” activities of Chinese companies. The seemingly national policies may actually be crafted from the bottom up, serving economic actors and lower-level governments’ needs. Similarly, ET can also be seen as merely reflecting the interests of several domestic actors (e.g., clean energy companies, provincial/municipal governments, etc.).

The domestic interest approach is very insightful for it directs researchers to open the black box of policy-making. As I will explain in chapter 2, in my theory, I also give much weight to an important set of domestic actors—policy communities (especially their core bureaucracies). However, I do not want to overestimate the policy influence of other domestic interest groups (e.g., non-governmental organizations [NGOs], companies, civil society). At least in China, the operation of the bottom-up mechanism is usually conditional, significantly depending on top political leaders’ and powerful central ministries’ reasoning. In many occasions, domestic interests are epiphenomenal to top-level policymakers’ interests and beliefs. Mere interest groups are often insufficient to push for the adoption of ideas on the national level, let alone turning those ideas into normative/rule elements of China’s global governance strategies. Through tracing the process of policy deliberations, the empirical chapters will also show the profound

75 One key takeaway of my fieldwork was the capacity of the “bureaucracy in charge” to block ideas from other domestic actors. Although inter-bureaucracy bargaining always exists during policy implementation, the governance strategies are usually not a result of such inter-agency deliberation.
influence of policy communities on the construction of stable policy norms. To be sure, this is not to say that domestic interest groups are irrelevant. The Moravcsikian approach may work better in explaining policy outcomes in the liberal democratic context. In the Chinese context, it may also help to explain policy implementation outcomes, which do not necessarily concern the formation and stabilization of policy norms.

### 3.5 Socialization and Identity

Compared with rationalist approaches, constructivist approaches better incorporate ideas and their social construction in their framework. As Emanuel Adler notes, “constructivism is the view that the manner in which the material world shapes or is shaped by human action and interaction depends on dynamic normative and epistemic interpretations of the material world” (emphasis original). The emphasis on mechanisms of social construction makes constructivism well positioned to explain the genesis of China’s global governance strategies.

Constructivists have proposed several mechanisms of norm diffusion and international socialization, which theorize the processes through which countries can be socialized by ideas from the international level. In addition to the diffusion literature, scholars like Acharya also studied the logic of localization, through which local agents may creatively reconstitute foreign ideas before they can be adopted domestically. Using these theories, scholars would argue that

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Western global governors can socialize China: teaching China about Western global governance norms and rules and reshaping Chinese policymakers’ preferences and beliefs about the appropriate global governance practices.\textsuperscript{79}

I will review the theoretical logic of norm diffusion and localization approaches in the next chapter, here I focus on their empirical application to the China case. The diffusion theories can indeed explain dynamics of local norms and ideas, but they cannot explain why international socialization mechanisms seem to operate well in some issue areas (e.g., climate, finance, trade) but not in others (e.g., IDC, peacekeeping, human rights). In this sense, putting too much emphasis on the influence of international entrepreneurs, this “one-way socialization” logic does not grant sufficient agency to local actors. As will be discussed in detail in chapter 2, although scholars in recent year are taking some efforts to develop the “two-way socialization mechanism,”\textsuperscript{80} that approach is underdeveloped and needs to be integrated with other constructivist approaches in a coherent framework. Otherwise, we will simply be saying “sometimes diffusion happens, sometimes local innovation happens.”

In addition to the diffusion literature, some constructivists argue that socialization can be affected by countries’ identity. In line with Alexander Wendt and social identity theorists’ emphasis on national identity,\textsuperscript{81} scholars argue that the nature of China’s desired international identity—a normal member or a leader of the international community—determines its international behavior. If China seeks membership status, norm adoption will be the most likely


behavioral outcome. For instance, Chen Dingding argues that gaining major power status is the crucial factor that motivated China to participate in the international human rights regimes and to adopt (at least partially) human rights norms. On the contrary, if China seeks leadership status, norm-making behavior will follow. For example, Chen Zheng argues that seeking major power status was a key incentive that motivated rising powers to promote changes in international norms. Deborah Larson and Alexei Shevchenko argue that China’s approaches to Western norms depend on its “perceptions of the permeability of elite clubs and the legitimacy and stability of the status hierarchy.” The frustration of its international status may trigger the implementation of “social creativity, such as finding value in previously unappreciated aspects of their national traditions or promoting alternative norms.” In this line of reasoning, many scholars stress that the change in China’s identity in recent years has affected its attitude towards international norms. They argue that while “in the first two decades of China’s reform era (1980–2000), the country’s major theme was to learn the existing norms of international institutions,” now the theme becomes providing Chinese plans to global governance.

Because social identity theory is essentially a national level theory, it suffers the same holism failure as many other approaches do (as discussed in sub-sections 3.1 and 3.2). As the empirical chapters will show, China’s international identity is consistent across the global

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85 Larson and Shevchenko, 76.
87 Callahan, “Chinese Visions of World Order.”
governance issue areas in a given period, but its choices of governance strategies still vary. Even in the so-called learning-oriented period, China still contested Western norms in some cases (e.g., development). Meanwhile, in the so-called innovation-oriented period, China does not always construct distinctive Chinese approaches to global governance. Therefore, I argue that the approach that emphasizes general national identity cannot explain China’s behavioral variations by issue areas. The most useful constructivist approaches are the ones that focus on the dynamics of more specific norms.

3.6 Summary

In this section, I first reviewed the power transition, liberal optimism, national interest calculation, and domestic interest approaches to China’s global governance choices. I showed that both the power transition and the liberal optimism approaches suffer holism failure. I also argued that the approaches that emphasize national interest and domestic interest could not go far enough to explain China’s choices of global governance rules/norms. The call for ideational theories is a response to the problems with rationalist theories: theoretically, they often do not explain the origin of interest/normative beliefs; empirically, they cannot explain policies outcomes that are counterproductive from a rationalist perspective. It is worth stressing that I am not rejecting the interest-based approaches altogether. I especially agree with some liberal theorists on their efforts to open the black box of domestic policy formation processes. What I am saying is that we need a theory about the formation of interest beliefs and normative beliefs,

88 Although there are still scholarly debates on this issue, Xi’s wills are clear. Xiaoyu Pu, “Controversial Identity of a Rising China,” The Chinese Journal of International Politics 10, no. 2 (2017): 131–149.
rather than building our analysis on (often materialistic) assumptions of the interests China pursues.

Section 3.5 suggests that constructivist approaches to the social construction of normative and interest beliefs may provide a better explanation of China’s specific choices. However, I note that traditional constructivist theories, which focus on idea diffusion mechanisms, do not provide a sufficient analytic tool because they cannot account for the genesis of local norms or the varied trajectories of local norm change. To provide a fuller understanding of variations of local norm dynamics, the two constructivist approaches—one-way socialization and two-way socialization—must be synthesized under a more general theoretical framework. In chapter 2, I develop a general theoretical framework that emphasizes both the domestic origin of international behavior and the importance of intra-community cognitive dynamics.

4 Preview of Theory and Empirical Chapters

The remaining of the dissertation seeks to complete a dual task of theory building and theory illustration. Chapter 2 constructs an integrated theoretical framework of local norm change within local policy communities. After a critical review of several constructivist approaches to norm dynamics, I use deliberations within local policy communities or local policy deliberation as a hook that links different norm theories together. The overarching argument is that local policy deliberation is a pragmatic mechanism, the trajectory of which is determined by two processes: a policy community’s reflections on the orthodox governance strategy and the conduct of local-idea-based policy innovation and experimentation. Without the orthodoxy being questioned, novel ideas—either foreign or local—will not be able to gain access to local policy deliberation. As the orthodoxy questioned, the policy community’s choices further depend on the
availability of transferable local ideas and the performance of related policy experiments. If local ideas are unavailable or local-idea-based experiments are deemed under-performing, then idea importation prevails. Otherwise, local innovation will dominate the policy deliberation process and new local ideas will emerge. This chapter then lays out the methodological foundation for the empirical parts of the dissertation. It clarifies the dual functions of process tracing (i.e., theory testing and theory development), the case selection procedure, and the ways through which qualitative data is collected and analyzed.

Chapters 3, 4 and 5 study the historical origin of China’s global governance strategies in three issues areas—IDC, global climate governance, and global financial governance. Chapter 3 investigates the social construction of China’s distinctive IDC strategy. It shows that several local ideational factors—normative legacies of the Maoist foreign aid model, transferable local ideas about economic development, project implementation and financing, and bureaucratic governance style—collectively constructed China’s unique IDC strategy in the 1980s-2000s. Because China’s IDC policymakers over the years have been satisfied with the governance performance of local policies, they lacked incentives to learn Western ideas, which in many ways contrasted with Chinese norms and practices. Under the framework of the BRI, China’s IDC norms and practices are going through a new round of policy deliberation. Although the new strategy may still largely absorb ideas from local development experience, it is indeed becoming more open to Western ideas in some respects, such as safeguards and risk-control.

Chapter 4 studies China’s participation in the global climate governance, in which it acts as a learner of Western climate governance ideas, most notably ET. I here focus on the processes leading to the adoption of a domestic policy measure because this case best shows how a local policy community became fully committed to importing foreign ideas. This case study helps us to understand the dynamics of the normative environment in the climate field in China, which
then helps to understand and even predict China’s behavior on the international level. Specifically, I first show that perceived context changes in multilateral climate negotiations, together with changing local development thinking pushed China to start developing an independent emissions control policy framework. I then show that it was the failure in its policy experimentation with command and control policies (local ideas) and climate policy community’s political interests that collectively generated the incentives to import ET and to block another viable option—carbon taxation.

Chapter 5 investigates China’s behavior in global financial governance, which feature active reform actions in the power-sharing dimension and the absence of rule-innovation attempts. I argue that this behavioral pattern is also generated by the historical evolution of local financial governance ideas. Because the Chinese financial policy community was constructed with heavy Western assistance and based on Western financial knowledge in the 1980s-1990s, China has been on a track of learning and norm internalization since then. Although the Asian financial crisis and the 2008 global financial crisis challenged the authority of the IMF, China continued to focus on domestic financial reforms and entrusted the IMF to resolve its own governance deficiencies. These choices made China a passive actor on the regulatory/normative dimension of global financial governance. Chapter 6 summarizes the dissertation and provides some concluding remarks about the added value of the project and potential extensions of the research.
Chapter 2
Local Policy Deliberation and Dynamics of Local Governance Strategies

“Practice is the sole criterion for testing truth.”
Guangming Daily, May 11, 1978

This dissertation zooms in on the inner workings of China’s policy communities in three issue areas of global governance: IDC, global climate governance, and global financial governance. By opening the black box of policy development processes in those fields, we can better grasp how varied manifestations of an intra-community socio-political mechanism—“local policy deliberation,” in addition to factors external to those communities (e.g., national strategic/interests, domestic interests, global norms, etc.), have shaped China’s different global governance strategies. I argue that the general logic of local policy deliberation can be applied to cases of local norm/practice formation in other developing countries, but the constitutive role of local policy community may be played out differently in other socio-political contexts.

I take a constructivist approach and a community-centric analysis because solving the empirical puzzle discussed in chapter 1 requires a framework that can explain both the social construction of policy ideas and varied social construction outcomes—whether those ideas are homegrown or imported. This research question calls for a close investigation into the processes

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1 To reiterate, the target of my research is on China’s choices of global governance strategies, which may include rules, norms, and practices. I tend not to limit the research to normative beliefs because in some cases practices are more salient than norms (e.g., the IDC case) while in other cases norms have become highly institutionalized (e.g., the ET case). I focus on practices and policies in these cases because they have important normative implications, though they are not typical norms.
through which local policymakers first reflect on orthodox local governance strategies and then select among various novel policy ideas—local and/or foreign ones—under uncertainty. Such policy deliberation processes are inherently communal, social, and political. In this regard, constructivist theories of community behavior, norm change, and social practices provide many useful tools for theorizing local policy deliberation and its trajectories.

In this chapter, I first critically review the value and limitations of existing constructivist approaches to local norm dynamics—norm diffusion/localization theories and norm subsidiarity/two-way socialization theories. I argue that these constructivist approaches are complementary to each other and can be synthesized. I then discuss the role of local policy communities in constructing China’s global governance strategies and the value of treating policy communities’ beliefs as analytical focal points. In the third section, I argue that policymakers’ beliefs are not static, but rather in a continuous cycle of destabilization and reconstruction. The dynamic of this cycle is driven by a general mechanism—local policy deliberation, through which policymakers reflect on the orthodoxy and pragmatically seek and learn novel ideas. In the fourth section, I further theorize local policy deliberation by positing processes and factors that may shape its trajectories: (1) the scope of the problematization of the orthodoxy and (2) the functioning of local innovation/improvisation, which is co-determined by the availability of transferable local ideas and the policy community’s evaluation of local-idea-based policy experiments. This section provides the theoretical tool I use to navigate the empirical cases. In the fifth part of this chapter, I lay out a research design that utilizes process

\[2\] “Problematization” in my theory means “the putting into question of accepted ‘truths’.” This concept often appears in Michel Foucault’s work. Foucault uses a method of analysis called “thinking problematically” to dismantle and study the social construction of taken-for-granted facts. In this dissertation, the problematization of orthodox governance strategies means the putting into question of taken-for-granted policy norms and practices. See an introduction to the meaning and usage of “problematization” in Carol Bacchi, “Why Study Problematizations? Making Politics Visible,” *Open Journal of Political Science* 2, no. 01 (2012): 1.
tracing and comparative case study methods. I also discuss data sources and data interpretation methods.

1 Towards Theory Synthesis: Constructivism and Local Norm/Practice Dynamics

In this section, I develop a theory synthesis that brings different constructivist theories of norm change together to offer a better account for local norm/practice dynamics. Traditional constructivist scholarship on norms has long focused on transnational norm diffusion. Works taking this approach often start with some pre-existing universal norms and then investigate how international norm entrepreneurs use different methods, such as social/political pressure, persuasion, and argumentation to spread those norms to the rest of the world.3 Despite constructivists’ diverse ways of theorizing the transnational diffusion logic, the norm diffusion literature largely focuses on positive cases, in which entrepreneurs on the international level—Western countries, NGO, and intergovernmental organizations—socialize other countries using norms originated from the West. Clearly, the norm diffusion approach’s fixation on the international level and its lack of attention to local agency are problematic. As Acharya notes, viewing “norm diffusion as teaching by transnational agents” only “captures a significant, but

small, part of norm dynamics in world politics,” as local norm-takers are active shapers, not just passive adaptors of foreign ideas.⁴

There are many scholarly efforts to theorize the role of local agency during norm diffusion. One early approach stresses the possible effect of local resistance to socialization. It argues that the “fit” between international norms and local social and political setting is the determinative local condition for transnational norm diffusion.⁵ For example, Jeffrey Checkel argues that “domestic norms determine the degree of cultural match, and thus predict, in a probabilistic sense, whether norm-takers in a particular country will be open to prescriptions embodied in systemic understandings.”⁶ He proposes that “‘positive’ matches increase the probability that international norms will have constitutive effects, while a ‘negative’ match reduces it.”⁷

However, the early theorization of local agency failed to give sufficient credit to local actors’ capacity for creative deliberation and learning. As Acharya argues, local norm-takers do not simply choose between learning and resistance, they also have the agency to creatively localize foreign norms, “which results in the former developing significant congruence with local beliefs and practices.”⁸ A key contribution of Acharya’s localization theory is that it extends the typology of local norm dynamics from two types—norm displacement (local norm replaced by foreign ones) versus resisting foreign norms—to three types—resistance, displacement, and

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⁷ Checkel, 91.
localization. In addition, Acharya also discusses conditions for localization. He argues that localization often starts with the creation of “demand for new norms” when changes in local and global contexts and the local political agenda call existing norms into question.\(^9\) The functioning of the localization mechanism further “depends on its positive impact on the legitimacy and authority of key norm-takers, the strength of prior local norms, the credibility and prestige of local agents, indigenous cultural traits and traditions, and the scope for grafting and pruning presented by foreign norms.”\(^10\)

Although Acharya’s localization theory provides valuable insights, his framework still does not cover all the possible trajectories of local norm change. As discussed in chapter 1, if we take a more complete survey of China’s practices in global governance, we can certainly observe a fourth type of local norm dynamic beyond resistance, displacement, and localization: even when orthodox local norms and practices collapse, local actors can still creatively re-construct/upgrade norms with local characteristics, instead of importing foreign ones. As Acharya himself acknowledges in his later work, different from localization, there can be a process called “norm subsidiarity,” in which local actors make new norms, rather than simply modifying foreign ones.\(^11\) This argument is echoed by scholars in the China field. In her study on the relations between China and Association of Southeast Asian Nations (ASEAN), Alice Ba theorizes a process called “complex engagement,” which is “an active search for points of consensus towards persuading another to change its attitudes and/or beliefs about a particular

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\(^9\) Acharya, 247; Some argue that China’s status pursuit (i.e., a normal member of the international community) was the main driver of its adoption of human rights norms, Dingding Chen, “China’s Participation in the International Human Rights Regime: A State Identity Perspective,” *The Chinese Journal of International Politics* 2, no. 3 (June 1, 2009): 399–419.


subject, issue, or relationship.”

Although Ba’s main focus is still on transnational socialization, her work nonetheless notices the possibility that socialization may “go both ways,” in which China may change foreign norm entrepreneurs’ (in her case, the ASEAN) beliefs during complex engagement. Pu Xiaoyu takes a step forward. He argues that international socialization is a “two-way” process. Emerging powers can discursively challenge the legitimacy of Western ideas, resistant to participate in Western endeavors (e.g., international intervention), set up new forums, and participate actively in the construction of new norms (such as the Responsibility to Protect). In short, different from the localization approach, which treats international norms and entrepreneurship as independent variables and local factors as intervening variables, the norm subsidiarity/two-way socialization approach treats local norms as independent variables and international norm dynamics as dependent variables.

However, the norm subsidiarity/two-way socialization approach is under-theorized. In essence, this approach simply sees local norm innovation as driven by countries’ general strategic motivation—“to challenge their exclusion or marginalization from global norm-making processes” and “great power hypocrisy.” Scholars seem to assume that as long as local actors have the incentives to change the existing system, they can do so using distinctive local culture and political values. A mix of innovation motivation and cultural elements may be enough for

13 Ba, 169–73. However, Ba was not clear about when and how will China reverse the socialization process.
15 See a comparison between the two models developed by Acharya, in Acharya, “Norm Subsidiarity and Regional Orders,” 98–99.
16 Acharya, 97–100.
the creation of vague and broad political discourses (e.g., “Community of Shared Future for Mankind,” *Tianxia System*), but this is insufficient for the making of operational governance strategies, which are the focus of my study. As discussed in chapter 1, the norms, practices, and formal rules in those governance strategies are beyond vague discourses and must be constructed through historical practices, critical and pragmatic reflections, experimentation, and policy selection, which are only loosely linked to leaders’ wills and general local culture.\(^{18}\) Therefore, existing norm subsidiarity/two-way socialization theories have made key progress by paying more attention to the phenomenon of local innovation, but they offer an underdeveloped theory about the social construction process of local norms, practices, and rules. This also reflects a common weakness of the “norm-based theorizing”: the starting point of theorization is always pre-existing norms, which cannot “offer explanations of how these norms appear and are established.”\(^{19}\) This is why in the next two sections I will bring in the insights of the pragmatist and practice theories on norm change and norm origin.

In addition to the above problems, the existing approaches offer fragmented accounts for local norm dynamics. If we can now agree that local norm change may follow three trajectories—resistance to foreign influence, learning (including localizing) foreign ideas, and local innovation, one problem remains: under what conditions would a certain trajectory of local norm change occur? This is the key to my empirical puzzle: when will China lead or learn in the normative dimension of global governance? In this sense, the above approaches should be

\(^{18}\) Some Chinese scholars have noted the crucial role of international practice in shaping China’s foreign policies, see Qin, *Shijian Yu Biange: Zhongguo Canyu Guoji Tixi Jincheng Yanjia [Practice and Coevolution: China’s Engagement with the International System]*.

integrated under a broader theoretical framework, in which each of the above logic becomes a variant of the general mechanism.

This is where local policy community and local policy deliberation come in. As I will discuss in detail in section 2, I see local policy communities as agents of learning and innovation in global governance issue areas. Chinese governance strategies are bounded within local policy communities. Communal norms and practices stabilize local policies and influence the conduct of policy innovation. Other factors (domestic and international, material and social) generate impacts on China’s international behavior indirectly, through influencing relevant local policy communities’ beliefs. Therefore, treating local policy communities, and especially their changing beliefs, as an analytic focal point allows me to bring various theoretical approaches together. This also fits with the actual development processes of China’s global governance policies. In addition, I will present in section 3 and 4 that local policy beliefs change following an intra-community pragmatic deliberation mechanism. This mechanism is general enough because it not only places great emphasis on local communities’ agency (i.e., the ability to conduct independent rule/norm innovation, experimentation, and evaluation) but also leaves space for other mechanisms (e.g., transnational norm diffusion, local interest groups, etc.) to exert potential influence. Under the general pragmatist framework, existing constructivist theories of local norm change are turned into three possible trajectories of the general mechanism. In other words, pragmatic local policy deliberation is treated as a primary mechanism that set conditions for the functioning of other secondary norm change mechanisms—diffusion/localization, local innovation, and resistance.

21 Emanuel Adler, Communitarian International Relations: The Epistemic Foundations of International Relations (Routledge, 2005), 15.
2 Local Policy Community, Communal Beliefs, and China’s Global Governance Strategies

In this section, I define local policy communities and analyze their role in constructing China’s global governance strategies. I try to make two key points: one, in the realm of global governance, local policy communities rest at the center of China’s policy development processes; second, to understand variations in China’s global governance strategies across issue areas, analyzing the status and dynamics of local policy communities’ policy beliefs is an analytically valuable focus for analysis.

2.1 Local Policy Community

Policy community, according to Paul Pross, is “part of a political system that—by virtue of its functional responsibilities, its vested interests, and its specialized knowledge—acquires a dominant voice in determining government decisions in a specific field of public activity, and is generally permitted by society at large and the public authorities in particular to determine public policy in that field.”22 Put differently, policy communities are the grouping of governmental actors around functional issue areas.23 Because this dissertation deals with the relationship between local and international norms/practices, I use the term “local policy community” to refer to national level policy communities in China, in comparison to actors and communities on the

international level. This should not be confused with policy bodies below the national level (e.g., provincial-level governments).

In contemporary China, a policy community in an issue area of global governance often consists of one or several ministerial level bureaucracies (especially their functional departments), their affiliated research institutes, and other agencies that hold close (formal or informal) ties with the core bureaucracies. To illustrate, in the climate issue area, the pre-2018 Chinese climate policy community consisted of a ministerial-level bureaucracy—the National Development and Reform Commission (NDRC) and its Climate Change Department (NDRC-CCD), several quasi-bureaucratic institutions (e.g., the National Center for Climate Change Strategy and International Cooperation [NCSC]), and institutions that routinely provide consultations for the NDRC (e.g., Tsinghua University, SinoCarbon Innovation & Investment Co., Ltd.). All the non-state actors are brought by the NDRC and serve as the latter’s advisors. Other ministries like the Ministry of Environmental Protection (MEP) was outside of this policy community.  

Chinese policy communities in the realm of global governance often have a hierarchic internal structure. Although a policy community may contain more than one ministerial/departmental bureaucracies, we can usually identify the bureaucracy that has the largest policy authority. Such bureaucracy can be treated as the “core” of the policy community. Granted, the making of a governance strategy is a collective deliberation process, in which members of the community, even non-bureaucratic ones, can deliver substantial policy inputs. However, the policy development outcomes, especially the stabilization of policy norms, are still

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24 Note that the structures of policy communities in both climate and IDC areas were changed in later 2018. I use the previous version for illustration because they are most relevant to the historical process tracings in this dissertation.
shaped most profoundly by the core bureaucracy. For instance, in the IDC case, although the Ministry of Commerce (MOFCOM)’s Department of Foreign Assistance (MOFCOM-DFA), the Ministry of Foreign Affairs (MFA), and the Ministry of Finance (MoF) collectively held the formal policy-making authority, the MOFCOM had the ultimate say on the designing of IDC strategies (i.e., general methodology, instruments, resource allocation, project implementation and financing methods, etc.). The MFA and MoF only played safeguarding roles (i.e., making sure projects and policies fit with China’s general foreign policy and the general budget).

2.2 Policy Communities’ Beliefs as the Analytical Focal Point

It is well established in the political science literature that bureaucracies enjoy authority and autonomy in policy development processes. On the one hand, from a functional perspective, the “principal-agent” (PA) theory argues that top political leaders only have the capacity to set general policy goals and must delegate authorities of policy development to specialized bureaucracies.25 On the other hand, drawing wisdom from Marx Weber,26 scholars argue that bureaucracies enjoy authority derived not only from delegation but also from their legal-rational nature and their expertise. Bureaucracies are entrusted with policy-making because they operate based on rules and procedures, and they bring together experts in relevant fields, who have gained specialized knowledge from professional training and years of learning by doing.27 As a result, while delegation puts bureaucracies, and thus policy communities, “in authority,” legal-

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rational and expert authorities make them “an authority.” 28 The authority gives policy communities a significant influence on the beliefs of their principles—higher-level political leaders.

Even in a highly centralized political system like China’s, in a given global governance issue area, a local policy community is still in the center of the policy development process. The relationship between top political leaders and policy communities resembles the PA mode. Top political leaders certainly have ultimate control over policy development. In some occasions, top leaders may have very specific policy preferences and give clear and operational directions to policy communities. The Communist Party of China (CPC) Center’s micromanagement tendency was most salient during the Mao Zedong era, when “officials at all levels were taught to view the Center as the fount of wisdom and themselves as local extensions of the will of the Center.” 29 However, in the 1980s, the CPC Center has focused on providing only “slogans or formulations,” and let “lower levels manage problems without taking the time and attention of the Center in the process.” 30 Although the Center’s control in the Xi era is much enhanced, top leaders only directly involve themselves in policy-making on politically sensitive issues such as security, cyberspace governance, and human rights. Most policy development responsibilities in technical areas are still left for ministerial bureaucracies.

Local policy communities’ choices are profoundly influenced by their policy beliefs, which can be understood as a kind of “organizational culture.” According to Jeffery Chwieroth, organizational culture is “the collectively shared beliefs about ‘how things are done’ within a

29 Kenneth Lieberthal, Governing China: From Revolution Through Reform (WW Norton, 1995), 190. Here “Center” is a special term that refers to “top leaders of the CPC,” or Zhongyang in Chinese.
30 Lieberthal, 189–90.
particular bureaucracy, encompassing ideologies, norms, language, and routines that orient action and govern expectations and behavior.”\textsuperscript{31} Put differently, organizational culture is the communal consensus about the “core mission and the functions of [the policy community]; goals to be pursued; basic means the pursue those goals; and some way to measure results.”\textsuperscript{32} As Chwieroth argues, “organizational behavior can be easily predicted given knowledge of a particular organization’s culture.”\textsuperscript{33}

Once the norms and practices become stabilized, there will emerge informal but identifiable “boundaries” among different communities, although those boundaries may “not necessarily follow institutional boundaries.”\textsuperscript{34} As Sebastian Schmidt argues, when a norm/practice “operates smoothly without any significant hindrance and results in expected outcomes, there is little need or occasion for conscious thought and critical reflection on the part of the actor.”\textsuperscript{35} A community is a powerful socialization machine glued together by shared “social, political, and moral meanings.”\textsuperscript{36} This socialization process can take the form of organizational education, through which new staffs of the bureaucracy learn formal regulations and bureaucratic norms.\textsuperscript{37} In addition, the everyday practices of bureaucracy also refine organizational culture. Practices “simultaneously embody, act out, and possibly reify background knowledge and discourse in and on the material world.”\textsuperscript{38} This means that socialization can also

\textsuperscript{31} Chwieroth, Capital Ideas, 33–34.
\textsuperscript{32} Barnett and Finnemore, Rules for the World, 19.
\textsuperscript{33} Chwieroth, Capital Ideas, 34.
\textsuperscript{34} Etienne Wenger, Communities of Practice: Learning, Meaning, and Identity (Cambridge university press, 1999), 119.
\textsuperscript{36} Adler, Communitarian International Relations: The Epistemic Foundations of International Relations, 5.
\textsuperscript{38} Adler and Pouliot, International Practices, 6.
be an unreflective learning-by-doing process. In short, an organizational culture that generates positive governance performance tends to self-sustain and become entrenched over time. Different local policy communities may come to different conclusions about best governance strategies, with some favoring the usage of Western approaches to reshaped Chinese ones, while others preferring the opposite. Therefore, a simple answer to my empirical puzzle is: China’s varied global governance strategies in different issue areas reflect different local policy communities’ beliefs about the best approach to govern.

To be sure, the emphasis on communal beliefs/organization culture is not to say that local policy communities are completely isolated from broad socio-political contexts. Local policy communities’ policy beliefs are socially and historically constructed. The construction of such beliefs may be influenced by external forces. I will explain the interactions between various factors and intra-community deliberations in the following sections where I theorize the general logic and trajectories of local policy deliberation. At this point, I want to stress that treating local policy communities’ changing beliefs as the analytical focal point and stressing intra-community dynamics can capture various factors’ policy impacts without overestimating them.

First, analyzing policy communities’ changing beliefs can capture top leaders’ policy impacts without overestimating them. Policy communities’ reasoning reflects both top leaders’ wills and communal beliefs. The Center’s directions can help to create communal uncertainty and momentum for change, but they usually do not determine policy experimentation and selection processes. In some cases, policy beliefs may not resemble the top leaders’ visions faithfully. For instance, as will be discussed in chapter 4, Xi’s ambition to make China a normative leader in global climate governance was in effect undermined by the climate policy

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39 Pouliot, “The Logic of Practicality.”
community’s preference for learning Western ideas and its lack of willingness to push for Chinese climate governance ideas (such as the vague concept of eco-civilization) in the international arena. Interestingly, the policy community in the development cooperation issue area was able to construct distinctive IDC strategies in the Hu Jintao era, when topic leaders’ push for normative innovation was relatively weak.

Second, analyzing changing communal beliefs can capture other domestic actors’ (e.g., domestic interest groups, other bureaucracies) policy impacts without overestimating them. Domestic economic and political actors can certainly influence policy implementation. They may also feed ideas to policy communities and thus influence policy deliberation indirectly. However, their activities do not automatically become policy norms. Their policy impacts are often conditioned on intra-policy community dynamics. That means, the core bureaucracies may or may not be open to other domestic actors’ policy advocacy, depending a lot on their beliefs and internal deliberations. As we can see in chapter 4, the NDRC’s policy preference for ET was not influenced by the weak and marginalized business group. Even in the development case, in which the Chinese State-Owned Enterprises (SOEs) are politically powerful, their interests only became smuggled into policy norms because the MOFCOM took a passive governance style. When the MOFCOM started to emphasize top-level project design, Chinese SOEs’ policy influence became constrained.

Third, analyzing changing communal beliefs can capture international actors’ policy impacts without overestimating them. Granted, community of practices under Adler and Vincent Pouliot’s definition can be constituted by practitioners who work “via network channels, across
national borders, across organizational divides, and in the halls of government.”

Indeed, there is strong literature that treats transnational communities and networks as a different ontological foundation of world politics. However, although practitioners in different countries may share common practices (e.g., doing climate governance or IDC), the social meanings attached to their respective practices (e.g., the best ways of doing climate governance or IDC) are not necessarily the same. Sometimes practitioners in different countries hold common understanding about best global governance practices, while in other times, they disagree on a range of issues. The latter situation can often be observed in China’s cases. In this sense, although I agree that transnational communities of practices are a key engine of “world ordering,” I maintain that we can still observe different sub-groups in the “loosely-coupled” transnational community. A national policy community may or may not be an organic component of a transnational one. This deep or shallow communal integration may be influenced by international factors but is ultimately determined by local policy deliberations. If policy norms within the local community are stable, simple interactions between local bureaucracies and foreign idea entrepreneurs cannot lead to transnational norm diffusion.

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42 The former can be understood as a “tightly-coupled” community, the latter can be understood as a “loosely-coupled” community. See in Emanuel Adler, Michael Barnett, and Steve Smith, *Security Communities* (Cambridge University Press, 1998), 30.


2.3 Summary and on Generalizability

In short, in a stable social local context, there exist political and social boundaries between a policy community and outsiders, especially international actors. Such boundaries can be penetrated when communal beliefs become destabilized, but they will not dissolve easily. In this sense, focusing on local policy communities’ beliefs in the analysis, although simplifies the policy-making process, allows me to capture the key mechanism of norm and policy change and notice impacts of other factors. This approach does not deny the potential influence of top leaders, domestic actors, international pressure/entrepreneurship. But, it does emphasize the crucial role of policy communities and especially their core bureaucracies’ interpretation and evaluation. Because local policy communities’ organizational culture neither directly reflects domestic leader and interest groups’ preference, nor can it be easily shaped by international norm diffusion, a theory of policy belief change must focus on the dynamics within local policy communities.45

Before moving on, it is worth noting that my way of conceptualizing local policy community and my emphasis on community/bureaucracy level of analysis may not work in other country contexts and issue areas. For example, in countries with less developed bureaucratic systems and in issue areas that require large-scale inter-bureaucracy collaboration and bargaining, local policy communities may be structured differently (e.g., many bureaucracies bundled together with no identifiable cores), or they may be much more open to external influence than in the context of global governance policy-making in China. In those contexts, the assumptions about the autonomy and authority of local policy communities and about normative

45 Chwieroth, “Normative Change from Within.”
boundaries between them and external actors may need revisions. As I will discuss in section 4.4, revising the conceptualization of policy community will not require a change in the general framework of local policy deliberation but will influence the theorization of different factors’ impacts on local policy deliberation’s trajectories.

3 Pragmatism and the General Logic of Local Policy Deliberation

In this section, I develop a general mechanism for the construction/change of local policy communities’ policy beliefs—local policy deliberation. I argue that a certain organizational culture in a policy community we currently observe is produced by the most recent round of policy deliberations within the local policy community. Through local policy deliberations, members of the local policy community reflect upon orthodox norms and practices and pragmatically utilize novel ideas to adapt/upgrade/replace existing governance strategies. Clearly, I here grant the agency of learning and innovation to local policy communities, but I must emphasize that their agency during policy deliberation is bounded by the social context they are embedded in and the (indirect) influence of other actors.

Although local policy norms, when producing positive governance performance, tend to self-sustain and resist external influence, they are not immune to endogenous logic of change. It is well established in the literature that social actors have the capacity to actively reflect on existing norms and practices and seek novel ideas. Even Barnett and Finnemore’s work, which places great emphasis on bureaucratic culture, still acknowledges that “as bureaucrats assess past performance and deal with changes in their environment—new resource constraints or demands
imposed by powerful actors—they will adapt and reinterpret existing rules.” Building on a theory of “complex adaption,” Matthew Hoffmann argues that “adaptive agents are always trying to fit with their context,” they “evaluate outcomes, or the results of actions and assess the fitness of their rule models.” “Internal rule models are strengthened, weakened, changed, or kept in relation to the evaluations.” From different theoretical angles, Emanuel Adler’s cognitive evolution theory and Schmidt’s pragmatist theory also emphasize actors’ reflexivity. The common ground of these works is the view that local reflexivity can emerge without being pushed by external forces (e.g., norm entrepreneurs). This separates them from traditional constructivist work that either focuses on social stability or treats change as driven by norm entrepreneurs outside of the communities.

I build my theoretical framework on Hoffmann’s framework of governance system transformation and Schmidt’s pragmatist approach to norm change. On the one hand, Hoffmann presents a general theory of social change, which involves a continuous cycle that consists of several phases: stability, uncertainty build-up, novelty growing, re-organization of the system, and re-normalization. This framework is most valuable for its emphasis on the adaptive nature of social actors and the importance of uncertainty build-up in triggering idea innovation and broader system changes.

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48 Hoffmann, 40.
On the other hand, Schmidt’s pragmatist theory provides a framework that integrates theories of social practice and normative change. Borrowing heavily from John Dewey, Schmidt first agrees with the Bourdieuan practice theory in that nonreflective practices are strong social forces shaping actors’ behavior. Such assertions can be found in Pouliot’s theorization of the “logic of practicality,” which places great emphasis on non-reflective background knowledge. However, different from practice theory, the pragmatist approach argues that practices can be “critically reassessed in light of the environmental stimulus.” This argument relaxed practice theory’s fixation on habitus and allows pragmatists to better answer the question of change. Although its note on the causal influence of “environmental stimulus” is not very different from Hoffmann’s framework, the added value of Schmidt’s theory becomes clear when the process of “deliberative innovation” is introduced. According to Schmidt, deliberative innovation is a process influenced both by actors’ existing unchallenged knowledge and by experimentation with and evaluation of various practice-informed new policy ideas. This means that practitioners’ search for novelty is still heavily influenced by their unchallenged practical knowledge and experience (from other fields of practices). This point is of great importance when I move on to theorize the trajectories of local policy deliberation in section 4.

Adapting existing theories on system-level changes to the study of local norm/practice dynamics, I argue that local norms and practices constituting a certain governance strategy may go through continuous cycles of change and normalization, which include several phases: (1)

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54 See discussions about Bourdieusian approach’s lack of attention to change in Bueger and Gadinger, *International Practice Theory*, chap. 3.
uncertainty build-up and the problematization of orthodoxy, (2) local experimentation with local or foreign ideas, and (3) local norm reconstruction (new orthodoxy established). I call the combination of the first two processes “local policy deliberation.” The third process is an intermediate stage between deliberation and taken-for-grantedness (Figure 2-1). To put it in a more formal manner, I define local policy deliberation as a mechanism of local norm/practice change, through which members of a local policy community first reflect on the problems of the orthodoxy, then deliberatively create, search for, and experiment with novel ideas to fix the identified problems, and finally construct new policy norms and/or rules. Although the language I use here describes a deliberation process taking place in local policy communities, the general logic of the framework is not very different from Hoffmann’s and Schmidt’s.\textsuperscript{56}

\begin{figure}
\centering
\includegraphics[width=\textwidth]{figure2-1.png}
\caption{Local Policy Deliberation and Local Governance Strategies}
\end{figure}

\textsuperscript{56} Hoffmann, \textit{Climate Governance at the Crossroads}, 62–65; Schmidt, “Foreign Military Presence and the Changing Practice of Sovereignty,” 821.
I will explain in detail the two phases of local policy deliberation in section 4, for these phases are closely related to the trajectories of policy deliberation and norm/practice change. In the rest of this section, I discuss three general features of local policy deliberation. First, local policy deliberation is an *intra-community* socio-political mechanism. The two stages of local policy deliberation all take place within local policy communities. Local policy communities rarely lose agency in the process of local policy deliberation. A specific policy community’s judgment about best governance strategies depends on how the community balances the trade-offs among different concerns such as delivering positive governance performance and bureaucratic interests, which makes the process filled with contingency. Because different communities may have different ways of interpreting the situation, doing innovation, and selecting policy options, the analysis of policy deliberation trajectories must be sensitive to community boundaries.

Second, local policy deliberation is a *general* mechanism of intra-community norm change. As discussed above, policy community members’ conduct of deliberation, innovation/learning, experimentation, and evaluation may be influenced by external factors like top political leaders’ wills, international and domestic entrepreneurship, and domestic interests. But these factors generate normative and policy impacts indirectly, through influencing the policy communities’ *interpretation* of the necessity of change and the best way to innovate.57 In this sense, the relative impacts of each factor are case-specific, which cannot be assessed without analyzing bureaucratic norms and intra-community reflections.

57 See Adler’s emphasis on the central role of social actors’ *interpretation* of situation. Adler, “Seizing the Middle Ground.”
Third, as Figure 2-1 shows, local policy deliberation is a continuous cycle. Each round of local policy deliberation will produce a newer version of governance strategy, which will then be reshaped by a new round of policy deliberation when conditions are ready again. The policy development outcomes we currently observe is the product of the latest cycle of policy deliberation. The so-called “orthodox” and “new” norms/practices are, therefore, relative terms. As a result, technically, the norms and practices at a given time should be codetermined by the nature of the preceding orthodoxy and the conduct of the preceding policy deliberation. It is thus possible that the preceding orthodoxy is already “norms that are accepted and institutionalized from outside because of prior choices, including acts of borrowing and localization”\textsuperscript{58} In other words, it is possible that the orthodoxy in a period under investigation is “foreign” at the starting point of change. This is not a theoretical problem but will make empirical investigations more complicated. However, the Chinese case in this dissertation allows me to avoid this problem. As empirical chapters show, in most issue areas, we can consider “orthodox” Chinese global governance strategies before the recent round of policy deliberation as “local.”\textsuperscript{59} Because in each case China’s governance strategy has been through at least one full round of local policy deliberation and still ended up taking different features—some became more Westernized and some did not, we can focus on factors and processes that may influence the trajectories of policy deliberation, rather than the initial version of local norms and practices.


\textsuperscript{59} This treatment is for analytical convenience only. In some cases, there were no activities taken during the Mao era whatsoever.
4 Trajectories of Local Policy Deliberation

Thus far I have discussed the “how” question: how a local governance strategy is constructed. I have proposed that local governance strategies are produced by local policy deliberation processes. In this section, I turn to the “why” question: why the local policy deliberation mechanism follows different trajectories—importing foreign ideas versus updating local norms/practices. I further unpack the general mechanism developed in section 3 and offer three analytical guides to answering the question. First, the problematization of the orthodoxy sets the prediction for local norm/practice change. It is intra-community reflections, which may (or may not) be affected by external factors, that open space for change. Second, when transferable local ideas are available, local policy communities faced with uncertainty will tend to use local ideas for policy innovation and experimentation, rather than to import foreign ideas directly. Third, only failing to develop an effective governance strategy using local ideas can generate strong political momentum for foreign idea importation. The logic flow in the theoretical framework is summarized in Figure 2-2.

In this theoretical framework, I try to cut a balance between causality and contingency. My theory is causal in that it emphasizes the causal roles of (1) uncertainty and the problematization of the orthodoxy, (2) the availability of transferable local ideas, and (3) communal evaluation of local-idea-based policy experiments. However, it is not deterministic given the contingency involved in triggers of uncertainty, availability of novel local ideas, and policy evaluation and selection outcomes. In other words, I remain open to contingency and argue that the availability of local ideas and factors influencing policy evaluation are case-specific, though I do think that various factors’ impacts are conditioned on communal interpretation. In addition, my theoretical framework is not simply about normative beliefs but
also incorporates interest beliefs. In short, this theoretical framework guides my empirical investigation by clarifying the processes to focus on: problematization of orthodoxy and policy experimentation and evaluation. However, it cannot tell what exact factors determine the specific outcomes of each process.

Figure 2-2 Trajectories of Local Policy Deliberation

4.1 Uncertainty and Problematization of the Orthodoxy

Let us first discuss phase I of the policy deliberation mechanism (see Figure 2-1). Uncertainty build-up is the triggering process of local policy deliberation. Uncertainty refers to a state of doubt, in which actors sense “a significant incongruence between the expected effects of a given [norm/practice] and the actual outcomes of action.” Uncertainty provides “incentive to hasten the process of reevaluation and change from one set of collective understandings or

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‘paradigms’ to another.”61 In other words, growing uncertainty leads a policy community’s taken-for-granted understanding of orthodoxy to be reflected upon and even problematized, and makes members of the policy community “cognitively motivated to analyze new information.”62 This widens the policy space for learning and innovation.

Uncertainty within a social system can grow for multiple material, socio-political, local and international reasons. Existing theoretical works tend to be flexible about possible origins of uncertainty. As Hoffmann argues, uncertainty in a system “can emerge endogenously if actors within the system begin to contest the rules or exogenously through the introduction of new information or shocks to the system.”63 The practice approach, in its own theoretical language, shares this view. As Adler and Pouliot note, “it is also from practices that social change originates,” for “new ways of thinking or doing necessarily emerge from the contingent ‘play of practice,’ in which meanings are never inherently fixed or stable.”64

Communities’ uncertainty about the orthodoxy may grow as members construct intra-community reflections (and even debates), either because they gain novel ideas from the outside or because they form different beliefs through evaluation of their deeds. Community theories argue that idea infusion effects might take place through the efforts of idea brokers—members that belong to two communities simultaneously. “Brokering involves the translation of knowledge from one community to the other and the aligning of perspectives.”65 With the brokers serving as bridges between communities and advocators of new ideas in their respective communities, other community members may absorb those external ideas over time. This may

61 Adler, Communitarian International Relations: The Epistemic Foundations of International Relations, 73.
63 Hoffmann, Climate Governance at the Crossroads, 64.
65 Bueger and Gadinger, International Practice Theory, 54.
cause the diversification of the community’s culture and practices. In a different theoretical language, Chwieroth notes that incremental change through “layering” is always a possibility. Layering “involves the active sponsorship of additions or revisions to existing organizational beliefs and practices with which they do not resonate.”66 “Over time the new layers can attract greater support and lead old beliefs and practices to become less prominent in governing organizational behavior.”67

Because local policy communities in the Chinese context often contain more powerful socialization mechanisms and have powerful bureaucratic cores, the space for unorthodox activities and ideas is often limited. As Chwieroth’s work on the changing organizational culture of the IMF shows, since the establishment of capital account liberalization norm, following intra-IMF debates on this issue have only focused on ways of operationalizing the norm, rather than on the norm itself.68 Such constraints on learning and incremental change may be even more salient in policy communities in China. Therefore, the nature of Chinese policy communities—being not only conservative but also tightly controlled—requires a force of change that is stronger than incremental learning and reflection.

In addition to incremental learning and intra-community reflections, changes of social and political contexts in an issue area can serve as a “cognitive punch” that triggers uncertainty in the challenged policy community.69 On the one hand, factors such as domestic civil movement, international pressure, and changes in the material environment may all pose challenges unsolvable by existing policies, thus creating uncertainty. On the other hand, shocks

68 Chwieroth, *Capital Ideas*.
69 Adler, *Communitarian International Relations: The Epistemic Foundations of International Relations*, 73.
to the communal routine may also come from the higher level—top leaders themselves. In China, the Center can develop “new mandates for the governor(s), new definitions of the problem, and/or new definitions of goals or success,” which may render existing policies obsolete. The new strategic thinking of the Center may certainly be a response to broader context changes, but such changes may also relate to leaders’ own unique visions and ambitions. For example, the initiation of BRI to a very large extent reflects Xi’s political ambition.

Context changes challenge orthodox norms and practices by constructing a sense of “governance failure.” Perceiving certain governance strategies as a failure “ultimately produced several key moments of problematization... In the process, new questions and concerns—such as the political sources of policy failure, and the problem of risk and contingency—became the subject of intense intellectual and practical preoccupation.” Of course, uncertainty is intersubjective, depending on the policy community’s interpretation. As some theorists note, “changes of practice resulted from the contestation of what the past means for and in the present.” Because of the intersubjective nature of “governance failure,” proponents of innovation in and outside of the local policy community may seize the opportunity and exaggerate the failure of the orthodoxy. Therefore, what is of great importance for our analysis is not objective governance failures, but also the communal consensus about such failure.

To add, although, in theory, the re-configuration of a policy community (e.g., bringing in new core bureaucracies) can directly reshape the policy community’s beliefs and practices, I treat this factor as a type of context change. Bureaucratic reform in China often takes the form of

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adding new bureaucracies to the policy community, rather than dismantling and restructuring the existing policy community completely. As a result, even newly involved bureaucracies often do not have already-made policy ideas and must conduct policy deliberations in a pragmatic manner. Therefore, different from Chwieroth’s treatment of recruitment as a direct and independent mechanism of organizational change, I treat the change of bureaucracy in a local policy community as a form of context change, which increases uncertainty but does not directly point out the direction of policy change.

To sum up, uncertainty build-up can be triggered by multiple factors from within and outside of the challenged local policy community. Those factors can be material, social, and political. They can be domestic and international ones. Regardless of their nature and origin, those factors start the policy deliberation cycle by constructing a sense of governance failure within a policy community, which shakes community members’ taken-for-granted policy beliefs. Therefore, factors outside of the policy community ultimately depend on communal reflections to general policy impacts. Without such a process, change in policy norms will hardly take place.

4.2 Foreign Versus Local Ideas in Policy Experimentation

As uncertainty rises and the orthodoxy problematized, the policy deliberation process enters its phase II (see Figure 2-1), in which the challenged local policy community pragmatically look for, experiment with, evaluate, and select novel ideas as the pillars of the new governance strategy. To understand the trajectories of this phase of local policy deliberation, we need to first acknowledge the presence of idea competition. I propose that there are at least three

74 Chwieroth, Capital Ideas.
ideational sources for local norm reconstruction: normative legacies of the orthodoxy, foreign ideas, and novel local ideas (gained through local innovation or improvisation) (Figure 2-3). To be sure, I do not mean that these three ideational sources are always present during policy deliberation. The presence of a certain ideational source is dependent on case-specific contexts.

First, because a governance strategy is usually a package of norms and practices, uncertainty build-up and problematization of the orthodoxy governance strategy may lead to the decay of some norms and practices and leaves other components of the package unchallenged. If this is the case, the norm/practice changes that follow will not be the reconstruction of the entire governance strategy, but merely part of it. Therefore, the scope of the problematization affects different policy options’ access to policy deliberation. The more components of the orthodoxy remain intact, the narrower the space for innovation, learning, and/or transnational norm diffusion.

Figure 2-3 Local and Foreign Ideational Sources for Local Norm Re-construction

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75 See Acharya’s comparison between localization and subsidiarity Acharya, “Norm Subsidiarity and Regional Orders,” 97–99.
Second, foreign ideas are good candidates for reconstructing the local governance strategy. This argument is in line with the traditional constructivist literature on norms, which sees idea importation—a process in which local actors bring in foreign ideas to solve identified problems—as a natural maneuver of local actors facing uncertainty. For example, as discussed in section 1, although Acharya’s work acknowledges that local actors can creatively reconstitute foreign ideas after they are imported, they still see foreign ideas as main sources of novelty when local norms are problematized. To be sure, there are surely some policy areas where there is no attempt to socialize or where international norms are not relevant. However, those situations are considered as beyond the scope of this study as my focus is on local norm dynamics where there are strong global norms and rules and active norm entrepreneurship on the international level.

However, importing foreign ideas are not the only option for policy communities facing uncertainty. Local norm reconstruction should be open to a wider range of possibilities. In his study of innovation in climate governance, Hoffmann finds that “novel climate initiatives resulted from adaptation by multiple actors at multiple levels entailing a reframing of climate change.” Likewise, practice theory notes that actors do not simply learn existential international ideas but also create, experiment, and reflect on ideas on the local level. Building on these insights, I argue that local policy community can develop new governance strategy using a third kind of ideational source: novel ideas originated locally—through deliberative local innovation and local improvisation.

Local innovation is a process through which a local policy community in a given issue area, when facing uncertainty, seek to reconstruct the local governance strategy by borrowing

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77 Hoffmann, Climate Governance at the Crossroads, 72–73.
transferable local ideas that are effectively guiding the governance of other similar issue areas. From the standpoint of the challenged local policy community, local innovation means actively seeking transferable local ideas being practiced in other issue areas and deliberately absorb them as part of the new policy mix. Those transferable local ideas, although are orthodox norms in other issue areas, is novel for the challenged policy community, for it has not applied those ideas in practice. To illustrate, we can observe local innovation activities in both climate governance and IDC cases. In the IDC case, Chinese policymakers deliberately bring in domestic practices of project implementation and financing to the IDC field. For example, the commercialization of IDC projects mirrors the commercialization of public projects within China. In the climate case, we also observe policy experiments using the command and control methods, which are dominant measures in other environmental issue areas like air and water pollution control. In each case, the challenged local policy community tries to use locally developed governance ideas in other issue areas to fix the problems in their own issue area.

Some existing works have similar arguments to my conceptualization of local innovation. As Hoffmann notes, “when actors innovate, they do not do so from scratch. The novelty that we see…is not a complete break from what has come before. On the contrary, initiating actors draw from existing resources, both ideas and material resources when devising experiments.”78 This argument is echoed by Schmidt—from a pragmatist angle—who asserts that “actors faced with the failure of a certain habitual course of action reflect and deliberate on how to reconstitute action, a process which is informed by other habits of thought and action that continue unimpeded (and unquestioned) and act as tools in the development of new habits that resolve the

78 Hoffmann, 74.
given problem.” In addition, other practice theorists also argue that dispositions that form in specific fields and ideas from other fields are key sources of novelty for the field under study.

Local improvisation refers to knowledge construction through pragmatic problem-solving practices. In this process, practitioners accumulate localized knowledge incrementally and then summarize and normalized fragmentation ideas into coherent policy norms. In other words, the activities of absorbing local ideas can be carried out first in a less reflective, practice-based manner. Deliberative reflections come later. In essence, both local innovation and local improvisation are local-centric learning processes. The difference between the two lies in the reflexivity of actors and the pace of knowledge production.

In a book that analyzes China’s reform and development, Yuen Yuen Ang develops a theory of “directed improvisation” to help understand how central directions and “ground-level” actors’ improvisation of “numerous particular solutions to continuously changing problems, specific to their locale and income level” have joined force to fuel “a coevolutionary process of development.” Taking Ang’s insights into the normative dimension, we can see that lower-level governments in Ang’s narrative have carried out such local improvisation without having a clear normative or theoretical understanding of the best approach to economic development. However, those practices nonetheless become key ideational components of the “consensus” on the Chinese development model that took form later. In my own research below, we can also observe such local improvisation dynamics in the IDC case, as the design of some IDC policy instruments and resources allocation approaches were constructed largely unreflectively, and then became normalized and part of the coherent IDC discourse.

80 Schindler and Wille, “Change in and through Practice,” 337–38.
81 Yuen Yuen Ang, How China Escaped the Poverty Trap (Cornell University Press, 2016), 240.
To sum up, the process of policy experimentation and selection involves competition between foreign and local ideas. If novel local ideas derived from deliberative local innovation and/or policy improvisation are utilized as the key building blocks for the new governance strategy, then the product will be norms and practices that are different from both the local orthodoxy and foreign norms and practices. In this way, we will end up having updated governance strategies with local characteristics. Now the question is: what kind of ideas—foreign ones or local ones—will the policy community choose and under what conditions?

4.3 Outcomes of Policy Evaluation and Selection

Pragmatist theories generally emphasize “contingency” when addressing the possible outcomes of pragmatic norm change. This is understandable, as the creativity of actors forbids predictions of specific policy outcomes. However, I argue that we can modestly increase the prediction power of the pragmatist framework and predict the relative influence of two types of ideational sources—foreign versus local ones, while still leaving specific policy selection outcomes to be determined by contingency. In this section, I discuss two broad scope conditions: availability of transferable local ideas and policy evaluation on local-idea-based policy experiments.

4.3.1 Availability of Transferable Local Ideas

Although section 4.2 notes the possibility of idea competition during policy deliberation, the availability of transferable local ideas is not by default but depends on the specifics of

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different issue areas and on the communities’ perceptions. Indeed, in most cases, transferable local ideas—from other issue areas or accumulated by improvisation—are available thanks to the presence of compatible issue areas and a relaxed environment for policy experimentation. For example, the climate policy community can borrow ideas from pollution control and energy conservation areas because these issue areas share a similar task with the climate area—adjusting the behavior of productive sector actors. Similarly, IDC policymakers can borrow project implementation and development financing experience from the domestic level. They can also slowly accumulate knowledge in a long and flexible timeframe. However, some global governance issue areas are relatively special, making policy communities incapable of drawing ideas from the local level. Financial governance is one such case. Financial governance is a unique and highly technical issue area that requires special and unified training of personnel, mostly economists. In the meantime, China’s domestic practices before the 1980s were marked by the absence of financial activities what so ever. Consequently, as China started to participate in the global financial governance system, the financial policy community did not have any transferable local knowledge to borrow from. This local knowledge vacancy made it much easier for Western actors to shape China’s financial governance policy community. In this sense, the characteristics of a certain issue area certainly matter. However, as I will argue below, having local ideational sources to draw on during policy deliberation is insufficient for the construction of stable local governance strategies. Although cognitive uncertainty and a lack of local ideas for innovation may lead to transnational learning, local-idea-based innovation must go through policy experiments and policy evaluations, before becoming policy norms and practices.

83 Chwieroth, Capital Ideas.
4.3.2 Local-Idea-Based Policy Experiments and Policy Evaluation

When local ideas are available, local policy communities will tend to conduct policy experiments that privilege those local ideas. The functioning of local innovation and/or improvisation, in turn, sets the condition for idea importation. That is, if local policymakers have an easier way of reconstructing the local governance strategy, they will not have the incentive to take the hard way—importing foreign ideas. This assertion is made based on the pragmatist argument that norm innovation under uncertainty is likely to be framed by “on-going habits and means currently available” to community members.  

This argument is also shared by many constructivists in their study of bureaucratic change. For example, Chwieroth notes that even facing uncertainty, “prevailing system of meanings” within a policy community still “frame the manner in which events are understood.”

For a local policy community, idea importation is a difficult way of problem-solving for three reasons. First, idea importation is cognitively uncertain, as foreign ideas often contain social elements that are alien to local policy communities’ “prevailing system of meanings.” This, in turn, requires policymakers to break with their familiarity and embrace unfamiliar governance approaches. Second, the value of foreign ideas for solving the local problems is usually unproven, which provides local actors with “opportunities to pick holes in the new norms, and/or tag the norm entrepreneurs as idealistic, naïve dreamers (at best; or dangerous radicals at worst).”  

Third, idea importation often requires the establishment of new institutions

85 Chwieroth, “Normative Change from Within,” 135.
and training (and recruitment) of new personnel. This will effectively break bureaucracies’ routine and challenge their expertise.

In comparison, community members’ uncertainty will be greatly reduced when the challenged policy community borrows ideas its members are already familiar with. As discussed in section 4.2, although separated by policy fields, various local policy communities are under the same national political system and share basic elements of political culture and know-how. These basic social linkages create “the crisscrossing among [social] orders,” and thus make local ideas from other issue areas both novel and familiar to the challenged policy community. In this sense, transferable local ideas provide the challenged local policy community with both promises of effective problem-solving and a larger sense of certainty. In addition, because they are constructed under the same national context, local ideas from other issue areas often fit better with the institutional setting and capacity of the challenged local policy community. As a result, using those local ideas often requires minimum institutional changes and capacity building activities. Therefore, if the goal of policy deliberation is to regain certainty, then transferable local ideas should enjoy some privilege in policy deliberation.

However, transferable local ideas do not automatically become policy norms. They still need to go through evaluations by local policy communities before being normalized. Here, the predictability of my theoretical framework reaches its limitation. I except that policy evaluation determines the fate of novel local ideas and the local willingness to import foreign ideas, but I cannot tell in advance what specific factors may determine the outcomes of policy evaluation and selection. This is an empirical question. As discussed in sections 2 and 3, factors belong to

various categories (i.e., material, social, and political; local and international) can potentially shape the policy evaluation process. What I can say is that various factors affect policy development by influencing bureaucratic conceptions and understandings. As Adler notes, when selecting from candidate novel ideas, “some institutions will undoubtedly carry more power than others…and make the critical choices in the international arena, but those choices will be affected by conceptions and understandings developed, in and through politics.”\(^88\) Below I discuss some broad categories of factors that may matter in this regard.

First, generally speaking, the selection of a certain idea must follow a positive communal evaluation of the performance of policy experiments based on that idea. That is to say, a novel local idea that generates obvious negative effects (e.g., environmental damage, economic losses) during policy experimentation will be rejected. This is because bureaucracies’ authorities ultimately depend on their capacity to find effective policy measures to deal with the issues at hand.\(^89\) However, the communal evaluation of different policies’ actual and potential performance depends on contingent factors like objective effects, interpretation, and framing. In some cases, the definitions of positive and negative performance are often vague and subject to social construction.

Second, because “different agents in a population may use different measures of success,”\(^90\) an actor’s ability to sell a certain idea depends on its “ability to show that a given policy failure resulted from an actor behaving in accordance with a particular belief; and that behaving in accordance with an alternative belief (i.e., the one preferred by the entrepreneur)

\(^{88}\) Adler, *Communitarian International Relations: The Epistemic Foundations of International Relations*, 74.


generates success in short order.” Promoters for foreign norms can construct and try to sell specific interpretations of events in favor of foreign norms. If they succeed, they may be able to outperform the momentum for local innovation. This can also happen when the challenged policy community is restructured, and the new core bureaucracies are more sympathetic to foreign ideas. When supporters of foreign ideas happen to be the leader of the core bureaucracy, local-idea-based policy experiments may suffer harsher scrutiny.

Third, bureaucratic political calculation also matters. As Tang Shiping notes, “power is often one of the key selection forces in social evolution…without power, it is almost impossible to explain why so many ideational genes and phenotypes (e.g., institutions, cultural traits) have been retained in different human societies.” Similarly, Acharya also argues that learning new ideas can be driven by local actors’ pursuit to “enhance [their] legitimacy and authority.” The PA model also proposes that bureaucracies are keen to expand their budget and political jurisdiction. China’s political system, just like many other countries, is filled with bureaucratic competition and bargaining. Bureaucracies make policy proposals based on their calculations on the potential benefits such proposals can bring for themselves. When the core bureaucracy of a policy community senses the possibility that its jurisdictions may overlap with other bureaucracies, it “will compete to secure a greater share of this enforcement market in order to

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91 Chwieroth, “Normative Change from Within,” 136.
capture the financial and other rewards for doing so.” As a result, a bureaucracy may prefer policy tools under its jurisdiction and tries to block policies that require power-sharing with (or even transition to) other institutions. The political calculations may be more salient when the challenged policy community faces several equally promising policy options, or when inter-bureaucracy competition emerges due to past policy failure.

In short, the evaluation and selection processes are not a simple story of “choosing policies that work the best.” The selection of novel ideas is driven by policy interpretations of the performance of relevant policy experiments. The interpretations themselves are influenced by various social, political and material contexts, but are ultimately shaped by the policy community’s own reflections. An important implication of this argument is: policy communities may not necessarily select the most suitable policies. Because the definition of “success” and “failure” are community-specific, some of their choices may be proven counterproductive in the long run.

4.4 Summary and on Generalizability

In this section, I provided an account for the varied trajectories of local policy deliberation. I further developed the theoretical framework presented in Figure 2-1 and unpacked the two phases of policy deliberation. I argued that the trajectories of local policy deliberation were co-determined but two scope conditions: (1) to what extent is the local orthodoxy problematized and rejected; and (2) whether local innovation and/or improvisation is seen by the

policy community as the optimal solution to identified governance challenges. The first condition determines the initial scope of change. The second condition determines the relative impacts of local versus foreign ideas. I further argue that local innovation and/or improvisation are privileged ways of responding to uncertainty, but their functioning depends on the availability of transferable novel ideas from the local level and the policy community’s evaluation. In this way, constructivist theories of norm diffusion and two-way socialization are synthesized in this single framework, with local policy deliberation serving as the master mechanism. To emphasize, this theory places great emphasis on local policy communities’ interpretation of the situation, their knowledge and practices, and communal evaluation of the performance of policy experiments. The policy selection outcomes are therefore not simply based on the historical accumulation of local knowledge, but on policy communities’ pragmatic reflections on local knowledge. Having historical experience and transferable local knowledge is a necessary but not sufficient condition for local-centric innovations. Because community/bureaucratic beliefs and interests play a huge role in the process, the products of policy deliberations may not necessarily fully incorporate local knowledge or be the best governance solutions viewed from outsiders’ perspectives.

To some extent, my theoretical framework resembles Donor and colleagues’ theory about the origin of developmental states, in which they propose that governments became developmental when they suffer systemic vulnerability (a combination of domestic power competition, external threat, and resource scarcity) and thus have no easier ways of staying in power, except to pursue industrial upgrading.98 Similar to them, but on the ideational dimension, 

I argue that local policy communities became enthusiastic learners when they perceive intellectual scarcity on the local level and have no easier local-oriented ways of reconstructing governance strategies.

My way of theorizing the trajectories of local policy deliberation has conditional generalizability. On the one hand, the local policy deliberation framework is generalizable and can travel to various cases and to various national contexts. According to the theoretical framework, we should expect changes in local norms and practices following the problematization of the local orthodoxy. We should also expect that localized ideas would enjoy some privileges in policy innovation and experimentation and that policy selection are ultimately dependent on their perceived governance performance. Such analytical implications of the theory can be applied to other national contexts. On the other hand, however, the emphasis on the crucial influence of local policy communities (and especially their core bureaucracies) is based on the Chinese context. As mentioned above, in other countries, the policy system can be structured differently. It is possible that a country’s policy-making is a network-based process, which does not have a core bureaucracy. In this sense, more weight may need to be placed on inter-agency bargaining rather than on within-bureaucracy deliberation. It may also be possible that local and transnational policy networks are highly integrated. In such a national context, local policy deliberations may see the deep involvement of foreign actors in the whole process. In other words, local political communities may not be as resilient to external influence as those in China. This may require us to relax the assumption of the normative boundaries between local and foreign policy communities and to revise the theorization of idea competition and selection logic before the framework is applied to other national contexts.
In addition, similar to Kastner and colleagues’ work, the scope of my theoretical framework is also “limited to issues having the potential for joint gains.” The normative contestation and/or convergence in the cases under investigation are all focused on finding better ways of solving global problems. This study does not concern cases wherein two counterparties are in a zero-sum competition (e.g., trade disputes, military interactions, etc.). Meanwhile, to emphasize, this study focuses not on broad discourses or institutional investment activities, but rather on China’s choices of concrete norms, rules, and practices that can offer relatively clear practical guidelines (or governance strategies in Jacqueline Best’s definition). For the cases beyond the scope of this study, other approaches may work better than the theory presented here.

5 Research Design

Having established the general theoretical framework, I now lay the ground for the empirical investigations in the next three chapters. In this section, I first discuss the main method used to navigate my case studies—process tracing. I then talk about my case selection strategy. The last part of this section clarifies my data collection techniques and ways of data interpretation.

5.1 Process Tracing

Recall that the theoretical framework I propose here both provides a moderate level of predictability and maintains a distance from determinism. On the one hand, it provides two general causal claims: (1) uncertainty build-up on the local level causes normative changes, and (2) the functioning or rejection of local innovation/improvisation causes two different trajectories.

99 Kastner, Pearson, and Rector, China’s Strategic Multilateralism, 19.
of change respectively: local norm upgrading or idea importation. On the other hand, however, the functioning/malfunction of proposed processes can be determined by multiple variables, which are case-specific. This means that theoretical validation must focus on the link between the functioning of hypothesized processes and trajectories of changes. This calls for a process tracing method, which is geared to detect “observable implications” of the real but “ultimately unobservable” causal mechanism.\(^{100}\)

Process tracing has both theory testing and theory development functions. On the theory testing side, the key of process-tracing is to check the presence of causal-process observations, which are specific pieces of information gathered from within cases that allows researchers to assess whether a given causal factor (or, in my case, process) exerts the causal role assigned to it by a hypothesis or theory.\(^{101}\) Therefore, in each case study, after clarifying the contents of the normative beliefs and practices of the local policy communities, most of my attention will be paid to information that links to the observable implications for the theoretical framework:

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(1) \text{If the emergence of local uncertainty is indeed the key triggering process of further norm change, I shall first observe that such context change has been acknowledged by the policymakers. I also expect to see no such deliberation activities when the orthodoxy is stable. In those contexts, local norms should not have been influenced by changes in other factors, such as national and domestic interests, grand strategies, and international norms.}
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\(^{101}\) Gary Goertz and James Mahoney, *A Tale of Two Cultures: Qualitative and Quantitative Research in the Social Sciences* (Princeton University Press, 2012), 90.
(2) For the hypothesized communal preference for local innovation/improvisation to be at work, I shall observe such policy choices on endowed experience without a clear calculation of their material benefits. This must happen despite the presence of international ideas as equally promising policy options.

(3) For the hypothesized local evaluation of local idea-based experiment to be the determinative factor of policy deliberation, I shall observe the reasoning within the policy community on necessary next steps based on their reflections on the performance of policy experimentation with local ideas. I should also see reflections that place emphasis on experimentation failures, as opposed to reflections based on knowledge about foreign ideas (an indicator for diffusion).

However, the theory development function of process tracing means that failing to find evidence for the observable implications may challenge specific components of the hypothesized theory, but only calls for revisions, not rejection, of the entire framework. In this sense, process tracing is used to obtain insightful explanations of the phenomenon we observe. In practice, the empirical study tests causal mechanisms initially deduced from existing theories and then used those observations to refine the theory. The inductive function of process tracing may help to unveil causal factors and mechanisms previously overlooked.102 That is to say, I apply an “abduction” methodological approach, which neither “impose an abstract theoretical template

(deduction)” nor simply infer “propositions from facts (induction),” but land the reasoning “at an intermediate level (abduction).”¹⁰³

For example, my initial theoretical framework placed great emphasis on the capacity and structure of local policy communities during policy deliberation. I initially proposed that policy deliberation outcomes might be a function of local policy community’s capacity to handle the changing situation. Lacking appropriate capacity, policy communities would rely on the support of outsiders for policy development. This may make the policy community a more inclusive one, which involves the participation of foreign actors and idea brokers in the policy development processes. However, my empirical study finds that local policy communities are always hierarchic and independent, and major policy choice was made based on intra-community deliberation, rather than collective deliberation with norm brokers or international actors. This empirical finding shifted my theoretical focus from inter-community interactions to dynamics within policy communities. Because process tracing did not reject the central role of local policy communities and their deliberations in shaping local norm/practice change, the theoretical framework was revised, not rejected.

Based on my way of using process tracing, the empirical studies take the form of theory-guided analytic narratives of the historical development of China’s global governance strategies in IDC, climate governance, and financial governance issue areas. The analytic narratives show how the theory can help us to make sense of the phenomena, rather than test the theory. However, I do use process tracing in each case to compare different approaches’ explanatory

power. Following Bennett and Checkel’s instruction, although I initially rejected several alternative explanations in the literature review section in chapter 1, I still take some alternative theoretical frameworks—especially the domestic interest and international context arguments—seriously during process tracing. 104

5.2 Case Selection

Since my theoretical framework is designed to address both the “how” and the “why” question, it is necessary to trace the causal processes in multiple cases that have varied outcomes. The cases in this dissertation—IDC, climate governance, and financial governance—are selected for their variation on outcomes (i.e., the development case features local norm upgrading and the other two cases feature idea importation). In addition, the climate and finance cases are different in that the former is about the importation of a still-premature Western idea (i.e., ET) and the latter is about the passive compliance with well-established Western ideas (i.e., capital freedom and IMF’s lending conditionality). Although this case selection approach is not ideal for theory testing, 105 it is a suitable approach for developing theory and provides a fine ground for comparison. Furthermore, as empirical research goes on, I find that the three cases each represent a route of the policy deliberation mechanism, they thus allow me to fully illustrate the logic of the theoretical framework (see Table 2-1).

104 Bennett and Checkel, Process Tracing, 24.
Table 2-1 Cases and Changing Chinese Governance Strategies

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<tbody>
<tr>
<td>IDC</td>
<td>Local → Local 2.0 → Local 3.0</td>
<td>3</td>
</tr>
<tr>
<td>Global Climate Governance</td>
<td>Local → Idea Importation</td>
<td>4</td>
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<tr>
<td>Global Financial Governance</td>
<td>Local (non-existence) → Idea Importation</td>
<td>5</td>
</tr>
</tbody>
</table>

Besides the difference in their policy development outcomes, the selected cases are similar in many ways. Firstly, they are all technical global governance issues, which put policy communities, rather than top leaders themselves, in the center of the policy process. This can better isolate the mechanism of policy deliberation. Secondly, the cases are very similar in their initial social conditions—the initial norms in those issue areas can all be considered as local (i.e., different from the Western ones)—although the specific contexts in those cases differ. Thirdly, in each case, the local governance strategy has been through at least one round of policy deliberation but still ended up having different characteristics. This allows me to fully explore my theory about trajectories of policy deliberation. In addition, as discussed in the very beginning of this dissertation, variations of cases take place in a same general socio-political context: they happen in the same country, the same national identity and strategy, the same leadership, and similar international normative contexts.

However, it is worth noting that controlling confounding variables is not the purpose of this case selection. The case design itself cannot control for factors such as domestic interest and strategic calculation. Therefore, I rely on within case process tracings rather than cross-case
comparison to make the causal inference.\textsuperscript{106} The cases studies intend only to show the theoretical framework’s capacity to travel through cases.

\section*{5.3 Data Collection and Interpretation}

In this dissertation, I use three methods to collect data about the status and historical development of norms and practices in respective policy communities: semi-structured elite interviews; the analysis of texts; and observation of public events. Various sets of data are compared and triangulated, in order to rule out noise. In addition, because the socio-political processes proposed by the theoretical framework all link closely to policymakers’ interpretations of the social world, only through contextual interpretation can I make sense of the dynamic and intersubjective policy norms and practical knowledge in the policy communities.\textsuperscript{107}

I conducted semi-structured interviews with four groups of people: (1) Chinese policymakers (i.e., officials of the ministerial/departmental level bureaucracies) and researchers of research institutes in the government system, (2) Chinese experts that closely interact with the policy core (i.e., government advisors from think tanks and the academia), (3) other Chinese experts with deep knowledge about the policy process (e.g., researchers from academic institutes and think-tanks, private sector practitioners), and (4) foreign experts. Per the definition of the policy community, the first two groups of people are treated as members of the policy community, while the latter two groups of people are treated as outside observers. My goal here

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is to interview a representative sample of elites that cover a much as possible the functional branches of the policy community.

These elite interviews serve several objectives. Firstly, elite interviews allow me to detect practitioners’ understanding of the appropriate governance strategies in development/climate/finance issues. Their interpretations and reflections of relevant policies often reveal meanings hidden under the official discourses. Secondly, elite interviews provide valuable information about the historical development of policy thinking and interviewees’ accounts for such policy developments (i.e., the necessity of change, reasonings about policy choices between different options); Thirdly, domestic and foreign actors’ experience of interacting with the policy community allow me to gain a clearer understanding of the openness of policy deliberation processes, which provides another way of fact-checking. Finally, interviewing with experts help to fill the information gap, especially when the access to practitioners is limited. In this sense, although experts only provide second-hand information, they are treated as “eyewitnesses” to the historical evolutions of ideas and practices.  

Of course, because interview data only reflect interviewees’ personal experience and interpretations, I use this kind of data with caution. I compare data gathered at different levels and from different people on the same level of the policy system. I also compare the interview data with texts. I try both to rule out extreme opinions and to abstract the shared understanding among community members. In addition, triangulation is also done by “contrasting what is unproblematically assumed as given and natural by one community of practitioners…with a group of practitioners who engage with this community as external others.”

Texts are the embodiment of practices and norms. I carefully examined several types of texts, including (1) officials’ public expression (e.g., public statements/addresses, published personal diaries/memoirs, meeting minutes, and so on), (2) government documents (e.g., laws and regulations, handbooks and operational guidelines, white papers, official reports, official press releases), and (3) academic works on related topics. Analyzing the discourses in the texts, with a sensitivity of the contextual production of them, can tell us policymakers’ shared knowledge and beliefs about the best governance practices.\textsuperscript{110} For instance, the fact that the MOFCOM’s major policy guideline—Regulation of Foreign Assistance (Trial)—still focuses on project implementation and neglects project designing reflected the MOFCOM’s project-centric understanding of development cooperation. Similarly, emissions trading policy documents’ frequent references to the “social costs” of traditional approaches are seen as expressing the concerns during policy deliberation. In addition, since texts are the outputs of the practices of narrative-building within a community, studying the historical evolution of texts discourses gives me another channel to trace changes in practices and norms of the community under challenge. For instance, tracing discursive changes in policy documents in the IDC issue area reveal crucial information about changes in policy beliefs regarding goals, methodologies, and specific methods of doing foreign aid/developing cooperation. Similarly, tracing the changing ways of mentioning “market mechanism/emissions trading” in climate policy papers overtime can also tell us the policy development sequence.

I further collected data by observing public events that have government officials and/or experts as participants. Those events provided me with opportunities to hear opinions from people I did not have access to (in the form of interviews), such as the Minister of the MOFCOM

\textsuperscript{110} Bueger and Gadinger, \textit{International Practice Theory}, 91.
and high-level officials from the PBoC. Public commentary is similarly used as part of my interview data. In short, although observing public events cannot allow me to gain information about the historical evolution of norms and ideas, it helps to paint a general picture of contemporary norms, ideas, and practices, making it a nice complement to other data sources.

6 Conclusion

In this chapter, I proposed a theoretical framework that captured the internal dynamics of local policy communities. My theoretical framework gives great agency to local policy communities and their core bureaucracies and argues that top leaders, domestic interest groups, and international actors’ policy impacts must be qualified by policy communities’ internal deliberations on the situation and on best solutions—a process I label as local policy deliberation. I further argued that the trajectories of local policy deliberation might be determined by two broad conditions: first, the result of policy reflection on the orthodoxy; second, the challenged policy community’s evaluation of local innovation/improvisation. While the first condition is closely linked to issue-specific contexts, the second condition is very much dependent on policy communities self-directed deliberations, experimentation, and evaluation. My theoretical framework can travel through cases, as the mechanism of local policy deliberation is assumed to exist in all kinds of policy development processes. However, the functioning and trajectories of each stage of the policy deliberation process can vary, depending a lot on changing communal beliefs and the influence of case-specific factors. Because this theoretical framework explains countries’ choices of governance strategies by theorizing the inner-workings of local policy communities, it fits better with technical issue areas controlled by authoritative and autonomous bureaucracies. Finally, the research design presented in this
chapter emphasizes interpretivist process tracing, which is an approach most suitable for theory development and sense-making.
Chapter 3
Constructing The “Chinese Solution”: International Development Cooperation with Chinese Characteristics

“Countries that gained independence earlier have the obligation to assist countries that are still fighting for emancipation…. If the whole world is not liberated, China cannot eventually liberate itself.”

Mao Zedong’s remarks on the Tanzania-Zambia Railway project, June 24, 1967

“The basic principles China upholds in providing foreign assistance are mutual respect, equality, keeping promise, mutual benefits and win-win.”

China’s Foreign Aid (White Paper) (2014), July 2014

International development cooperation (IDC), according to a United Nations (UN) report, can be defined as “activity that aims explicitly to support national or international development priorities, is not [primarily] driven by profit, discriminates in favor of developing countries, and is based on cooperative relationships that seek to enhance developing country ownership.”\(^1\) IDC is an important issue area of global governance, in which less developed countries are provided with much needed foreign assistance to their national development endeavor. IDC is also a field filled with normative controversies. The current mainstream IDC model is constructed by Western donors which are members of the Organization for Economic Cooperation and Development’s (OECD) Development Assistance Committee (DAC). Although variations in

specific policies exist, DAC members generally apply an IDC strategy that (1) emphasizes top-level design of long-term programs, (2) focuses on soft infrastructure (e.g., civil society building) and institutional reform (through the application of conditionality), and (3) uses Official Development Assistance (ODA) (i.e., official “flows administered with the promotion of the economic development and welfare of developing countries as its main objective” and are “concessional in character and conveys a grant element of at least 25 percent [calculated at a rate of discount of 10 percent]”\(^2\)) as the main financing method, which is often “untied” from business activities.\(^3\) In addition to these three main features, the Western IDC model also has clear rules about social and environmental safeguards.\(^4\)

However, unlike in other issue areas such as climate and financial governance, in the IDC field, norms and practices promoted by the West are not shared by other donors from the developing world, especially China. As I will discuss in detail in section 1, China’s IDC strategy differs from that of the West in at least three ways: (1) a request-/project-centric methodology, (2) a focus on highly technical instruments and the hard infrastructure sector, and (3) the integration of IDC and business—even when pure commercial loans/activities are excluded from the analysis. These practical and normative features of China’s IDC became consolidated in the 2000s, and they still exist today (though new trends are emerging in recent years). They are not


\(^3\) See the OECD’s definition of “tied aid” and “untied aid”: “Tied” aid refers to “offering aid on the condition that it be used to procure goods or services from the provider of the aid.” “Untying aid, on the other hand, avoids unnecessary costs and gives the recipient the freedom to procure goods and services from virtually any country.” OECD, “Untied Aid - OECD,” accessed March 7, 2019, http://www.oecd.org/dac/financing-sustainable-development/development-standards/untied-aid.htm.

only different from Western ones but also operational. As a result, *China’s Foreign Aid (2011) (White Paper)* explicitly states that “China's foreign aid has emerged as a model with its own characteristics.” Therefore, the fact that China is able to deliver “Chinese IDC solutions” that are both homegrown and operational sets this case apart from the other two cases I will analyze in chapters 4 and 5.

Before moving on, it may help to clarify the scale and scope of China’s IDC. The volume of China’s IDC can be estimated in a narrow way by examining official “foreign aid expenditure” data published by the Chinese government. According to two White Papers on China’s foreign aid, between 1950 and 2012, China appropriated in total RMB 345.63 billion (around US$ 52 billion) for foreign aid in three types: grants, interest-free loans, concessional loans.⁵ Although technical differences in accounting still exist,⁶ these foreign aid funds are similar to ODAs in their development orientation and level of concessionality (i.e., having a grant element of at least 25 percent).⁷ However, if we adopt a broader concept of IDC instead of “foreign aid,” we may need to include other preferential loans, such as China Export-Import Bank’s (China Exim Bank) preferential export buyer’s credit in the estimation. These loans meet the IDC definition in terms of their development orientation but are not viewed as pure foreign

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⁶ For example, different from DAC members, China do not count flows through multilateral institutions (even the Forum on China Africa Cooperation Development Fund) and scholarships for students studying in China as foreign aid. In addition, only the subsidies for concessional loans are counted in China’s foreign aid budget, but DAC members count the entire face value of the loans. See details in Bräutigam, “Aid ‘with Chinese Characteristics’: Chinese Foreign Aid and Development Finance Meet the OECD-DAC Aid Regime,” 755–56; Vazquez, Mao, and Yao, *Mix and Match?*, 16; Cheng Cheng, “Zaoxie Jinrong: Yidaiyilu Shengji Feizhou Fazhan Fangshi [Financing for Independent Development: The Belt and Road Initiative and the Upgrading of Africa’s Development Model]” (Chongyang Institute for Financial Studies, Renmin University of China, May 2017).

aid due to the incorporation of quasi-commercial terms (e.g., asking recipients to use products as payment methods, see details in section 1.3). Adding preferential export buyer’s credit in the analysis better reflects China’s contribution to IDC and allows us to better understand its aid-business integration practices. However, I do not go further, as some researchers did, to include commercial loans (e.g., China Exim Bank’s non-preferential export buyer’s credit, China Development Bank’s loans) and activities (e.g., companies’ investment) in the analysis. These activities are primarily driven by commercial interests, which leave their development benefits mere byproducts.

Figure 3-1 presents an estimation of China’s IDC expenditure between 2001 and 2013 using Naohiro Kitano And Yukinori Harada’s data. This estimation clearly shows that adding China Exim Bank’s preferential export buyer’s credit to the statistics makes China’s IDC volume much larger. As Kitano and Harada’s data show, “net disbursement of preferential export buyer’s credits is estimated to have been US$3.6 billion in 2011, US$4.9 billion in 2012, and US$7.0 billion in 2013, which are significantly larger than either grants and interest-free loans or concessional loans. If these figures are combined, the volume is estimated to have been US$8.1 billion in 2011, US$10.6 billion in 2012, and US$14.1 billion in 2013.” The IDC volume also

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8 This is also the approach taken by a research team of Japan International Cooperation Agency (JICA), see Naohiro Kitano, “China’s Foreign Aid at a Transitional Stage,” *Asian Economic Policy Review* 9, no. 2 (2014): 301–317.
10 See discussions about the boundaries between IDC and business in Cheng, “Zaoxie Jinrong: Yidaiyilu Shengji Feizhou Fazhong Fanzhishu [Financing for Independent Development: The Belt and Road Initiative and the Upgrading of Africa’s Development Model].”
11 Naohiro Kitano and Yukinori Harada, “Estimating China’s Foreign Aid 2001–2013,” *Journal of International Development* 28, no. 7 (2016): 1050–74. Note that different from the two authors, I do not present the volume of preferential export buyer’s credit in a separate curved line, but instead combine it with other IDC expenditures in the histogram.
12 Kitano, “China’s Foreign Aid at a Transitional Stage,” 303.
increased faster than the foreign aid volume in this period. Figure 3-2 utilizes Kitano and Harada’s data and the ODA data from the OECD to compare the volume of China’s IDC with that of selected DAC members. The figure shows that if preferential export buyer’s credit is included in the estimation, China’s IDC volume has already surpassed some DAC members, such as Japan and France.¹³

![Figure 3-1 China's Estimated Net IDC (US$ million)](image)


¹³ Because the purpose of the two figures is to show trends, I use the most reliable and consistent data available. Although there are some data available about China’s IDC after 2013, those statistics are based on different measurements and data collection approaches. Combining them with this data set will cause confusion and mistakes in estimations.
In this chapter, my main task is to trace the processes leading to the construction of China’s IDC norms and practices—ones that became stable in the 2000s—using the theoretical framework developed in chapter 2. My theory-guided analytic narrative can be summarized with the following points. (1) In the Mao Zedong era, socialist and internationalist ideas guided China’s IDC (in this context, IDC was synonymous with “foreign aid”). The practical features of the Maoist foreign aid model included a request-driven approach to project design and resource allocation, an emphasis on development model promotion, a wide sectoral coverage, and an extremely high level of concessionality. (2) The performance of Maoist foreign aid was problematized in the 1980s. As a result of policy reflections, direct goods and cash assistance was marginalized, the development model promotion component was eliminated, and pursuing project sustainability and mutual benefit became the central concern. (3) Policy changes during the 1980s-2000s followed a local-centric knowledge production pathway, which took three forms. First, influenced by the general non-conditionality principle and its passive governance
style, the IDC policy community—led by the MOFCOM—applied a request-/project-centric methodology to design and organize IDC activities, which was a simplified version of that of the Maoist foreign aid model. Second, the IDC policy community summarized China’s domestic development experience—in a narrow way—and set technical assistance and hard-infrastructure as its points of emphasis. Third, to improve project sustainability, IDC policymakers deliberately absorbed the domestic experience of public project implementation and financing and then promoted the integration of IDC and business activities. Although none of these “new” practices were ideal concerning their developmental impacts, they fit well with the narrowed bureaucratic agenda—maintaining project portfolio, quality, and sustainability—and were thus politically endorsed (Figure 3-2).

**Figure 3-3 Policy Deliberations on IDC during 1980s-2000s**

- **Maoist foreign aid problematized**: (development knowledge promotion, resource-allocation, cost/sustainability)
  - (*unchanged norms: general principles, request-driven, technical instruments*)

- **MOFCOM improvisation**: project-centric, technical methods

- **Transferable local ideas**: hard-infrastructure, domestic project implementation and financing methods

- **Evaluation of experiments with local ideas**: Positive
  - Experimenting with local ideas

- **Evaluation of experiments with local ideas**: Negative
  - Evaluation of experiments with local ideas: Negative

- **Transferable local ideas unavailable**

- **Foreign ideas importedated** (often localized)

- **Chinese IDC**: project-centric; infrastructure; business-aid integration
Besides the main analytical task, I further trace changes in China’s IDC practices under the newly launched Belt and Road Initiative (BRI). Checking whether new trends in IDC conform to or depart from my theoretical expectations allows me to further examine the explanatory power of my framework. Based on the theory and some early evidence, at least two propositions can be made. First, with new ambitions of the BRI, improving developmental impacts of China’s IDC may be much more emphasized than before, which may trigger policy innovation in several aspects: increasing program-based IDC provisions, promoting Chinese development knowledge, and improving the safeguard system. Second, if the aid-business integration and infrastructure-oriented approaches continue to be viewed as positive, such practices are likely to expand and continue to constitute a key normative feature of China’s IDC strategy.

To clarify, the process tracing study on the evolution of Chinese IDC in the post-1978 era focuses on the changing policy beliefs in the MOFCOM and the China Exim Bank. This is, of course, a simplification of the policy-making process. Other actors, such as the CPC Center, other ministries, provinces, and SOEs all have some policy impacts. Officially, the authority of IDC policy-making was shared by the MOFCOM, the MoF, and the MFA. However, focusing on the MOFCOM and the China Exim Bank is analytically valuable because the MOFCOM was the bureaucracy that has shaped specific IDC rules and norms, and the China Exim Bank has designed loan programs independently. Other actors certainly influenced the implementation of IDC policies (e.g., allocation of resources), but their beliefs and interests did not become sustainable IDC norms (e.g., methodologies, loan regulations) automatically.

The rest of the chapter is divided into 6 parts. The first section clarifies major normative/practical differences between China’s IDC strategy (excluding trends under the BRI) and that of the West. The second to fourth sections then present a process tracing study on local
policy deliberation processes in the 1980s-2000s. The fifth section extends the process tracing to changes in IDC since the launch of the BRI in 2013. The last section concludes and discusses my case study’s added value: (1) challenging rationalist arguments, (2) challenging the overestimation of the normative coherence, and (3) further developing the domestic-oriented approach.

1 The Chinese IDC Strategy: Practical Features

Clarifying features of China’s IDC strategy is challenging as this is still a much debated and changing subject. While basic principles—mutual respect (non-conditionality), equality, keeping promise, mutual benefits and win-win—are often referred to as “characteristics” of China’s IDC, they are merely vague general principles, which can be translated into practice in various ways. As I will show later, although codified IDC principles have not changed much since the 1950s, their practical embodiments have changed considerably. Therefore, I go beyond codified principles and focus on practices. I show that China’s IDC practices can be found distinctive in 3 key aspects: first, the general methodology China uses to organize its IDC activities—request-/project-centralism; second, the emphasis on technical IDC instruments and the sectoral focus on hard infrastructure; and third, integrating business elements in IDC projects’ implementation and financing.

15 Glas, “Habits of Peace.”
Before any specific policy instruments and financing methods can be designed, a donor first needs to develop a general IDC methodology, a strategy about what kind of methods should be used, under what conditions, and in what ways. DAC members, in general, emphasize a *program-based* approach, that is, to develop comprehensive initiatives/programs that link multiple projects in a logical way for long-term tasks. On the one hand, programs can take forms of Direct Budget Support and Poverty Reduction Strategies with conditionalities attached, which focus on promoting recipient countries’ institutional reforms. Since the 1980s, Western donors have applied many reform strategies, such as “Structural Adjustment Programs” and the good governance agenda. On the other hand, programs can also take the form of Sector Program Assistance, in which experts help recipient countries to design long-term sector-wide (e.g., agricultural sector, power sector) development plans with clear guidelines for project coordination. The program-based methodology is underpinned by the belief that top-level design that incorporates more “advanced” development knowledge is key to ensure IDC activities’ effectiveness. This idea is similar to what Peter Evans called “monocropping,” which rests on the premise that Western knowledge provides “optimal developmental instruments.” Although recipients’ “ownership” has been much emphasized since the Paris Declaration on Aid Effectiveness in 2005, Western donors’ control over program design remains, with the change

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being more open to local inputs during program designing. In addition, partly due to this emphasis on top-level design and IDC effectiveness, Western donors are sensitive to social and environmental safeguards during program implementation.

Contrary to the Western approach, China applies a request-/project-centric methodology. On the one hand, Chinese IDC takes the form of stand-alone projects (often turn-key projects) with no conditions attached. China almost never provides comprehensive development programs/initiatives pre-designed by Chinese experts. All projects are designed separately, without considering coordination among each other. For example, although a factory project may need support by hard infrastructure projects (roads, electricity), China seldom designs them together in a package. On the other hand, project design processes often start not in China, but in recipient countries. In practice, overseas Economic and Commercial Counsellor’s Offices—the overseas arms of the MOFCOM—carry out consultations with recipient countries on possible projects and then convey the information to MOFCOM and MFA. The information gathered is about recipient countries’ “requests,” rather than their actual development needs—those development needs must be discovered through active in-depth assessments of recipients’ development status. During the MOFCOM’s assessment of project requests, factors considered seldom go beyond feasibility analyses of projects themselves (e.g., availability of financial

21 Interviews D7, D2.
resources and technical expertise). In this sense, China’s request-/project-centralism methodology can be seen as an extreme way of operationalizing the non-conditionality principle. It not only avoids intervening in recipients’ domestic affairs but also avoids top-level design (especially project coordination) altogether. In addition, it is worth noting that although some scholars see the Forum on China-Africa Cooperation (FOCAC) as a top-level design mechanism with the capability of coordinating Chinese IDC activities, this mechanism is more like a basket that collects projects under the same umbrella. Under the FOCAC, IDC projects still operate independently, without much coordination.

Largely due to the request-/project-centralism norm, China is less sensitive than Western donors about projects’ potential negative social and environmental impacts. “In general, the Chinese—like the World Bank decades ago—simply depend on local governments to sort these things out.” In addition, this request-/project-centric approach also draws criticisms from the West on its potential to sabotage Western efforts to promote good governance in the developing world. However, as some observers comment, compared with Western donors’ reluctance to honor their own recipient “ownership” principle, China is implementing the principle in a fuller sense.

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24 Li et al., 29. Interview D15.
1.2 IDC Instruments and Resource Allocation

China and DAC members’ focal points in IDC also differ. Except for the aforementioned emphasis on institutional reform, Western donors are now also focusing on the development of social sectors (or “soft-infrastructure”), aiming at improving “[h]uman rights, gender equality, environment and other cross-cutting themes [that] strengthen empowerment, local capacity, participation, transparency, leadership, and joint responsibility.”

The sectoral coverage of Chinese IDC is wide. The two White Papers on China’s Foreign Aid (2011, 2014) summarize that China’s IDC takes eight forms: “complete projects, goods and materials, technical cooperation, human resource development cooperation, medical teams sent abroad, emergency humanitarian aid, volunteer programs in foreign countries, and debt relief.”

Although the package seems comprehensive, a detailed analysis of the design of specific policy instruments and the pattern of resource allocation shows that a preference for technical instruments and a focus on hard infrastructure is clear.

First, China’s IDC instruments are highly technical, often without policy recommendation elements. For example, China designs agricultural IDC in a way that focuses almost exclusively on promoting technology diffusion (e.g., planting technics, hybrid rice, cultivation technics, equipment) rather than recommending policy changes. Most Chinese agricultural experts in IDC projects are technician and engineers, who have little knowledge about the policy dimension of agricultural development. This approach is labeled by some

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30 Information Office of the State Council, “China’s Foreign Aid (2011).”
31 Li, Tang, and Lu, Xinfazhan de Shifan: Zhongguo Yuanfei Nongye Shifan Zhongxin de Weiguan Xushi [Demonstration of New Development: Narratives of China’s Agricultural Technology Demonstration Centres in Africa], 80.
scholars as “technocratic rationality.” In addition, even human resource development projects, which are supposed to have more development knowledge transfer elements, still focus largely on highly technical skills such as management, healthcare, and data analysis, instead of skills related to development planning.

Second, another noticeable feature of China’s IDC is the concentration of resources on the hard infrastructure sector (e.g., roads, railways, public facilities, electricity). Between 2010 and 2012, 44.8% of the foreign aid budget was spent on economic infrastructures. The volume may be larger if projects supported by preferential export buyer’s credit were counted. However, it is worth noting that “physical capital fundamentalism” is not a Chinese invention, for it dominated Western donors’ activities in the 1950s-1970s. Therefore, what makes China’s approach distinctive is its choice to stay focused on the hard infrastructure sector throughout the past several decades.

Figure 3-4 compares China’s IDC resource allocation in the period of 2010-2012 with selected DAC members. It shows that traditional Western donors like the United States and the UK tend to place much greater emphasis on social infrastructure than China does. Interestingly, however, Japan’s IDC resource allocation approach is similar to China’s in terms of spending on economic infrastructure. In addition, DAC members, including Japan, put many resources on

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33 Interview D17. This feature is changing in recent years, which will be discussed in section 5.
37 I choose this period because we have official data that breaks down China’s IDC package only in this period. In addition.
38 Because this calculation does not include China’s preferential buyer’s credit (we do not have data on this), most of which are for economic infrastructure, China’s IDC spending on economic infrastructure may be underestimated.
the program and multisector aid, while China’s IDC does not have such modalities. This is a major difference between China and DAC members (including Japan). Furthermore, the volume of China’s humanitarian aid is also negligible compared with that of the DAC members.

Figure 3-4 IDC Resource Allocation Compared (2010-2012)


1.3 IDC-business Integration

The third and perhaps most controversial feature of China’s IDC strategy is the involvement of business forces in IDC project implementation and financing. The aid-business nexus is not a new idea. For several decades, Western donors had tied their ODA with domestic business interests. However, since the 2000s, there has been a strong movement among DAC members toward untying aid and business. Western donors have agreed to “to completely untie procurement and investment-related technical assistance to the 49 least developed countries
(LDC), plus several HIPCs that are not LDCs (they have not agreed to untie all aid, including general technical assistance and food aid).”39

Contrary to the Western move toward untying aid and business, China is seemingly moving in the opposite direction. In terms of the financing mechanism. As noted above, China’s IDC provisions include not only ODA-like foreign aid flows but also preferential loans like Exim Bank’s preferential export buyer’s credit, which are development-oriented but less concessional.40 Such loans contain obvious commercial elements: they often contain interest rates higher than concessional loans (but lower than market rates) and require recipient countries’ products as repayment methods.41 This makes Western observers label Chinese loans as mere tools for resource exploitation.42 However, preferential loans do meet the criteria of IDC, for their primary task is still development assistance. Different from commercial loans provided by Western banks, China’s preferential loans do not focus on profitable projects or export promotion, but on projects with clear development benefits (e.g., schools, infrastructure, hospitals).43 They also have longer and more flexible grace periods than normal commercial loans. In addition, natural resources are not the only acceptable repayment method, agricultural and manufactured products are also acceptable (e.g., Ethiopia was allowed to use sesame and

other agricultural products as payment method).\textsuperscript{44} In this sense, commercial terms here are used to guarantee the safety and sustainability of Chinese preferential loans.\textsuperscript{45}

In terms of project implementation, Chinese companies are involved in IDC in two ways. On the one hand, China follows a typical tied aid approach.\textsuperscript{46} Chinese companies (especially infrastructure SOEs) are brought in as project contractors through a bidding system usually open only to domestic companies. In addition, in most cases, China Exim Bank’s loans do not go to recipient governments’ accounts, but to Chinese contractors directly. This makes Chinese contractors major beneficiaries in the game. On the other hand, beyond working as infrastructure project builders, Chinese companies are also brought in as IDC project operators. This arrangement is reflected in the design of Agricultural Technology Demonstration Centers (ATDCs), which are essentially IDC institutions tasked with promoting agricultural technology transfer but are often run by Chinese companies.\textsuperscript{47} “The Chinese government provides financial support for the infrastructure construction and the technical cooperation element, with a total investment of US$ 5–6 million for each Center. The companies contracted to run the Centers are expected to develop a sustainable model for their operation by the end of the three years of government support, in order to continue to provide the public goods of training, demonstration, and extension” (emphasis added).\textsuperscript{48} As a result, these ATDCs have to simultaneously provide

\begin{itemize}
\item[\textsuperscript{44}] Xiaoyang Tang, Zhongfei Jingji Waijiao Jiqi Dui Quanqiu Chanyelian de Qishi [China-Africa Economic Diplomacy and Its Implication to the Global Value Chain] (Shijie Zhishi Chubanshe [World Knowledge Press], 2014), 86–87.
\item[\textsuperscript{46}] Interview D23.
\item[\textsuperscript{47}] There are in total 21 ATDCs, among which two are run by agricultural universities and two by agricultural research institutes, and the rest 17 are run by Chinese companies. See Xu et al., “Science, Technology, and the Politics of Knowledge,” 84–85.
\item[\textsuperscript{48}] Xu et al., 84.
\end{itemize}
non-profit public services—their main job—and do business, making their nature hard to determine.  

With preferential loans for IDC projects containing some commercial terms and Chinese companies serving as contractors and managers of IDC projects, it is fair to say that the boundary between business and IDC for China is blurry. However, I want to clarify that the IDC-business integration model described here is not the traditional aid-business nexus or “big aid” model, in which aid is often used primarily as tools to promote business interests. Here, business tools are used to foster IDC missions. Development promotion is still the primary target of activities described in this section.

1.4 Summary and on Sino-Western Interaction

China’s IDC strategy is built on three distinctive pillars: request-/project-centralism, an emphasis on technical instruments and hard infrastructure, and the incorporation of business mechanisms in IDC implementation and financing. Many other practical features of China’s IDC, such highly efficient project implementation and flexible social and environmental safeguard arrangements are derived from the three pillars. China’s distinctive IDC practices have set a viable alternative model and are posing challenges to the Western monopoly of IDC norms and rules. Many scholars argue that although China may not contest Western norms directly, its practices will certainly challenge the normative integrity in the field and influence recipients’

49 Li et al., “Difference or Indifference,” 30.
50 Zhang, Fazhan Yindaoxing Yuanzhu: Zhongguo Duifei Yuanzhu Moshi Yanjiu [Development Orientation Aid: A Study of the Model of China’s Aid to Africa].
51 There are of course activities with strong business orientations and use aid only in name. Focusing on “business for aid” activities is an analytical choice.
reasoning, which will drive incremental changes in Western practices.\textsuperscript{52} For example, a recent study shows that the World Bank is reacting to the challenge posed by Chinese loans by “offering credits less restrictively in order to remain competitive in the loan-giving market.”\textsuperscript{53}

In response to China’s unorthodox practices, DAC members have tried to socialize China with their IDC norms and rules. At least two channels of transnational norm diffusion existed. First, the reform era of the 1980-1990s saw China’s openness to Western development agencies. In that period, the World Bank played a very active role in China’s economic reform. Second, direct interactions between the MOFCOM-DFA and foreign agencies started in the late 2000s. For example, in 2009, OECD-DAC established the China–DAC Study Group which emphasized information sharing. “The World Bank started the High-Level China–Africa Experience-Sharing Program in 2008, and in 2011 for the first time co-sponsored an international symposium on capacity building … Trainees were accepted from the China Exim Bank as well as the Ministry of Commerce.”\textsuperscript{54} However, none of the socialization attempts was effective in bringing China into the Western IDC community. Although China did learn some technical skills such as project bidding and monitoring,\textsuperscript{55} such international exchanges did not change China’s core IDC practices. Why is this the case? I argue that this is due not to the lack of interaction but to the robustness of local policy norms and practices developed and entrenched in history. The mission of sections 2-4 will be to trace the historical origin of such local norms and practices and explain why they have remained robust.

\textsuperscript{52} Kopiński and Sun, “New Friends, Old Friends?”; Woods, “Whose Aid?”; Naim, “Rogue Aid.”
\textsuperscript{54} Kitano, “China’s Foreign Aid at a Transitional Stage,” 312.
\textsuperscript{55} Zhang, \textit{Fazhan Yindaoxing Yuanzhu: Zhongguo Duifei Yuanzhu Moshi Yanjiu [Development Orientation Aid: A Study of the Model of China's Aid to Africa]}, 105.
2 The Orthodoxy: The Maoist Foreign Aid (1950s-1978)

To understand the making of contemporary Chinese IDC, we must trace the historical process of norm/practice change back to the Mao era, during which the normative foundation and many practical components of today’s IDC were set. The newly established People’s Republic of China (PRC) started to provide foreign aid to communist countries like North Korea as early as 1956. In the early 1960s, China’s started to provide aid to Asian and African non-communist countries. As a result, China accumulated much knowledge about IDC/foreign aid in the Mao era. In general, the Maoist foreign aid strategy had three features: (1) a request-driven decision-making process; (2) a wide coverage of instruments that includes materials and cash assistance, projects, and development knowledge promotion; (3) a very high level of concessionality.

China’s foreign aid during the Mao era (1950s-1970s) was designed through a top-down process, in which top leaders themselves, especially Mao, Zhou Enlai, and Liu Shaoqi, crafted basic foreign aid principles and micro-managed aid provisions. The foreign aid governance system, which consisted of the General Office (1961)/Committee (1964)/Ministry (1970) of Economic Relations with Foreign Countries—the core foreign aid management bureaucracy—and other ministries and institutions, focused on collecting and reporting (to top leaders) aid requests, negotiating technical details of projects, and implementing top leaders’ decisions. In this system, ministries’ roles were limited to mobilizing material and human resources and guaranteeing the timely delivery of aid materials or efficient implementation of aid projects.56

They did not have the authority or incentive to carry out any research on foreign aid strategy. In addition, the powerful party system helped to put frontline practitioners in line with top leaders’ wills. Aid workers and experts in the Mao era were carefully selected based not only on their “technical background” but also on their “political credentials.”

During the Mao era, two strong ideologies shaped China’s foreign aid practices. First, guided by internationalism, Mao and colleagues saw China as “comrades and brothers” with socialist and nationalist countries and having an obligation to assist others’ causes of national liberation. As a result, from the very beginning, foreign aid was a “political tool” to expand the “United Front for World Peace,” to facilitate national independence movements around the world, and to crack down on “the expansion and invasion of the imperialist camp.” Later in the 1960s and 1970s, other political functions were added to foreign aid, such as combating the expansion of the Soviet Union and diplomatic competition with Taiwan. The domination of internationalism was best reflected in Chinese leaders’ reasoning about Tanzania–Zambia (TAZARA) railway project, the costliest aid project in the entire Mao era. Chinese leaders considered the project not primarily from an economic angle, but from a

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political one. It was valued as a tool that could support the independence movement and anti-imperialist fight in Africa.\textsuperscript{61}

Another broad ideology that influenced Maoist foreign aid practices was a more balanced view of international politics based on the Five Principles for Peaceful Coexistence presented by then-Premier Zhou Enlai at the Bandung Conference in 1955. These principles are (1) mutual respect for sovereignty and territorial integrity, (2) mutual nonaggression, (3) non-interference in each other’s internal affairs, (4) equality and mutual benefit and (5) peaceful coexistence. Applying these principles on the foreign aid realm, Zhou in 1961-1963 announced the “eight principles for foreign aid” (Eight Principles), which included: (1) equality and mutual benefit; (2) never attaching any conditions or asks for any privileges; (3) helping lighten the burden of recipient countries; (4) helping recipient countries to gradually achieve self-reliance and independent development; (5) developing aid projects that require less investment but yield quicker results; (6) providing the best-quality equipment and materials of its own manufacture; (7) guaranteeing technology and skill transfer; (8) forbidding Chinese experts to make any special demands or enjoy any special amenities. In these principles, the emphasis on mutual benefit and recipients’ independent development provided some check on the tendency to provide aid that exceeded China’s capacity. However, in practice, the Eight Principles were not translated into practices faithfully due to the dominance of internationalism. In 1966, the CPC Center declared that “proletarian internationalism is the highest guiding principle of China’s foreign policy.”\textsuperscript{62}


\textsuperscript{62} CPC Central Committee, “Communiqué of the Eleventh Plenary Session of the Eighth Central Committee of the CPC,” August 14, 1966.
Under the highly centralized foreign aid governance system and the internationalism ideology, several practical features of the Maoist foreign aid model emerged. First, internationalism, the non-conditionality principle, and the implementation-oriented bureaucratic system collectively made China’s foreign aid decision-making process request-centric. The decision-making processes lacked scientific feasibility studies. Instead, decisions were made often based on Mao’s personal preferences. For example, in 1970, Chinese leaders decided to increase China’s aid to Pakistan from RMB 200 million to RMB 500 million during the China-Pakistan summit without a careful cost-benefit analysis. This decision caused a major revision of China’s 4th FYP. In this way, top leaders’ careless decision negatively affected China’s own economic development.

Besides request-centrism, the Maoist foreign aid strategy also came with efforts to promote China’s development model. During the Great Leap Forward and the Cultural Revolution eras, Chinese aid experts actively promoted the Daqing Model in the industry and infrastructure sectors and the Dazhai Model in the agricultural sector. An important common feature of both the Daqing and Dazhai Models was the requirement to reshape the working class in the recipient countries (i.e., workers or farmers’ ways of organization and mobilization and their political value). In addition, Chinese experts also tried to diffuse the socialist ideology and the Mao Zedong thoughts to recipient countries during project construction. These practices

showed that despite the conditionality taboo, Chinese foreign aid still contained development model promotion elements.66

Second, driven by diverse and increasing requests, the Maoist foreign aid expanded to include multiple instruments, including direct cash and goods (e.g., rice, cement) assistance, small to medium industrial projects, farms, large infrastructure projects, medical teams and many more. Among them, material aids and medium industrial projects occupied most of China’s aid budget.

Third, Maoist foreign aid was deeply concessional, with most credits applied no or very low interest rates and long and flexible grace periods.67 As the Great Leap Forward started, Chinese leaders’ leftist thinking became radicalized. They became more and more generous in their foreign aid decision. “Before 1963, most Chinese loans were interest-free, with very few of them applied low interest rates. In 1964, China decided to turn all loans into interest-free loans…Zhou Enlai also mentioned [in 1972] that China would increase the grace period when indebted countries requested, with no extra conditions.”68 As a result of this great generosity, during 1971-1975, China’s foreign aid budget occupied on average 5.8% of its total annual budget. This created a heavy burden on the Chinese economy.69

Comparing the Maoist foreign aid model with the contemporary IDC strategy, several differences between the two can be observed. First, while request-centrism, which was

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constructed in the Mao era, remains a dominant methodology in today’s IDC, the post-1978 IDC strategy does not contain the development model promotion element. Second, different from the Maoist model’s emphasis on material and productive sector projects, today’s IDC emphasizes technical assistance and has a sectoral focus on hard infrastructure. Third, while most foreign aid provisions in the Mao era were given for free, today’s IDC is marked by its limited level of concessionality and the involvement of business forces in project implementation.

Before we move on, it is also worth noting that another influence the Mao era had on today’s IDC is the bureaucratic setting. The Maoist foreign aid was controlled by top leaders but managed by predecessors of the MOFCOM. This system constrained the authority of other ministries like the MFA. As we will see soon, what the general foreign aid reform in the 1980s-2000s did was to simplify the bureaucratic system, rather than bringing in new actors. The new IDC strategy then reflected MOFCOM’s understanding, rather than the MFA or other actors’.

3 Problematizing Maoist Foreign Aid (1978-1980s)

The Maoist foreign aid did bring some positive political returns, with the most noticeable example being African countries’ support for China’s restoration of its lawful seat in the United Nations in 1971. However, the Maoist model had several pitfalls in its design. First, it was very costly. As noted above, the fast-growing volume of China’s foreign aid in the 1970s created a heavy burden on China’s economy. Second, it was not sustainable. The “blood transfusion” model created recipients’ dependence on aid. Many farms and factories constructed with the support of Chinese aid (e.g., China–Tanzania Friendship Textile Mill) went bankrupt as soon as
Chinese resources and experts left. These outcomes were the opposite of a key requirement from the Eight Principles—promoting recipient countries’ independent development. Third, while one may argue that those high costs were necessary as foreign aid in the Mao era carried the tasks of promoting solidarity among developing countries, it was soon proven to be an ineffective political tool. For example, Vietnam, a major recipient of Chinese aid, turned to ally with the Soviet Union and became a major threat to China after 1975. In addition, not only did Albania waste China’s aid provisions on noneconomic activities (e.g., Albania used China’s high-quality cement to build cenotaphs), it also tried to trade its political support to China for more aid.

Although the negative feedbacks had already become clear by mid-1970s, no major reforms could have been done as long as Mao was alive and the radical internationalism ideology dominated. For example, although the foreign aid budget was adjusted in 1975, it remained at a very high level—4-5% of the annual budget. Starting in 1978, the transformation of China’s top leadership and the start of the “Reform and Opening-up” finally eliminated the political obstacles for major foreign aid reform. As China’s general strategic focus turned from promoting international solidarity to domestic economic reform and development, the political foundation for the large foreign aid volume disappeared. The frustration of the orthodox model’s pitfalls—its waste of resources, lack of economic meaning, and lack of sustainability—triggered the policy deliberation cycle in the foreign aid field.

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First, China’s large foreign volume was cut. In 1978 and 1979, Deng Xiaoping started to push for reforms in foreign aid provision. “At a foreign affairs work conference convened in 1979, Deng said that China had been ‘overzealous’ in aiding developing nations and proposed instead to ‘take a slow breath’ (huan kou qi).” 73 “In 1979, the share of foreign aid in fiscal spending dropped below one percent for the first time; it has never again returned to the level of the 1960s and early 1970s.” 74 In 1980, the State Council concluded that past “foreign aid has violated the principle of acting according to one’s ability.” 75 In 1982 Chinese aid pledges to Africa fell from US$ 100.9 million to US$ 13.8 million. 76

Second, following the reduction of foreign aid volume was the marginalization of direct material aid. As a result, innovating IDC modalities and instruments was also put on the agenda. This was reflected in the new Four Principles of Foreign aid announced by then-Premier Zhao Ziyang in 1982, which explicitly required to “explore various ways” of conducting foreign assistance. 77

Third, development knowledge promotion—a major component of the Maoist foreign aid—also disappeared. This was due to both the decline of internationalism and the beginning of China’s major reforms of its own economic system. As China’s development model turned to pragmatism, which was “not driven by any plan, blueprint, ideological commitment or societal bias,” 78 China no longer had already-made development lessons to teach other countries. As a

74 Huang, 182.
75 State council, Several Instructions for Perfecting Foreign Aid Activities, 1980.
77 Four Principles include mutual benefit, pursuing practical results, adopting various ways, and seeking common development.
result, Chinese policymakers began to stress that China, as an external assistance provider, did not hold any responsibility to guide developing countries’ development.

Fourth, the traditional blood-transfusion foreign aid model was also problematized. On the one hand, the negative performance of Chinese aid projects during the Mao era made sustainability a key concern in Chinese IDC policymakers’ thinking. On the other hand, in accordance to the shifted focus on domestic economic development, the “mutual benefit” principle, an important but long-neglected component of the Eight Principles, became much emphasized in the new Four Principles. Building on these policy changes, top leaders began to deliberately categorize Chinese aid to other developing countries as “South-South development cooperation.” This framing implied that gaining (direct or indirect) economic benefits through foreign aid was acceptable.

However, although initial policy deliberations between 1978 and the 1980s set the general direction of change, the IDC policy community was still faced with uncertainty about policy design on the practical dimension. First, it was clear that the aid volume should be cut down, direct cash and material assistance should be marginalized, and the development knowledge promotion component should be eliminated, but it remained unclear what should be the new instruments and new sectoral focus. Second, although it was clear that IDC should be designed in a way that could ensure project sustainability and mutual benefit, it was unclear what methods should be used to achieve the two tasks.

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As the Maoist foreign aid model problematized, policy deliberation entered the second stage—policy innovation, experimentation, and selection. Two major observations can be made about this process. First, the passive and conservative nature of the post-1978 IDC policy community has limited innovation in IDC methodology and instruments. The request-/project-centralism methodology was merely a simplified version of the Maoist foreign aid methodology. Instrumental innovation did take place but was heavily influenced by the policy community’s conservative interpretation of China’s development experience. Second, the policy community was more active in innovating project implementation and financing methods. Many novel domestic ideas were transplanted to the IDC field and produced generally positive governance performance.

Before we move on to analyze specific policy changes, it may help to first clarify the nature of the IDC policy community in the post-1978 era. While foreign aid during the Mao era was governed by a community consisting of both top leaders and trade-related bureaucracies, the post-1978 era saw the “shrinking” of the IDC policy community. Since the 1980s, IDC affairs have been left out of top leaders’ agenda. It has changed from a strategic priority to a marginalized subject. Since the 1980s, no mention of IDC has been made in China’s FYP. Because of a lack of leadership attention, IDC became a technical bureaucratic business. In 1982, the Ministry of Economic Relations with Foreign Countries—the key foreign aid management

81 Zhou, “Zhongguo Duiwai Yuanzhu Yu Gaige Kaifang 30 Nian [China’s Foreign Assistance and 30 Years of Reform and Opening-Up],” 35, 41.
82 Interview D9.
83 This situation was changed only recently, in the 13th FYP.
body in the Mao era—was merged into the newly established Ministry of Foreign Economic Relation and Trade, which was renamed as Ministry of Foreign Trade and Economic cooperation in 1993, and MOFCOM in 2003. Through this reform, IDC became governed by a departmental level bureaucracy, the MOFCOM-DFA. Because in the new system MOFCOM-DFA was authorized to develop general IDC policies and plans and to reform IDC methods, its policy beliefs and specific choices on policy innovation largely determined the features of China’s IDC strategy. Noticeably, although the MFA and the MoF were also part of the IDC management system, their authority was limited to providing technical inputs on specific projects and safeguarding project implementation. They did not have substantive impacts on the design of IDC methodology, instruments, and implementation methods. A special case is the China Exim Bank (established in 1994). Although its concessional loan operations were overseen by the MOFCOM-DFA, it did have substantial influences on the design of development financing methods, due largely to its expertise. In sum, the MOFCOM, and, to a less extent, the China Exim Bank can be considered as the core of the IDC policy community in the post-1978 era. To understand changes in China’s IDC practices, we need to focus on the two agencies’, especially the MOFCOM’s changing (or unchanged), policy beliefs.

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84 Yunzhen Bai, Zhongguo Duiwai Yuanzhu De Zhizhu Yu Zhanlve [China’s Foreign Aid: Pillars and Strategy] (Shishi Chubanshe, 2016), 15.
4.1 Continuity and Modest Innovation: Methodology, Instruments, and Sectoral Focus

4.1.1 Simplifying Traditional Practice: Request-/project-centralism

IDC policy community’s beliefs, of course, reflected general IDC principles established by the CPC Center. As discussed in section 3, since the 1980s, a decline in the commitment to promote Chinese development knowledge has strengthened the dominance of the non-conditionality principle. This has set the normative barrier against the Western foreign aid model, which placed great emphasis on conditionality and institutional monocropping. However, under the non-conditionality principle, China could still have done more. It could have conducted more active research and made more strategic decisions on project design, selection, and coordination. It could have also paid more attention to IDC activities’ social and environmental impacts and designed better safeguard regulations.

The absence of such elements was largely underpinned by the MOFCOM-DFA’s governance style. MOFCOM-DFA treated IDC as a purely technical business. Unlike its counterparts in DAC countries who invest huge human capital to research related to development theory and aid program design, MOFCOM-DFA focused almost exclusively on technical issues such as balancing the budget, maintaining project portfolio, and monitoring individual projects’ implementation. Post-project policy evaluations were also very narrowly focused. “Unlike the systematic and complicated accountability system adopted by OECD-DAC members, China’s…[IDC] accountability is limited to the quality of ‘construction’, or ‘output’ rather than

88 Interviews D13, D15.
outcomes and impacts.” In this sense, we can say that DFA officials largely considered themselves as project managers, rather than development experts, researchers, or innovators.

The passive governance style was constructed historically through practices. It was initially developed as an instrumental response to MOFCOM-DFA’s authority and capacity limitations. On the one hand, the policy community lacked enough capacity to carry out research on strategic planning. Both DFA and MOFCOM’s Economic Counselor’s Offices were faced with staff shortage. Because there was no development study (or development economy) program in Chinese universities until 2017, DFA staffs were “career bureaucrats,” often trained in economy, construction management, and public administration programs. The number of DFA staff was also small: there were only around 200 officials grouped into 15 divisions. Those DFA officials were often swamped by daily administrative works such as “arranging aid material, coordinating project implementation, writing reports.” The situation was even worse with the Economic Counselor’s Offices, which usually had a handful of officials whose primary task was to promote investment. They lacked adequate knowledge and interest “to monitor and evaluate aid projects, let alone to develop coherent in-country aid programs.” On the other hand, MOFCOM-DFA’s weak political authority further discouraged it to design large IDC programs/initiatives that required inter-ministerial collaboration. Despite that the MOFCOM-

89 Li et al., “Difference or Indifference,” 29. Interviews 9, 14, 23.
90 Cheng, “Chengcheng: Zhongguo Yuanzhu Feizhou, Yu Xifang You Naxie Butong [Cheng Cheng: China’s Assistance to Africa, What’s Different from the West].”
93 Cheng, “Chengcheng: Zhongguo Yuanzhu Feizhou, Yu Xifang You Naxie Butong [Cheng Cheng: China’s Assistance to Africa, What’s Different from the West]”; See also Zhang and Smith, “China’s Foreign Aid System,” 2332. Note that Zhang and Smith’s estimation of the number of DFA staff is 70.
94 Interview D15.
95 Zhang and Smith, “China’s Foreign Aid System,” 2334.
96 Zhang and Smith, 2333.
DFA held the formal authority to design IDC strategies, in practice, it was only a department level bureaucracy incapable of shaping other line ministries’ IDC project implementation approaches. Even the establishment of “inter-ministry coordination mechanism” did not solve the problem. This mechanism was regarded by MOFCOM officials as “merely nominal,” which largely focused on information sharing, rather than on collective deliberation on any initiative or strategy.97

Although started off as instrumental responses to its resource and power constraints, the passive governance style of the MOFCOM became normalized over time. This can be seen in MOFCOM’s institutional design. If the capacity shortage was the only obstacle to better designing IDC strategy, MOFCOM could have strengthened its research branch. On the contrary, it placed more emphasis on the implementation side. For example, three project implementation agencies (i.e., Executive Bureau of International Economic Cooperation, China International Center for Economic and Technical Exchanges, Academy for International Business Officials) had more than 400 staff members,98 which dwarfed the DFA. The first ministerial policy regarding IDC—Measures for Accreditation of Qualifications of the Enterprises Undertaking the Construction of Complete Foreign aid Projects (Trial) (2004)—focused exclusively on project implementation. It was not until 2014 that the MOFCOM issued its first comprehensive IDC regulation.

In the meantime, a strong discourse was developed that justified request-/project-centralism as the way of implementing the non-conditionality principle. Chinese actors believed that China’s approach was built on a more advanced IDC methodology, which centered on the

97 Interview D9.
98 Zhang and Smith, “China’s Foreign Aid System,” 2333.
“real” and “urgent” needs of recipient countries (jiren zhi suoji). Noticeably, it is common in the Chinese discourse to stigmatize Western aids as methods to intervene in other countries’ domestic affairs and seek political power. Put differently, China’s practice was “framed in a language of brotherhood and non-interference…forming an alternative to the postcolonial relations particularly of European countries.” All these discursive activities “made the essentially fragmented Chinese practices look coherent.”

In addition to discourses, request-/project centrism also self-sustained by reshaping policymakers’ understanding of “success” and “failure.” Because policy evaluation has focused narrowly on individual projects’ quality rather than their broader developmental, social, and environmental impacts, negative results of projects were often interpreted as caused either by implementation errors or by recipient counties’ misuse of Chinese aid, rather the methodology itself. For example, China’s two foreign aid White Papers use only quantity indicators (e.g., the number of projects built, miles of roads constructed) to support its claim that China has made a huge contribution to recipient countries’ development. No further analysis of the causal link between projects and recipients’ general development performance was conducted. As an observer admits: “what we can say is that the Chinese way is unique, and the Western approach

99 Zhang, Fazhan Yindaoxing Yuanzhu: Zhongguo Duijiefu Yuanzhu Moshi Yanjiu [Development Orientation Aid: A Study of the Model of China’s Aid to Africa], 102.
101 De Haan, “Will China Change International Development as We Know It?,” 889.
102 Interview D13.
did not work as promised. But, to say that China’s approach has generated concrete developmental impacts is making assumptions based on no solid data.”\textsuperscript{104}

In summary, request-/project-centralism was not much of an innovation, but rather a simplification of the Maoist foreign aid strategy (i.e., removing the development knowledge promotion component and focusing on requests and individual projects’ quantity and quality). It was more of a bureaucratic norm than a product of careful research and deliberation on optimal IDC strategies. Pitfalls of this methodology are noticeable. For example, some have labeled MOFCOM’s conducts as “sprinkling pepper” and pointed out that lacking project-coordination and integration had harmed the overall performance of China’s IDC.\textsuperscript{105} In addition, without careful planning, projects are more easily misused by recipient countries’ interest groups.\textsuperscript{106} Furthermore, the absence of safeguard regulations has not only harmed project performance but also negatively influenced China’s soft power.\textsuperscript{107} However, none of these problems were deliberated seriously in a policy community that focused narrowly on outputs of individual projects.

4.1.2 Continuity and Modest Innovation: IDC Instruments

Understanding the bureaucratic norms of the MOFCOM allows us to make sense of its choices of IDC instruments and resource allocation. First, because the MOFCOM-DFA has not been an active innovator, many Chinese IDC measures in the post-1978 era were those that were

\textsuperscript{104} Interview D17.
\textsuperscript{106} Interviews D11, 18, 17. For instance, a leader in the recipient country may ask Chinese assistance to build a road to his/her hometown, which may benefit him/her politically but have no economic meaning.
\textsuperscript{107} Woods, “Whose Aid?,” 1210.
inherited directly from the Mao era. As noted in section 2, policy instruments such as complete projects, goods and materials, technical cooperation, and medical teams were all developed in the Mao era. Especially in cases such as medical teams, little change has been made to these policy instruments.\footnote{Practitioners describe the organization of medical teams today (e.g., the emphasis on internationalism, the lack of material incentive mechanisms for team members) as resembling the model in the Mao era. Interview D16.}

Second, when policy innovation did occur, it was conducted in a conservative manner. This means that although the policy community did actively draw on domestic development knowledge in crafting new IDC instruments, their passive governance style colored their interpretation of such knowledge. For example, the rise of “technocratic rationality” in agricultural IDC (as mentioned in section 1.2) was heavily influenced by the bureaucracy’s preference for \textit{simple} IDC operations. The emphasis on technology innovation and diffusion was indeed drawn from domestic experience, which was featured in the “technology & education for agriculture” strategy developed in the late 1990s.\footnote{Xu et al., “Science, Technology, and the Politics of Knowledge,” 83.} However, taking a deeper look at China’s experience in agricultural development, we can see that technology was only part of the story. As Li Xiaoyun notes, China’s own agricultural development success was driven by a mix of technology innovation and supporting policies (e.g., governmental mobilization of resources, subsidies for technology diffusion). The almost exclusive focus on technology in IDC “neglects the social and cultural contexts needed for technology diffusion.”\footnote{Li, Tang, and Lu, \textit{Xinfazhan de Shifan: Zhongguo Yuanfei Nongye Shifan Zhongxin de Weiguan Xushi [Demonstration of New Development: Narratives of China’s Agricultural Technology Demonstration Centres in Africa]}, 34. Interview D19.} As many argue, this...
approach was preferred because it was a much simpler solution for agricultural development than promoting reforms of the social, political, and institutional systems in the agricultural sector.\textsuperscript{111}

Third, the concentration of resources on hard-infrastructure has also been shaped by a mix of social and material forces. Infrastructure construction was indeed considered as an important driver of China’s development. Chinese policymakers generally believed that “the first-order problem of kick-starting markets [was] to take care of the basics…which…means providing the necessary hard (physical) infrastructure for operating businesses.”\textsuperscript{112} This wisdom was rephrased in the saying “better roads lead to a richer life.”\textsuperscript{113} However, infrastructure development is only a small part of China’s development model. As Tang Xiaoyang argues, for infrastructure projects to have positive developmental impacts, a country must “want to be rich in the first place.”\textsuperscript{114} It was precisely a lack of development-oriented incentives in recipient governments that seriously limited infrastructure projects’ developmental impacts. In this sense, the developmental impacts of infrastructure-oriented IDC may be limited, depending a lot on recipient countries’ contexts. Used improperly, they may even generate negative long-term impacts on recipients’ public fiscal capacity (i.e., disrupting the maturity of their taxation system).\textsuperscript{115}

\textsuperscript{111} Li, Tang, and Lu, Xinfazhan de Shifan: Zhongguo Yuanfei Nongye Shifan Zhongxin de Weiguan Xushi [Demonstration of New Development: Narratives of China’s Agricultural Technology Demonstration Centres in Africa].
\textsuperscript{112} Yuen Yuen Ang, How China Escaped the Poverty Trap (Cornell University Press, 2016), 21.
\textsuperscript{114} Tang, Zhongfei Jingji Waijiao Jiqi Dui Quanqiu Chanyelian de Qishi [China-Africa Economic Diplomacy and Its Implication to the Global Value Chain], 77.
\textsuperscript{115} Yu, “Yizhong Xinde Guoji Yuanzhu Hunhe Moshi? [A New Hybrid Model of Foreign Assistance?],” 69.
Therefore, IDC policy community’s understanding of the advantages of the infrastructure-oriented IDC approach was again more of a communal policy belief than a scientific conclusion based on any theory or careful analysis. For the MOFCOM, infrastructure was China’s comparative advantage simply because China was equipped with the strongest expertise in this sector.\textsuperscript{116} This bureaucratic preference was strengthened by the recipient countries, which also believed that China’s expertise in IDC rested on infrastructure construction. As an African scholar acknowledges: “We are now using donors strategically. When we need development planning, we go for the Europeans. When we want to get things built, we turn to the Chinese.”\textsuperscript{117}

To sum up, the post-1978 changes in IDC methodology and instruments were conservative. While the focus on technical instruments and hard-infrastructure projects can be considered as modest policy innovations, those innovations were not products of deliberative innovation attempts based on careful research and experimentation. They were colored by the MOFCOM’s preference for simplicity and only partially utilized China’s domestic development knowledge. Despite all the pitfalls with those approaches, they have received a strong political endorsement as the policy community was satisfied with the narrow focus on project quantity and quality and excluded IDC effectiveness and developmental impacts from their reasoning. This logic of change can explain the departure between Chinese and Western IDC approaches. Unlike China, in the West, the decline of “physical capital fundamentalism,” for better or for worse, was driven profoundly by changes in development theory.\textsuperscript{118}

\textsuperscript{116} Interview D21.
\textsuperscript{117} Meeting D5.
4.2 Deliberative Innovation: Constructing IDC-Business Integration

Compared with modest methodological and instrumental innovations, the aid-business integration measures were produced through a much more deliberative and creative policy innovation process. In this process, the MOFCOM and the China Exim Bank deliberately borrowed project implementation and financing experience from the domestic level and applied the homegrown knowledge to the IDC field. Although those transplanted practices had some pitfalls, the negative side was dwarfed by their major success—guaranteeing project sustainability.

Again, the IDC policy community’s choices for project implementation and financing methods were influenced by general principles. In the 1980s, the top leaders’ growing emphasis on China’s southern identity and the “mutual benefit” principle gave the general direction for further policy innovation. Partially based on the changing strategic agenda and partially inspired by Japan’s aid-business nexus practices in China,119 in 1995 onwards, top leaders have proposed the “big economy and trade strategy,” which required the integration of several economic activities, including trade, investment, and foreign assistance.

However, as noted in section 1.3, the aid-business integration measures were not simply facilitators of the going-out strategy. Rather, we can observe a strong belief among Chinese IDC policymakers that business methods are useful tools to support IDC operations. In addition, as an agency focusing on IDC, the MOFCOM-DFA did not consider its primary mission as serving the going-out strategy; that was considered the job of other MOFCOM departments (e.g., Department of Outward Investment and Economic Cooperation). As Zhang Denghua observes,

119 Brautigam, The Dragon’s Gift, 18.
when bringing in companies as project contractors, the primary task was to “deliver good-quality aid projects.” For another example, the MOFCOM explicitly stated that ATDCs were IDC projects focusing on public service. ATDCs’ “business functions are only complementary” to their foreign assistance function.

Commercializing IDC project implementation was consistent with MOFCOM’s governance style and mirrored China’s domestic experience. First, for infrastructure aid projects, utilizing Chinese SOEs as contractors in a non-open bidding system was a convenient and familiar way of project implementation for the MOFCOM. According to Sun Guangxiang, then head of the Ministry of Economic Relations with Foreign Countries, the initial reason to delegate more authority to companies was to use contract responsibility to enhance the efficiency of project construction and quality. Because most Chinese infrastructure SOEs were previously parts of the bureaucratic system in the Mao era, the MOFCOM considered them as natural partners. In as early as 1998, the MOFCOM’s researchers argued that because “all that matters for recipients was to get the projects completed,” extending concessional loans directly to Chinese companies would not change the IDC nature of these loans and would “simplify the project implementation procedure and increase the efficiency of project construction.” Additionally, although the Western approach of open-bidding might have optimized project

120 Zhang and Smith, “China’s Foreign Aid System,” 2340.
121 MOFCOM officials’ comment on ATDCs, quoted in Li, Tang, and Lu, Xinfazhan de Shifan: Zhongguo Yuanfei Nongye Shifan Zhongxin de Weiguan Xushi [Demonstration of New Development: Narratives of China’s Agricultural Technology Demonstration Centres in Africa], 28–20.
122 Sun, “Sun Guangxiang’s Comments on Foreign Aid Reform.”
123 Interview D5
implementation, it was considered difficult to implement, as it required major institutional reform and capacity building.\textsuperscript{125}

Second, incorporating business mechanisms in the operation of public institutions was another Chinese development experience. One of the features of the reform of China’s agricultural sector during the 1980s and 1990s was the commercialization of farms and previously publicly funded agricultural research centers.\textsuperscript{126} The products were a series of so-called “institutes-cum-enterprises” entities that carried dual identities of public goods providers and business actors (i.e., faced with budget shortage, public agriculture technology centers were allowed to sell agricultural materials in order to make money).\textsuperscript{127} This domestic reform approach’s key values—reducing public institutions’ dependence on public funding and increasing their sustainability—gave IDC policymakers confidence in its applicability overseas.\textsuperscript{128}

The domestic experience was applied to the international level. During the 1980s and 1990s, China “rehabilitated dozens of former aid projects with joint ventures and contracts.”\textsuperscript{129} Many of the commercialized aid projects, such as the Mali Sugar Farm, Guinea Koba Farm, and Zambia Friendship Farm, were saved from bankruptcy and were able to develop sustainably.\textsuperscript{130} Such positive feedback of the early IDC-business integration experiments strengthened Chinese

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\textsuperscript{125} Interview D23.
\textsuperscript{128} Xu et al., “Science, Technology, and the Politics of Knowledge,” 84. Interview D13
\textsuperscript{129} Xu et al., 83. Huang, Meibo. 2007. China’s Foreign Assistance Institutions: Current condition and trends. Guoji JingjiHezuo (International Economic Cooperation) 6: 8
\textsuperscript{130} Li et al., “Difference or Indifference,” 28.
\end{flushright}

126
policymakers’ belief in its value. As a result, the policy preference for IDC-business integration grew stronger over time. The design of ADTCs was inspired by previous success. Wei Jianguo, the former vice minister of the MOFCOM and an architect of the ATDC, argued that the primary value of incorporating business actors in ADTCs was that the method might guarantee the sustainability of projects.

Third, the aforementioned product-backed development financing approach also resembled the domestic development financing experience. China Exim Bank’s lending activities overseas resembled domestic practices of Chinese policy banks, especially China Development Bank’s (CDB) practices in the 1990s-2000s. Starting from the late 1990s, under the leadership of Chen Yuan, the CDB began to conduct a serious of lending policy innovations. For Chen, the CDB needed to fulfill its mission as a long-term development promoter, and simultaneously guarantee the sustainability of its financial flows. Policy experiments were conducted in CDB’s lending to Wuhu (a city of Anhui province in central China) in 1998. In this case, CDB asked the Wuhu municipal government to set up a repayment fund account using fiscal revenue. Later in 2002, the revenues from land sales were added as part of the collateral, with fiscal revenues serving as the last repayment resort. In this way, the CDB killed two birds with one stone: it was able to both engage in a business venture with high financial risk without fearing default and also able to “incubate market”—activating economic activities (in Wuhu’s case, the land market)

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131 Information Office of the State Council, “China’s Foreign Aid (2011).”
132 Wei, Cisheng Nanshe Shi Feizhou: Wodui Feizhou de Qingyuan he Renshi [Africa, A Lifetime of Memories: My Experience and Understanding of Africa], 232–34; 277.
133 As the son of Chen Yun, a top CPC leader, Chen Yuan was given more authority than others to reform the CDB.
and increasing the recipient government’s repayment capacity in the long run. Because of its huge success, the Wuhu model has been “extensively applied across the country” by the CDB.

CDB’s domestic experience influenced China Exim Bank’s way of thinking. China Exim Bank’s overseas activities also integrated long-term development promotion goals and the construction of repayment mechanisms. Li Ruogu, former governor of the China Exim Bank, argued that because loans can increase recipient countries’ capacity for debt repayment in the future, policy banks needed to treat the debt sustainability issue in a dynamic rather than static manner. This special development financing arrangement—utilizing the recipients’ future incomes as a repayment method—was applied in Angola in 2002 and achieved huge success. Since then, this approach has been applied to more countries. For Chinese policymakers and experts, product-backed development financing has allowed capital to flow to risky regions where neither Western donors nor market actors would have gone, as the West would only provide “great promises but small actions.” In addition, because money usually does not go to recipient countries directly, corruption on recipient countries’ side can be avoided.

In summary, the origin of IDC-business integration methods was based on China’s domestic experience and endorsed politically, as these methods delivered positive performance in terms of resource mobilization, implementation efficiency, and project/finance sustainability.

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135 Xu, 15.
136 Xu, 19.
138 Tang, Zhongfei Jingji Waijiao Jiqi Dui Quanqiu Chanyelian de Qishi [China-Africa Economic Diplomacy and Its Implication to the Global Value Chain].
140 Interviews D20, D9, F4.
141 Cheng, “Chengcheng: Zhongguo Yuanzhu Feizhou, Yu Xifang You Naxie Butong [Cheng Cheng: China’s Assistance to Africa, What’s Different from the West].”
Granted, the negative side of the approach is undeniable. For example, although outsourcing project implementation to Chinese firms increased the efficiency of project implementation, Chinese firms’ fixation on “commercial priorities” and their lack of attention to safeguards have generated “significant negative externalities for the state and other Chinese organizations engaged in developing countries.”142 In the meantime, Chinese companies actively lobbied recipient countries “under the table” for more infrastructure projects, sometimes even beyond the recipients’ needs. Such projects thus served firms’ interests but lacked developmental value.143 In addition, mixing the business identity with aid institutions (in cases like the ATDCs) made it hard for practitioners to balance the public service and business functions of projects.144 However, all of these pitfalls of the aid-business integration model have not been treated as priorities in the policy discussions, as the policy community has been fixated on project quantity, quality, efficiency, and sustainability.

4.3 Summary

The analysis above shows that China’s IDC policy changes in the post-1978 era were based on local ideas, bureaucratic practices, and bureaucratic interpretations of local development knowledge. Although these locally originated practices had many pitfalls and might have negatively influenced Chinese IDC’s developmental and political impacts, they well served the policy community’s narrow priorities, which were to improve the efficiency and quality of project implementation and project sustainability. Adding to the policy endorsement was the

143 Zhang and Smith, “China’s Foreign Aid System,” 2339. Interviews D7, 11, 18, 15.
144 Xu et al., “Science, Technology, and the Politics of Knowledge,” 88–89.
Chinese academia’s tendency to justify policy and to construct coherent discourses. To some extent, the scholarly focus on policy justification in China has discouraged critical reflections on China’s IDC practices.

The strong confidence on local norms has constrained the effect of transnational norm diffusion. After all, what the West had to offer were practices such as the use of the program-based approach, the use of the institutional monocropping model, and the untying of aid and business, which were against Chinese practices. Because the Chinese policy community was in general satisfied with the performance of its own governance strategy, there was no reason for them to learn from the West. In addition, communal boundaries further constrained Western influence. Unlike the World Bank’s status in regions such as Africa where it assumed a more dominant role, the relationship between China and the World Bank featured strong Chinese ownership. The World Bank’s influence on China has been strictly limited to technical areas and physical projects.\textsuperscript{145} In addition, the Chinese policy community that managed inbound aid from traditional donors and multilateral agencies were the MOFCOM’s Department of International Trade and Economic Affairs and the MoF. China’s IDC community was uninfluenced and maintained a very high level of “secrecy.”\textsuperscript{146}

5 A New Round of Policy Deliberation Under the BRI? (Since 2014)

Thus far I have traced changes in China’s IDC strategy between the 1950s and 2000s. In this section, I trace the process one step further and investigate recent trends in China’s IDC. I

\textsuperscript{145} Jun Zhang and Min Zhang, \textit{Waiyuan Zai Zhongguo [Donors in China]}, ed. Hong Zhou (Social Science Academic Press (China), 2007), 27.
\textsuperscript{146} Interviews D13, 15.
argue that the launch of the BRI in 2013 may have triggered a new round of policy deliberation, which may lead to both the upgrading of Chinese IDC norms and practices and the opening of new space for foreign influence. Because the BRI and new reform efforts in the IDC field are all very new, I here only provide conjectures based on theory and some early evidence.

The BRI was first introduced by Xi Jinping in 2013 as a novel concept of regional economic cooperation. Since then, it has become a pillar of Chinese international activities. In 2015, the NDRC, the MFA, and the MOFCOM jointly issued a key policy document: “Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road.” According to this document, the BRI aims to “set up all-dimensional, multi-tiered and composite connectivity networks,” which “will help align and coordinate the development strategies of the countries along the Belt and Road, tap market potential in this region, promote investment and consumption, create demands and job opportunities, enhance people-to-people and cultural exchanges, and mutual learning.” To be more specific, the BRI will “focus on jointly building a new Eurasian Land Bridge and developing China-Mongolia-Russia, China-Central Asia-West Asia and China-Indochina Peninsula economic corridors…and smooth, secure and efficient transport routes connecting major seaports along the Belt and Road.” To realize these visions, promoting “policy coordination, facilities connectivity, unimpeded trade, financial integration, and people-to-people bonds” (this is often called “five connectivity”) were established as the cooperation priorities.

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148 NDRC, MFA, MOFCOM.
149 NDRC, MFA, MOFCOM.
As a comprehensive initiative that covers a wide range of topics, the BRI is not equivalent to IDC and certainly serves China’s economic, geopolitical, and strategic interests. However, because of the scale and complexity of the BRI, it certainly requires better coordination of multiple policy instruments. This will create new requirements for IDC. What will the trajectories of the new policy deliberation cycle look like? The theoretical framework instructs us to investigate (1) the target of policy problematization (if any) and (2) the local policy community’s access to and evaluation of relevant local and foreign knowledge.

With the launch of the BRI, the existing IDC strategy began to face new challenges. First, the IDC strategy was required to assist the BRI’s development by promoting connectivity in both physical (i.e., facilities connectivity, unimpeded trade, financial integration) and social dimensions (i.e., people-to-people bonds). Second, the BRI is not just about economic cooperation, it also has the ambition to “perfect the global development model and global governance and to promote the healthy development of economic globalization.” In this sense, to achieve these tasks, China needs to provide more concrete solutions for global development, which requires an improvement of IDC activities’ broad developmental impacts. Third, as the scale of IDC grows under the BRI, the existing model’s pitfalls, such as projects’ negative environmental impacts and the potential financial risks may also be enlarged. Adding to these new challenges is a major change in the IDC bureaucratic system. In May 2018, a new vice-ministerial level institution—the China International Development Agency (CIDCA) was established.

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created, replacing the MOFCOM-DFA as the IDC policy body. The establishment of this bureaucracy, which is influenced heavily by the NDRC, will greatly reduce the influence of the MOFCOM in the issue area. This institutional change may deepen policy uncertainty and widen the space for policy innovation.

Based on the above analysis, we can see that in this new round of policy deliberation, much emphasis will be placed on revising the fragmentation of the current IDC policies. As a result, the direct influence of the BRI on IDC may be the methodological transformation from project-centralism to a program- and knowledge-based approach. Some early signs are showing this trend. In 2014, the MOFCOM started a comprehensive IDC reform. The “Measures for the Administration of Foreign Aid (Trial) (2014)”—the MOFCOM’s first comprehensive regulation on IDC—asserted the importance of “macro-policy research, regulation building, optimizing project planning and evaluation” and the development of long-term planning and country plans. The growing emphasis on top-level design is also reflected in CIDCA’s own “Measures for the Administration of Foreign Aid (Consultation Paper) (2018).”

In practice, China is also starting to explore sectoral-program-based IDC provisions. For example, in selective countries, China is promoting the economic corridor model, which involves top-level program-designing that integrates industrial parks/special economic zones (SEZs) with infrastructure IDC projects. This is exemplified by the Mombasa–Nairobi Railway project. In this framework, both the top-level planning element and the practice of incorporating industrial parks, SEZs, and infrastructure projects are novel concepts. Granted, Chinese overseas industrial parks and SEZs started to emerge in the early 2000s, but they were considered by Chinese

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153 Interview D14.
154 MOFCOM, “Press Conference on Measures for the Administration of Foreign Aid.”

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policymakers as primarily commercial activities (although good for the local economy) and were not supported by IDC funds and projects. However, the newly completed Great Stone Industrial Park project addressed the deficiency of project coordination. IDC grants were spent at the research stage and at some small and essential infrastructures such as substations. The rest of the park construction work was supported by commercial and quasi-concessional loans. This is different from the previous approach in which SEZs were primarily commercial projects with no assistance by IDC projects. The policy coordination around SEZs is a typical Chinese development lesson, which was not sufficiently emphasized in China’s IDC strategy until recently.

In addition, some preliminary evidence also shows that China is regaining incentives to provide development knowledge. This is best reflected by its Governance Experience Sharing program, in which foreign governments’ officials are invited to take lessons on Chinese government and governance. In addition, the establishment of the Center for International Knowledge on Development and the Institute of South-South Cooperation and Development both aim at boosting China’s capacity to study, theorize and promote transferable Chinese development knowledge.

In addition to improving instrumental coordination and more active policy innovation, another component of Chinese IDC—aid-business integration will likely expand. As noted above, aid-business integration methods successfully solved a major flaw of the traditional donor’s IDC approach—a lack of project/financial sustainability. In this sense, the enlarged scale

156 Interview D8.
158 Interview D4.
of IDC in the BRI framework would only push for further diversification and integration of various financing tools, rather than the opposite. It may become more common for China to create loan packages that combine IDC funds and commercial funds from CDB and other agencies such as the Silk Road Foundation.\textsuperscript{159}

In addition to locally originated policy innovations, a wider space might be opening for mutual learning. Although the design of IDC programs and financing methods may still be based largely on domestic knowledge, the magnitude and complexity of the BRI may also exhaust domestic knowledge endowment in some aspect. For example, as the needs of risk management and enhancing social and environmental safeguards increase, Chinese policymakers’ lack of relevant experience may push them to seek transnational collaboration. For instance, China Exim Bank has partnered with the Asia Development Bank (ADB) and the Islamic Development Bank to finance the China China-Uzbekistan Road Project. This co-financing experiment is considered by China Exim Bank as a “successful case of international cooperation.”\textsuperscript{160}

In summary, BRI is opening various possible trajectories of norm and practice changes in IDC. On the one hand, the problematization of the project-centric approach may generate new interests in program-based IDC practices, development knowledge promotion, and better safeguard provisions. The program-based approach may still rely heavily on local development experience (e.g., zones + infrastructure) rather than turning to soft infrastructure, as is the practice in the West. However, an improvement in safeguard provisions will likely invite more Western inputs. On the other hand, the positive view of aid-business integration is driving the more frequent packaging of IDC, quasi-commercial, and commercial financing tools. The


\textsuperscript{160} Li.
possible trajectories are summarized in Figure 3-2. However, because many innovation attempts are new and subject to further policy evaluation, we do not have all the arrows fixed.

**Figure 3-5 Policy Deliberation on IDC since 2013**

6 Conclusion: Alternative Accounts and Theoretical Implications

This chapter traced changes in China’s IDC (or “foreign aid” depending on the context) strategy from the mid-1950s to the 2000s and discussed its possible trends under the BRI framework. The analytic narrative showed that the upgrading of China’s IDC strategy between the 1980s and the 2000s was influenced by several local ideational factors: the normative and practical legacies of the Maoist foreign aid model (i.e., the request-driven decision-making approach and several policy instruments), the MOFCOM’s bureaucratic practices, and the MOFCOM’s and China Exim Bank’s deliberative policy innovation based on domestic development experience. The request/project-centralism methodology and the focus on technical
instruments (especially hard infrastructure) were not just reflections of general IDC principles (e.g., non-conditionality) and China’s own development experience. They were also heavily influenced (maybe even distorted) by the MOFCOM’s governance style and its preferences. Meanwhile, IDC-business integration measures were products of more deliberative policy innovations, which were based on China’s successful domestic practices. Although none of the “new” practices were perfect, they successfully fulfilled the policy community’s narrow task—continuing IDC endeavors in a visible, cost-efficient, and sustainable way. The practices were further underpinned by coherent discourses. Because local knowledge prevailed in this policy experimentation and selection process, there was very little chance that Western IDC ideas would influence Chinese practices.

The launch of the BRI in 2013 provided the IDC policy community new tasks—improving IDC’s developmental impacts and supporting the BRI. This created new momentum for policy deliberation and innovation. Several trends are emerging. China is now experimenting with program-based IDC policies (e.g., the infrastructure + zones model) and trying to better theorize Chinese development lessons. It is also expanding its IDC-business integration activities, which place greater emphasis on the coordination of IDC funds and commercial loans. Although local knowledge still dominates Chinese policymakers’ choices of IDC instrument design, sectoral focus, and implementation methods, Western knowledge will become more welcomed in areas such as safeguards and risk control.

This empirical study adds to the existing literature in several ways. First, while the existing literature focuses largely on cleaning data, clarifying characteristics of the Chinese
approach, and identifying their impacts on normative and material dimensions, my work focuses on the origin of Chinese IDC norms and practices.

Second, the findings of my study challenge the national interest approach, which asserts that China’s IDC strategy was only a policy tool to foster China’s economic interests (i.e., its demands for natural resources and its “going out” strategy) and its soft power overseas. Based on the pure self-interest argument, Fahimul Quadir claims that China’s “rebuilding and infrastructure development effort in Africa has very little to do with the desire to make a difference in the lives of the African people.” Several issues can be raised to these arguments. First, multiple investigations have shown that there is no hard evidence to back up the “resource exploration” argument. Second, as I discussed in section 1.3, Chinese product-backed development loans have focused on non-profitable sectors. If the commercial interest was the primary target, China could have just followed Western banks’ purely profit-centric approach. From a foreign propaganda perspective, integrating “foreign aid” and “favorable commercial cooperation” only create unnecessary trouble for China in explaining its activities. Third, although IDC was tasked with supporting the “going out” strategy, this was not the primary mission of IDC policymakers. “The ‘Going Out’ strategy includes a range of practical


162 Naim, “Rogue Aid.”


165 Axel Dreher and Andreas Fuchs, “Rogue Aid? The Determinants of China’s Aid Allocation,” 2011; Bräutigam, Chinese Development Aid in Africa.”
measures…such as financial support and information dissemination…including special and
general tax incentives, credit and loans, and a favorable import and export regime.”

IDC was very marginal in this framework. Fourth, while increasing soft power is certainly one part of
China’s IDC targets, the general incentives did not specify what policy instruments should be
designed. In addition, as discussed in section 4, many of China’s IDC practices (e.g., a lack of
attention to social and environmental safeguards) have in effect harmed China’s soft power.

Compared with these approaches, my theory offers a different insight: China’s approach
was built on the IDC policy community’s own governance style and its interpretations of what
has worked in China. As the policy community focused on IDC projects’ implementation, it did
not possess the capacity or incentive to design IDC in a way that primarily served China’s
material interests and power pursuit. The incorporation of business logic in IDC activities was
aimed at improving IDC performance, rather than at benefiting business actors. It is worth
clarifying that I do not intend to reject the interest and soft power arguments completely. I am
simply saying that these arguments cannot go far enough to explain the construction of several
features of China’s IDC strategies that we are currently observing. China could have conducted
its IDC differently—which may have served the material and soft power goals even better—if
not influenced by the local norms discussed in this chapter. Therefore, it is the focus on “how
China does IDC” that impels the application of the constructivist-based theoretical framework.

Third, contrary to Western scholars’ tendency to conjecture about China’s intentions
behind its IDC policies, treating the Chinese ways as carefully designed based on advanced

167 Li, Tang, and Lu, Xinfazhan de Shifan: Zhongguo Yuanfei Nongye Shifan Zhongxin de Weiguan Xushi
Demonstration of New Development: Narratives of China’s Agricultural Technology Demonstration Centres in
Africa], 23.
international relations ideas and development knowledge, many Chinese scholars tend to romanticize China’s IDC strategy.\textsuperscript{168} This approach is equally misleading because it neglects the complexity of the policy deliberation process. As noted above, the policy experimentation, evaluation, and selection processes were influenced by the struggle among different ideas and bureaucratic interpretation. The products of the policy deliberation were indeed distinctive Chinese solutions, but they were not free from flaws.

Fourth, in recent years, researchers started to notice the influence of domestic actors—SOEs, ministries, and policy banks—on China’s IDC policy-making.\textsuperscript{169} My research builds on but improves this approach. On the one hand, I argue that Chinese SOE’s policy impacts were dependent on the policy community’s passive governance style, which favored outsourcing IDC works to SOEs. As this governance style changes to more strategic thinking in the BRI era, Chinese SOEs’ influence is in decline. On the other hand, unlike the studies that focus on describing bureaucratic preferences, in this dissertation, I take one step further and analyze in detail the historical evolution of bureaucracies’ normative and interest beliefs.

All in all, the IDC case sheds light on the construction of China’s ideational leadership in global governance. This leadership is not based on top leaders’ strategic mandate but on a solid local knowledge foundation constructed through history. Such local norm construction processes have been profoundly influenced by the scope of the policy problematization in the 1980s and local policy communities’ own knowledge, habit, and evaluation. This ideational leadership during the 2000s was not paired with strong norm promotion activities that deliberately

\textsuperscript{168} Zhang, \textit{Fazhan Yindaoxing Yuanzhu: Zhongguo Duifei Yuanzhu Moshi Yanjiu [Development Orientation Aid: A Study of the Model of China’s Aid to Africa]}.  
challenged the Western IDC system. Instead, China took a lead-by-example approach that has attracted recipients’ support with preferential deals and positive governance performance. This is why Ngarie Woods calls China’s approach a “silent revolution.” Having said that, I do believe that if the BRI platform can eventually produce effective Chinese alternatives, it can pose more systemic challenges to the Western IDC model. As emphasized throughout the chapter, I am not claiming that China’s solution is better than the Western one. We do not yet have sufficient data to support such a conclusion. Nor did I claim that the Chinese approach was distinctive in every way from those of other donors. As shown in section 1, China’s practices today in some ways resemble the Western approach in the 1960s-1970s. However, because seemingly similar social practices and norms can be produced by different socio-political processes, understanding context-specific local dynamics gives us a key to make sense of more cases of norm production and understand their specific social background.

\[170\] Woods, “Whose Aid?”
Chapter 4
Importing Western Ideas: China and Emissions Trading

“China will work hard to implement the vision of innovative, coordinated, green, open and inclusive development. China will, on the basis of technological and institutional innovation, adopt new policy measures to improve the industrial mix, build low-carbon energy system, develop green building and low-carbon transportation, and build a nation-wide carbon emission trading market so as to foster a new pattern of modernization featuring harmony between man and nature.”

Xi Jinping, Speech at the Opening Ceremony of The Paris Climate Conference, November 30, 2015

While China has long been a passive actor in global climate governance, recent years have witnessed the transformation of China’s climate governance strategy on both international and domestic levels. Chinese and Western approaches to climate governance are converging. China is not only taking more constructive actions in multilateral climate negotiations, but it is also actively absorbing Western climate governance ideas into its domestic policy mix. Western measures such as carbon labeling, low carbon city, auto-vehicle emissions standards, and especially Greenhouse Gas (GHG) Emissions Trading (ET) are all being employed by the Chinese government. Among these, ET is positioned at the center of China’s climate policy system. These activities show that China is becoming a policy laboratory that is open to novel climate governance ideas, regardless of their origins. Partially due to the domination of policy importation and experimentation practices, Chinese climate policymakers lack incentives to construct and promote homegrown climate governance solutions despite President Xi Jinping’s
explicit call for Chinese normative leadership in the field.¹ In this way, China’s practices in the climate case contrast with those in the development case presented in chapter 3.

In this chapter, I trace the processes leading to the adoption of the ET idea using the theoretical framework developed in chapter 2. I go beyond studying China’s behavioral change in international climate negotiations because the adoption of ET is a typical and more puzzling case of idea importation, considering China’s long-standing defensive position in climate negotiations, its long history of utilizing command-and-control (C&C) methods to address other environmental problems (e.g., air and water pollution control), and the presence of several institutional and technical obstacles.² I claim that understanding the logic behind the adoption of ET will allow us to gain a better understanding of the inner-workings of the Chinese climate policy community and shed more light on other policy development outcomes in the climate issue area.

My theory-guided analytic narrative regarding the adoption and early development of ET in China can be summarized with the following points (Figure 4-1). (1) Historically, the domestic normative environment in China—the tradition of defensive climate diplomacy—has worked against transnational idea diffusion. As a result, knowledge diffusion driven by the Clean Development Mechanism (CDM) and by international entrepreneurship prior to 2007 was unable to generate substantial policy changes. (2) Only when Chinese leaders and the climate policy community started to fully embrace the idea of low-carbon development in 2007-2009—for multiple reasons not only connected to international pressure—did various climate governance ideas gain access to policy deliberation. (3) However, the functioning of the policy deliberation

¹ Interview C10.
process, in this case, differed from that in the development case. While the upgrading of China’s IDC strategy was driven by local innovation and improvisation, which were politically endorsed due to their satisfying governance performance, the climate policy community led by the NDRC saw local policy innovations based on C&C methods as a failure and turned to embrace idea importation in 2009-2010. This cognitive dynamic within the local policy community was the key that opened the door to transnational idea diffusion. (4) In addition to explaining the emergence of idea importation incentives, the theoretical framework provides extra insight into policy preferences for ET over another foreign idea—carbon taxation. Even though the carbon tax measure could have had an equal chance of being selected, the NDRC’s beliefs (about the promise of the carbon tax) and political calculations caused it to reject the carbon tax option.

This narrative simplifies the climate policy-making process by focusing on the NDRC. This, again, is an analytical choice. Although China’s climate policy system is formally a multi-ministry system led by the prime minister himself, the NDRC was entrusted with specific policy research and development responsibilities. It can usually sell its ideas to the CPC Center despite other ministries’ reservations. In addition, factors like international pressure and domestic interest groups only served to indirectly promote intra-community policy deliberations and to influence policy implementation. The NDRC’s internal reasoning served as the key engine of policy changes. In this sense, I believe that using an NDRC-centric framework to guide the process tracing study is a valid analytical approach. I will discuss other actors’ roles throughout the process tracing study below.

3 Many of my interviewees think that ET was an NDRC idea. We can see later that other actors may not share the same view about ET as the NDRC did.
The rest of the chapter is divided into 6 parts. The first section paints a broad picture of China’s contemporary climate governance strategy and introduces a puzzling policy choice: adopting ET. The second to fourth sections present a process tracing study on local policy deliberation processes that led to the adoption of ET. The fifth section extends the process tracing and discusses the early development of the Emissions Trading Scheme (ETS) pilots and the national ETS. It shows that foreign entrepreneurs and local idea brokers can gain substantial policy influence when the local policy community becomes pro-idea importation. The last section concludes and discusses three alternative accounts: “domestic interest,” “norm diffusion,” and “market power.”
1 China as a “Torchbearer” in Global Climate Governance: General Activities and the ET

In his report at the 19th CPC National Congress, Xi Jinping called China an “important participant, contributor, and torchbearer” in the global endeavor to build “ecological civilization.” The term “torchbearer” (yinling zhe) is a carefully selected term that emphasizes China’s responsibility to inspire and encourage others to contribute to global climate governance. The term “torchbearer” differs from the term “leader” (lingdao zhe), which reflects a sense of authority and the ability to set rules for others to follow. This political discourse reflects the complexity of China’s identity in global climate governance. Clearly, Chinese policymakers are confident with China’s ability to contribute material public goods and to build political momentum, but even speechwriters who often tend to exaggerate China’s international role are fully aware of China’s inability to offer concrete Chinese solutions to the climate field.

Nowadays, China is taking a very proactive approach to addressing climate change. China’s collaboration with the United States (the Obama Administration) prior to the Paris Conference of Parties (COP21) was critical for developing a flexible interpretation of the principle of Common but Differentiated Responsibilities and Respective Capabilities (CBDR-RC). By adding the qualifier “in light of different national circumstances,” the new interpretation opened the door to “a change of course from a strict, explicit differentiation expressed in annexes.” In the meantime, China has agreed to take binding emissions control responsibilities.

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4 Xi, “Secure a Decisive Victory in Building a Moderately Prosperous Society in All Respects and Strive for the Great Success of Socialism with Chinese Characteristics for a New Era.”
5 The concerns behind this word choice is made clear by a Chinese official who participated in the writing of leaders’ speeches. Meeting C4.
6 Christina Voigt and Felipe Ferreira, “‘Dynamic Differentiation’: The Principles of CBDR-RC, Progression and Highest Possible Ambition in the Paris Agreement,” Transnational Environmental Law 5, no. 2 (2016): 293; White
In the 12th FYP (2011-2015) China set the target of reducing carbon intensity (quantity of CO\textsubscript{2} emitted per unit of GDP, measured in kgCO\textsubscript{2}/GDP per year) from 2010 levels by 17% by the end of 2015.\textsuperscript{7} In its Nationally Determined Contribution (NDC) under the Paris Agreement, China announced several binding targets such as peaking GHG emissions by around 2030, lowering carbon intensity levels by 60% to 65% from 2005 levels, and increasing the share of non-fossil fuels used for primary energy consumption to roughly 20\%.\textsuperscript{8} Thanks to a series of policies, China’s carbon intensity was reduced by 21% during the 12th FYP.\textsuperscript{9} Such an achievement made China a key contributor to global emissions control.

China’s ambition in global climate governance does not stop at contributing public goods. It also has the goal of “putting forward China’s solution” to climate governance.\textsuperscript{10} However, China’s accomplishments in this regard remain limited. Unlike the European Union (EU) and the United States (and especially certain pioneering-states like California), which have been able to craft novel climate governance tools and rules based on domestic research and practices,\textsuperscript{11} China is still not a major rule/norm innovator in the climate issue area. The only noticeable achievement China has made was the promotion of the “ecological civilization”

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\textsuperscript{8} NDRC, “China’s Intended Nationally Determined Contribution: Enhanced Actions on Climate Change,” June 30, 2015, http://www4.unfccc.int/ndcregistry/PublishedDocuments/China%20First/China%27s%20First%20NDC%20Submission.pdf.
\textsuperscript{9} Huimin Li, Wenjuan Dong, and Ye Qi, “‘Shierwu Ditan Fazhan Huigu’ [Review of China’s Low Carbon Development during the 12th Five Year Plan]” (Brookings-Tsinghua Center for Public Policy, 2017), 3, https://www.brookings.edu/wp-content/uploads/2017/08/c2809ce58d81e4ba8ce4ba94e2809ce4bd8ee7a2b3e58f91e5b195e59b9ee9a1bc.pdf.
concept, which was adopted at the United Nations Environment Programme Governing Council meeting of 2013. However, due to the inherent ambiguity and emptiness of the concept, ecological civilization does not specify anything about workable approaches to environment/climate governance. This was a diplomatic maneuver rather than a substantive solution-finding effort. As one observer puts it: “the key selling point of ecological civilization is the aspect of ‘institutional innovation.’” However, innovating vague concepts rather than operational plans “also means that China is not able to offer a model for other countries to replicate its approach to environmental governance.” In surveying China’s substantive climate governance practices we can easily identify a tendency to import foreign ideas, with the typical case being the adoption of ET.

1.1 ET and China

ET is a market-based approach to pollution control. “By creating tradable pollution permits it attempts to add the profit motive as an incentive for good performance, unlike traditional environmental regulation based solely on the threat of penalties.” The ET is a typical Western product. Born in the “liberal-capitalist” context, ET provides “opportunities both for curbing GHG emissions, and for capital accumulation through extracting profits from the production, financing, and trading of carbon emission permits.” In this sense, ET in the

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13 Interviews C10, C23.
Western context is strongly supported not only by environmental groups but also by the financial sector. The EU and the United States pioneered the development of ETSs with the former establishing the largest ETS, the EU ETS, in 2005. ET then spread to places like New Zealand, Tokyo (Japan), some states of the United States, some provinces of Canada, and South Korea, each of which is, in Alex Lo and Michael Howes’s words, a “mature capitalist economy governed by a liberal democratic state.”

In theory, the Western-originated ET measure may not fit well with the Chinese context when we consider a series of normative, institutional, and technical obstacles. First, China’s long-standing position against domestic mitigation actions has served as a major obstacle to the infusion of international climate governance ideas. Second, China has an “authoritative tradition” in the realm of environmental governance. It has utilized C&C-based methods to tackle problems similar to GHG emissions control, such as air and water pollution control. As a result, climate policymakers should have preferred the more familiar C&C measures over ET. Third, several unfavorable institutional and technical conditions exist in China such as a lack of an “accurate and consistent system for measuring, monitoring, reporting, and verifying industrial emissions,” and a lack of market management capacity. In this sense, it is no wonder that some people view learning about ET idea and constructing an ETS as a “hard way to do climate

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governance.”  

Last but not least, while in Western countries ET is supported by market actors’ profit-seeking incentives, in China, a “non-traditional capitalist economy,” non-state environmental actors and market actors only have a minimal influence on policy-making. Notwithstanding these unfavorable local conditions and low market demands, China still embraced ET. This means that strong political motives for idea importation must exist in the Chinese climate policy community.

In 2011 China kicked off the process of constructing ETS pilots in five cities (Beijing, Chongqing, Shanghai, Tianjin, and Shenzhen) and two provinces (Guangdong and Hubei). These seven pilots became operational between 2013 and 2014. As will be discussed below, the ETS pilots initially had very high ambitions with the target of building markets more sophisticated than the EU ETS, although the later development of pilots and the national ETS has revealed that several obstacles (e.g., the over-dependence on government command, the inefficiency of carbon exchanges, and most importantly market mobilization difficulties) are yet to be overcome.

At the national level, in 2013 the CPC Center passed “The Decision of the CPC Central Committee on Several Important Issues for Comprehensively Deepening the Reform,” in which the national ETS was identified as a key reform task. This signaled the start of the construction of the China ETS. Following the instruction by the Center, several policies and institutions were formed, including the landmark NDRC document titled “Interim Measure for the Carbon

22 Interview C6
23 Paterson, “Who and What Are Carbon Markets For?”
Emissions Trading Management (2014)” and data, trading, and capacity-building systems. In late 2016, Fujian province launched its own ETS pilot, which aimed at beta-testing the institutions, methods, and rules that would be applied by the national ETS. On December 19, 2017, the NDRC officially started the countdown to the establishment of the national ETS. Although the current version of China ETS only covers the electricity sector (which fails to meet expectations), once it becomes fully functional in 2020, it still will cover emissions of 3500 Mt CO₂-e and surpass the EU ETS as the largest ETS in the world.

Although there are other policy instruments that may deliver GHG emissions control effects, the ETS is situated at the center of China’s climate policy framework. As one NDRC researcher noted, from the NDRC’s perspective “governing climate change basically equals building a functional and effective carbon market. Other instruments are considered as indirect measures.” Jiang Zhaoli, the deputy director of the NDRC-DCC, also stated in a public speech given in 2017 that the “trading of carbon emissions rights is one of the main lines to implement carbon-reducing and coal-restraining policies.” In addition, the construction of the ETS has become a political mission endorsed by Xi Jinping himself. As Xie Zhenhua, the Special

28 The original plan was to cover 8 sectors. That plan was modified later into a more modest one, covering only three sectors (electricity, aluminum, and cement). However, it turned out that only the electricity sector was ready to participate the national ETS in 2017.
29 This is the official timeline, although many believe that it will not be fully functional until 2025, see a survey of stakeholders by China Carbon Forum, “Zhongguo Tanjia Diaocha (2018) [China Carbon Price Survey (2018)]” (China Carbon Forum, 2018), 23.
31 Interviews C6, C10
32 Meeting C6. Of course, the ETS needs to coordinate with energy policies such as Energy Consumption Total Quantity and Intensity Control, Renewable Energy Development Roadmap. But such coordination will require works beyond climate field.
Representative on Climate Change Affairs, noted in an address: “ETS development is to fulfill president Xi’s international commitments. Failure is unacceptable.”

1.2 International Implications of the ET Case

The focus of this chapter is different from traditional studies on China’s behavior in global climate governance that focus on its activities in multilateral negotiations. Although ET is a case of domestic public policy, because China’s adoption of ET is a high-profile and puzzling case of policy development and a typical example of idea importation, understanding the origin of the idea importation incentives can help us understand and even predict China’s engagement with other Western climate governance ideas at the global level. As the Chinese climate policy community is willing to adopt a climate governance idea that is Western, controversial, and requires difficult domestic institution- and capacity-building efforts, we can infer that the general policy environment in China’s climate policy community must have become preferable for transnational learning. This change in domestic practices means that China will become more and more cooperative in global climate governance, despite its seemingly consistent and conservative diplomat discourses in multilateral climate negotiations. As some experts commented: “a local policy community (i.e., the NDRC) dedicated to learning tends not to see making up unique local ideas as necessary.” Therefore, to understand the dynamics of China’s normative beliefs and practices in global climate governance, studying the ET case can tell us more than focusing only on China’s negotiation practices.

34 Interviews C10, C22.
2 The Orthodoxy: Defensive Climate Diplomacy with Minimum Domestic Actions (the 1990s to 2009)

Historically, the normative context of the climate field in China has worked against the diffusion of foreign climate governance ideas. A long tradition of defensive climate diplomacy has blocked serious deliberations of policy options directly concerned with GHG emissions control. In this context, although China started to engage with Western ideas by participating in the CDM and by interacting with Western entrepreneurs (e.g., the EU and the World Bank) as early as 2002, the idea diffusion effect was constrained. In short, I argue that we cannot easily build a causal link between international norm entrepreneurship and China’s change in climate governance strategy or its decision to adopt ET.

2.1 Defensive Climate Diplomacy

China’s orthodox approach to climate governance in 1990s-2009 can be labeled as “defensive climate diplomacy.” For nearly two decades, Chinese leaders and climate policymakers treated participation in global climate governance as a diplomatic issue with key missions involving defending developing countries’ emission rights, pressing developed countries to do more, and monitoring developed countries’ activities.\(^\text{35}\) China spent most of its energy in climate negotiations to defend the integrity of the CBDR-RC principle, a burden-sharing principle “that held that Northern states should take the first action and Southern states would follow at a later date (North-first variant).”\(^\text{36}\) This interpretation of CBDR-RC was built

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on both “historical responsibility” and “capacity” arguments. At the 1999 Bonn climate conference (COP5), Liu Jiang, then deputy director of the NDRC, stated that it would be “impossible for the Chinese government to undertake any obligation of GHG emissions reduction before China attains the level of a medium-developed country.”

Defensive climate diplomacy was constructed based on both historical practices and the international normative context of the 1990s. Since the 1970s, China has allied with the Group of 77 (G77) to fight for a “new international economic order,” a key quest of which was to give developing countries differential (favorable) treatment in the international economic system. The China+G77 bloc in the climate issue area was a natural extension of this historical alliance. In the meantime, at the very beginning of the global climate governance process, the international normative context was flexible regarding China’s responsibilities. The CBDR-RC principle was already adopted by the Montreal Protocol before climate negotiations even started. Its adoption by the United Nations Framework Convention on Climate Change (UNFCCC) in 1992 and by the Kyoto Protocol (KP) in 1997 was supported not only by developing countries but also by most Northern states (except for the United States).

Defensive climate diplomacy was not only reflected in China’s international behavior but was also entrenched in its domestic institutional system and policy practices. The China Meteorological Administration (CMA), a meteorological service agency under the State Council,

38 As quoted in Hongyuan Yu, Global Warming and China’s Environmental Diplomacy (Nova Publishers, 2008), 78.
took initial responsibility to participate in multilateral climate negotiations. This initial bureaucratic setting reflected the early Chinese understanding of climate governance as a scientific issue that required nothing but observation.\textsuperscript{40} As negotiations continued, the Chinese government slowly acquired more knowledge about the relationship between climate governance and development. In 1998, the State Coordinate Group on Responses to Climate Change (SCGRCC) was constructed with its office located under the State Development and Planning Commission (SDPC), the predecessor of the NDRC. Because the SCGRCC as a whole was more akin to a network than a formal institution, in practice the SDPC assumed policy-making authority in the climate issue area. In 2003, with the SDPC reconfigured into the NDRC, the climate policy system as we know it took form. In 2007, the SCGRCC was replaced with the National Leading Group for Climate Change & State Leading Group for Energy Conservation and Emissions Reduction. Chaired by the Premier himself, the new national leading group’s political rank was much higher than that of its predecessor. However, the new group was still run by the NDRC, with Ma Kai, head of the NDRC, serving as the first Office Director.

Although in theory the SDPC/NDRC should have promoted the incorporation of climate thinking into China’s economic development policies, this was not the case. The SDPC handled climate governance as a diplomatic issue, cooperating closely with the Ministry of Foreign Affairs (MFA).\textsuperscript{41} When the climate policy-making authority first moved to the SDPC, it was assigned to the Department of Regional Economy, a foreign affairs-oriented department. While the SDPC’s successor—the NDRC—is a super ministry and an engine for development planning

\textsuperscript{40} Hegelund, “China’s Climate Change Policy,” 168. Interview C1.
and reform, in the climate issue area, it also functioned more akin to the MFA, seeing participating climate negotiations as its key mission. By 2003, it was the NDRC’s Department of Regional Economy that oversaw climate issues. It was not until the establishment of the NDRC Climate Change Department (NDRC-CCD) in 2008 that China started to have an independent climate policy body.

In summary, this short review of China’s past practices on both international and domestic levels shows the nature of orthodox local norms and practices in the climate issue area. Through years of participation in multilateral climate negotiations, Chinese negotiators and policymakers have internalized not only norms like the CBDR-RC but also the practice of defensive climate diplomacy. As participating climate negotiations became the sole mission of the Chinese climate policy community, no domestic action directly related to GHG emissions control was seriously considered. As I will discuss in section 2.2, this general normative context also shaped Chinese policymakers’ engagement with international entrepreneurs.

Before we move on, another issue worth noting relates to the fact that the Ministry of Environmental Protection (MEP) (and its predecessors) was never at the policy core of the climate issue area. Policy development activities directly related to climate governance, both domestic and international, were shaped primarily by the NDRC. This marginalization of the MEP in climate policy deliberation has had important implications, which I will discuss below.

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43 Lo and Howes, “Powered by the State or Finance?,” 398.
2.2 Transnational Norm Diffusion and Local Constraints (2002-2009)

To be sure, Chinese climate policymakers were not completely isolated from Western climate governance ideas. On the global level, the ET idea diffused through transnational “epistemic networks” and was actively promoted by transnational idea brokers. China’s engagement with Western climate governance ideas started in the early 2000s when the CDM began to develop in China and when international actors (e.g., the EU and the World Bank) began to engage actively with China.

The diffusion story has been well studied in the existing literature. Many scholars argue that the diffusion of climate ideas was a byproduct of CDM practices in China. The CDM is a flexibility mechanism of the KP that allows emissions-reduction projects in developing countries to generate certified emissions reduction credits (CERs), which can be sold to actors in developed countries to comply with their reduction targets. As a component of the KP, the CDM became the most active mechanism that linked developed and developing countries’ climate-related activities. China’s engagement with the CDM followed a typical bottom-up approach. In 2002, International Energy System Co., Ltd. (a Dutch consulting company), Beijing Jifeng Xingye Investment Management Co., Ltd., and Beijing Environment Sanitation Engineering Group Co., Ltd collectively launched the first CDM project in China: the Beijing Anding landfill gas collection and utilization project. This project launched even before the

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Chinese government had started to pay attention to the CDM. Between 2002 and 2004, policymakers of the NDRC learned from both international actors (e.g., the World Bank) and domestic cases like the Anding project to build domestic regulations necessary for the operation of the CDM system. These learning processes delivered the “Measures for the Operation and Management of Clean Development Mechanism Projects” in 2004.

With the central government starting to formally endorse the CDM, provincial governments and business actors, driven largely by economic incentives, kicked in as main drivers of the CDM “gold rush.” This “created a social environment in which the whole society engaged in low carbon activities.” In 2005, only a handful of projects were granted national approval…The number of nationally approved projects jumped from 236 in 2006 to 769 in 2007.” By January 16, 2009, China had approved 1846 CDM projects although only 450 of them had been registered by the CDM Executive Board.

The CDM indeed promoted the spread of climate governance ideas in China. Through cooperation with China in CDM development and on other climate governance topics, international actors (e.g., the World Bank and the EU) built a close partnership with Chinese policymakers. This gave them more opportunities to introduce Western knowledge on climate governance to their Chinese counterparts. The technical demands of the CDM (e.g., project development on the market side, project management on the government side) further promoted

47 Interviews C3, C14.
49 Interview C6.
50 Lo and Howes, “Powered by the State or Finance?” 388.
capacity building activities. Many local exchanges, consultant companies, and carbon asset management companies were created in the CDM era. Because the exchanges were originally run by provincial and municipal governments, and because some of the consultant companies (e.g., Sinocarbon Innovation & Investment Co., Ltd.) had informal ties to the NDRC, they served as both capacity builders and coalitions for the CDM. In addition, the experience with the CDM gave proponents of ET a reason to justify their proposals. The hard-core ET supporters in the policy circle often argue that they have already acquired sufficient knowledge about the logic of carbon trading from the CDM. They seem to believe that the capacity to run the CDM could be easily transferred to the ETS.

In addition to engaging in activities directly attached to the CDM, international actors tried to promote the ET idea to China directly. For example, “European policymakers attempted both publicly and behind the screens to convince their Chinese counterparts of the desirability of a similar system in China.” The World Bank has also been an active promoter of ET, although its most powerful tool, the Partnership for Market Readiness (PMR), was launched in 2011 after China had already made the decision to construct the China ETS.

However, despite positive outputs, socialization effects of the CDM and of international advocacy must not be exaggerated. The transnational policy diffusion mechanism had its limitations. It alone was incapable of generating the policy development results that unfolded later on. During my interviews, most officials and experts did not consider the CDM in their reflections on the origin of the China ETS. Their positive comments on the CDM came after they were asked to deliberately reflect on its contributions. This is a first indication of the weak and

53 Interviews C1, C4, C6, C23.
54 Interviews C11, C21.
ambiguous link between the CDM and China’s selection of the ET measure. Several more indicators of this ambiguity to some extent relate to the general normative context of defensive climate diplomacy.

First, despite positive experiences with the CDM, China’s firm resistance to taking domestic mitigation action remained strong. Between 2005 and 2010, despite the proliferation of CDM projects, China’s high-emission development model continued. China’s energy-related CO₂ emissions increased from 5.5 billion tCO₂-e (2005 level) to 7.4 billion tCO₂-e (2010 level). Its annual growth rate of CO₂ emissions was 7%, representing 4 times the global average.56

Second, not all Chinese climate policymakers formed a positive view of the mitigation potential of the ET measure based on their experiences with the CDM. In a context in which GHG emissions control was not even seriously considered, the CDM adhered to the energy and technology fields rather than to the climate field. “The nature of CDM implementation in China suggests that the CDM has been used to support and encourage these pre-existing strategies.”57 For Chinese policymakers, the CDM served as a good additional revenue source (generated by “royalty fees” of CER transfers), an additional financial source for technological and industrial development, and as a mechanism of technology transfer.58 In other words, the CDM was treated by some policymakers as foreign aid.59 Many Chinese companies even called it a “cake falling from the sky.”60 China’s way of using the CDM—directing most projects to the wind electricity

56 Li, Dong, and Qi, “‘Shierwu Ditan Fazhan Huigu’ [Review of China’s Low Carbon Development during the 12th Five Year Plan],” 2.
58 Wang, “Can CDM Bring Technology Transfer to China?,” 2575.
sector and energy conservation activities—caused people to doubt whether the CDM actually promoted decarbonization in China at all. As a researcher notes, it is “unlikely that China would not have built any of these wind farms in the absence of carbon credits.”\textsuperscript{61} In addition, due to the difference between the CDM and ET with the former focused on making new money and acquiring new technologies and with the latter focused on emissions control, we cannot say that positive views of the CDM can be easily transferred to ET.

Third, experiences with the CDM revealed some negative side effects of market-based approaches, showing that speculation in the market can jeopardize mitigation efforts and create financial risks. Furthermore, China has been accused of “gaming the CDM system.” For example, a report published in 2010 argues that “chemical gas manufacturers based in China and India and South and Central America have been incentivized to increase the production of HCFC-22 and HFC-23 as they can then earn…carbon credits.”\textsuperscript{62}

Fourth, it is also very difficult to conclude that Chinese actors have developed sufficient confidence in their capacities to manage the ETS based on their experience with the CDM. This assertion is supported by the continuing capacity shortage faced by ETS builders in China.\textsuperscript{63} As a government advisor who participated in policy consultations for both the CDM and the ETS notes: “the CDM and the ETS are completely different…although the experience with the CDM might have made some policymakers feel more comfortable with the ETS.”\textsuperscript{64}

\textsuperscript{64} Interview C19.
Finally, while the “CDM has given rise to an entire industry of consultancies, carbon brokers and verification/validation firms (designated operational entities, DOEs),”\(^{65}\) these actors did not have enough political influence over policy deliberations.\(^{66}\) The CDM sector was small and dynamic, the business practices of which were determined by the government, rather than the other way around. As one senior manager of the Guangdong Carbon Exchange reflects: “many companies in the CDM circle were ready to change their business at the end of 2011 when the market collapsed.”\(^{67}\) In addition, although several policymakers, such as Su Wei were sympathetic to ET,\(^{68}\) their policy influence was conditioned by the general local policy deliberation process. No high-level official publicly called for ET until late 2010 when policy perceptions of the negative effects of C&C were clear. Even in September 2010, Xie Zhenhua still stated that China was not ready for any form of ET.\(^{69}\)

In sum, making a case for ET simply based on experiences of the CDM era was not easy, nor did the CDM and international entrepreneurship alter Chinese policymakers’ views on climate governance. In a local context not friendly to climate governance ideas, the CDM was used as foreign aid to support the development of new technologies and the energy sector, which were only indirectly connected to GHG emissions control.\(^{70}\) Although the number of CDM projects reached a peak in 2007, Chinese climate policymakers by then still preferred a C&C-based climate policy framework. As I will discuss in the next two sections, general strategic changes and policy selection outcomes in the climate issue area concerned very little about the CDM. What the CDM and international entrepreneurs did was to familiarize the NDRC with the

\(^{66}\) Lo, Carbon Trading in a Socialist Market Economy.
\(^{67}\) Interview C13.
\(^{68}\) Belis and Kerremans, “The Socialization Potential of the CDM in EU–China Climate Relations.”
\(^{69}\) See Xie’s remarks at http://news.ifeng.com/mainland/detail_2010_09/30/2673261_0.shtml.
\(^{70}\) Zhang, “Why Has China Not Embraced a Global Cap-and-Trade Regime?”
market-led approach to climate governance. The turn to proactive climate governance action and the selection of ET necessitated more powerful driving forces.

3 Problematizing Defensive Climate Diplomacy (2007-2009)

Starting from 2007, China’s firm defensive position at the international level and its non-domestic action policy both started to change. While China’s official position—the mandate to defend the CBDR-RC—remained, international pressures on a unified responsibility sharing framework and several domestic concerns influenced Chinese policymakers’ assessments of the situation. As a result, the first stage of local policy deliberation—problematization of the orthodoxy—was triggered. The climate policy community began to bear the task of finding an appropriate local approach to GHG emissions control.

Changes in the international and domestic contexts started as early as 2007 when China became the largest GHG emitter in the world. On the international level, some practical compromises were made at the 2007 Bali COP (COP13). The Bali Road Map “moved away from the rigid Annex I/non-Annex I party dichotomy of the 1992 UNFCCC and the KP, and instead referred to ‘developed’ and ‘developing’ countries.” China’s support for the Bali Road Map was driven by the new belief that it was in China’s best interest to start preparing for the inevitable—China would be required to make binding emissions control commitments sooner or later. On the domestic level, the establishment of the aforementioned National Leading Group for Climate Change & State Leading Group for Energy Conservation and Emissions Reduction

72 Interviews C17, C10, C2.
in 2007, the issuing of the first-ever national mitigation strategy—the National Climate Change Program—in the same year, and the establishment of the first independent climate policy body—the NDRC-CCD—all reflected the rising status of climate governance in China’s political agenda.

However, all these changes were conservative at best. For example, the 2007 National Climate Change Program, although contained climate-related binding targets—reducing energy consumption per GDP by 20% in 2010 relative to the 2006 level, still did not treat GHG emissions reduction as a stand-alone issue. The climate change issue was still tackled indirectly at an energy conservation angle. This was in line with the Hu Jintao government’s initial approach to climate governance: treating climate governance as an issue secondary to economic growth.

Since 2007, changes in domestic and international contexts have accelerated, which eventually led to a more complete revision of China’s climate governance strategy. First, the international context changed dramatically at the 2009 Copenhagen COP (COP15). China’s strong defensive position against binding emissions reduction commitments in Copenhagen drew wide criticisms from industrialized countries, environmental NGOs, and even some

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developing countries. International criticisms and especially those from China’s old allies were a surprise to Chinese policymakers, as they believed that China had already made an ambitious plague to voluntarily reduce its carbon emissions intensity by between 40% and 45% by 2020 relative to 2005 levels. This new situation pushed Chinese policymakers to rethink their negotiation strategy and the trends of global climate governance. While the Bali Road Map signaled a long-term trend of developing countries being included under a unified global mitigation framework, the COP15 made Chinese policymakers believe that such a change was around the corner.

Second, adding to contextual changes on the international level, climate policymakers in China (and the NDRC in particular) have successfully developed and promoted a discourse that related low carbon development to “the direction of the development of the world’s advanced productive forces.” This discourse has promoted a new consensus in China: the transition to a low carbon economy should be seen not as an economic burden, but instead as a necessary step to constructing China’s future economic competitiveness. In 2010, Hu Jintao stated that the emissions control target “was a self-directed action based on China’s situation and careful deliberations. It was an important measure for implementing the Scientific Development View and…would have huge implications for the Sound and Fast Development of China’s economy.

78 Interviews C1, C10, C23.
79 Interview C10.
81 Meeting, C5.
and society.”  

This new view, which linked emissions control with the Scientific Development View, provided the strongest push for further policy development in the climate field.

Third, the worsening of the air pollution problem in northern China in 2009-2010 made the government started to experience more domestic pressure on pollution control. At this moment, advocates of climate governance framed GHG emissions as a crucial cause of the “smog,” thus mobilizing broader support for more carbon emissions control efforts. However, I would not overstate the significance of this factor, as public debates could have been shaped by the government in a different way. The link between GHG emissions and pollution is not straightforward. Only rigorous scientific research can show the “coordinative effects” of GHG and particulates with diameters of 2.5 (PM2.5).  

Therefore, the Chinese government could have simply denounced the connection, sought to amplify the pollution side of the story, and downplayed the GHG element. The fact that the Chinese government actively linked pollution to GHG emissions meant that it had already made up its mind about GHG emissions control before the smog issue peaked in 2010-2013.

In response to these changes, political incentives to construct an independent and comprehensive domestic mitigation policy system have grown substantially among top leaders, policymakers, and academics. The orthodox approach—treating GHG mitigation as a side-project of energy conservation—was no longer acceptable. In 2011, climate governance became a key component of the 12th FYP, which for the first time set targets for CO2 intensity reduction. This involved a shift from the 11th FYP, which only contained energy intensity targets.  

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83 Meeting C5.
84 Interview C22.
85 Li, Dong, and Qi, “‘Shierwu Ditan Fazhan Huigu’ [Review of China’s Low Carbon Development during the 12th Five Year Plan],” 9.
international level, China supported the 2011 Durban Platform of Enhanced Action, which did not distinguish between Annex I and non-Annex I parties.

The historical review above shows that local uncertainty in the climate issue area originates from multiple sources. Among them, international pressure and domestic policy reflections by the climate policy community are the most important factors. The result of these changes was the rise of local uncertainty regarding approaches to GHG emissions control. This uncertainty, in turn, pushed for more governmental and academic efforts to study the Western mitigation/low carbon development experience. However, this first stage of policy deliberation did not solve the idea selection problem. Having the incentives to develop a domestic mitigation strategy did not necessarily mean that the ET should be placed at the center of this new policy framework. There were several other options, such as the C&C approach and the carbon tax.

4 From Local Innovation to Idea Importation (2007-2011)

As the development of a more independent climate policy framework became an important task of China’s climate policy community, the local policy deliberation process entered the second stage: policy experimentation, evaluation, and selection. However, as the theoretical framework shows (see Figure 2-3 in chapter 2), in this stage, both local and foreign ideas had the potential to be adopted in the policy mix, and foreign ideas (e.g., ET, carbon taxation) were not the first choice. As the theory predicts (see Figure 2-2 in chapter 2), the mandate for importing ET was driven by two key local conditions of the policy experimentation and selection processes: the perceived necessity to move away from C&C-based policies and the NDRC’s negative views of the carbon tax. In this sense, we may argue that while international entrepreneurship mattered in the background, the local political momentum for idea importation
was not a product of transnational socialization, but rather a product of independent local policy deliberations.

### 4.1 From the C&C to Market-based Mechanisms

Policy developments from 2007 to 2009 confirmed the expectations of my theoretical framework: even as strategic thinking started to change (i.e., China started to explore independent climate governance policies in 2007), local policymakers still sought to develop responses based on ideas that they were more familiar with. Because Chinese climate policymakers had no direct experience with GHG emissions control and ET, they turned to policy measures that had been applied in other similar issue areas (e.g., air and water pollution control) for decades—the C&C-based system.

Using C&C-based policy instruments to *regulate* the behavior of private sector actors has a long history in China. China’s traditional environmental governance practices in water and air pollution control areas have relied on C&C policies. For Chinese policymakers, the C&C approach was considered efficient (in terms of implementation), effective (in terms of emissions reduction), and fitted well with existing institutional settings and capacities of the Chinese government.\(^86\) This strong tradition of C&C has influenced China’s early experimentation with ET in the field of air pollution (e.g., SO\(_2\) emissions) control. China started to experiment with SO\(_2\) ET in the 1990s under the jurisdiction of the National Environmental Protection Agency (the predecessor of the MEP). However, despite the international support that China received (i.e., from the United States and the EU), “those SO\(_2\) projects were not successful because the

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\(^86\) Meeting C6.
participation of emitters was not market-driven, but owing to the administrative pressure from local governments.”

This early experience shows that with policymakers still favoring C&C there lacked sufficient political enthusiasm for importing ET, no matter how successful it appeared in other countries.

Compared with the MEP, the NDRC was supposed to be a supporter of ET. Since its establishment in 2003, the NDRC has been a key reform engine in China, tasked with promoting the transition to a socialist market economy. Between 2004 and 2006, the CPC crafted the concept of “service-oriented government” that required the transformation of government functions from micromanaging social and economic development to “providing public service, social management, and market monitoring.” In this context, the importance of mobilizing the market-based mechanisms in public governance affairs was much emphasized. This new instruction from the Center should have been adopted by lower level bureaucracies and especially by the NDRC, for it was authorized to oversee such a general reform.

However, even the generally more open-minded NDRC took C&C as the primary policy measure for GHG emissions control, showing the strong influence of “ongoing” practices and “the means currently available to” practitioners. The preference for C&C produced the 2007 National Climate Change Program, which was largely based on policy provisions for the 11th FYP. In practice, the NDRC created binding targets (reducing energy consumption per unit of...

87 Huang, “Policy Experimentation and the Emergence of Domestic Voluntary Carbon Trading in China,” 69–70; See also Sangbum Shin, “China’s Failure of Policy Innovation: The Case of Sulphur Dioxide Emission Trading,” Environmental Politics 22, no. 6 (2013): 918–934.
89 Interview C8; Meeting C3.
GDP by 20% between 2005 and 2010) from the top and disaggregated them to “different levels of government as well as to state-owned enterprises (SOEs), and target achievement was…adopted as a component of performance evaluations for government officials and leaders of SOEs.” In addition, the NDRC’s Department of Resource Conservation and Environmental Protection crafted Top-1000 Energy-Consuming Enterprises Program in 2006, requiring enterprises within the program to “realize savings of 100 Mtce (2.9 EJ) between 2006 and 2010.” Under the C&C system, market and flexibility mechanisms were kept at a minimum. As a study of the NDRC notes, there were city-level experiments that integrated the C&C method with trading. For example, the city of Yan Tai developed an energy consumption control system that allowed different districts and towns to trade their quotas. In this system, actors conducting trading were county-level governments rather than market actors.

The NDRC’s initial choice made in 2007 confirmed my theoretical expectations: a policy community experiencing uncertainty prefers borrowing more familiar local ideas from other issue areas for policy innovation. It is thus fair to expect that if the C&C approach embedded in the 2007 National Climate Change Program/11th FYP turned out to be a major success, Chinese policymakers would have developed similar policy instruments in the 12th FYP.

To ET’s favor, the C&C approach lost its dominance in the climate issue area soon, due largely to its negative governance performance. C&C-based policies of the 11th FYP/2007 National Climate Change Program failed to alter provincial governments’ and companies’ production practices. Between 2006 and 2009, although China achieved a reduction of per GDP

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92 Note that the NDRC-CCD was not established until 2008.
energy consumption of 14.38%, this was still more than 5% short of the 20% target. Making things worse was the fact energy consumption increased by 3.2% in the first season of 2010, showing that reduction trends were not stable under the C&C system. In response, Chinese authorities (especially the Ministry of Industry and Information Technology, which handles regulations on companies) issued more than 4 notes in mid-2010 to push provinces and SOEs to accelerate the elimination of outdated capacity.95

By September 2010, it was clear that most provinces were unable to meet energy conservation targets set by the 11th FYP. Fearing punishment from the central government, provincial governments made an irrational and irresponsible choice: forcing large segments of industrial capacity and shutting down power supplies to local businesses and public services (even hospitals). This not only created a huge disturbance to citizens’ lives but also influenced the business performance of many listed enterprises.96 In response to criticisms, Zhang Ping, the then director of the NDRC, had to formally apologize to the public in National Congress, admitting that the NDRC had made a mistake due to a lack of experience with policy design.97 As one informant reflects, “the chaos in 2010 provided definite proof that the power of the C&C approach was exhausted. The government’s capacity to control emissions directly had reached its limit.”98

98 Interview C6; Also Interviews C11, C19.
In 2014, the NDRC’s research institute published a book on ET, serving as the most authoritative governmental study conducted on this topic. Because much of the content of this book was developed much earlier on as an internal policy report for the higher authority (this is noted in the authors’ acknowledgments), it reveals important information about the NDRC’s reasoning about C&C and ET. NDRC researchers note that C&C measures have “significantly increased the burden of the government and general social costs…and made companies more willing to evade regulations.” By contrast, ET “will relief the government from burdensome micromanagement activities and allow it to focus only on market monitoring.” 99 The report further notes that “as China will certainly be required to take formal emissions reduction obligations in the near future, only depending on the current C&C approach will put China in an increasingly passive situation.”100 In addition, “achieving the 2020 carbon intensity reduction target and other targets of the 12th FYP will be extremely difficult and costly” without ET.101 All these statements clearly reflect the NDRC’s concerns with the pitfalls of the C&C approach: the heavy burdens it has placed on the economy and the government, as well as its limited ability to mobilize private sector participation in low carbon development.

The timeline of the development of ET-related official policies also corresponds to the policy deliberation stages articulated above. Before the 2009 Copenhagen COP, Chinese officials clearly rejected the possibility of ET and even tried to forbid Chinese experts from discussing the topic publicly.102 Xie Zhenhua also stated in September 2010 that China was not ready for any form of ET.103 Ironically, just one month later in October 2010, the first explicit reference to ET

100 Dai, Kang, and Xiong, 28.
101 Dai, Kang, and Xiong, 28.
102 Interview C5.
103 See Xie’s remarks at http://news.ifeng.com/mainland/detail_2010_09/30/2673261_0.shtml.
was made in the State Council’s “Decision to Accelerate the Development of Emerging Strategic Industries.”\textsuperscript{104} However, at the time ET was still only a concept with no specifications of its status or construction procedure. It was not until March 2011, in the 12\textsuperscript{th} FYP, that the Chinese government officially stated the willingness to “gradually establish the national ETS.” Therefore, based on the information I have, I infer that before late 2010, Chinese climate policymakers still had not made the conclusive policy decision on ET. The final decision was made in early 2011, as policy evaluations on C&C-based climate governance measures reached a clearer consensus—they were costly policy instruments and were incapable of accomplishing the emissions control tasks.

In addition, it is worth noting that this local policy deliberation process was not influenced by the unfavorable international context of 2010-2011 when CER prices collapsed and optimism about ET declined.\textsuperscript{105} The fact that China did not implement ET at its peak on the international level but rather made the policy choice on ET’s most difficult time further strengthens my point: China’s policy development was not closely connected to international norm dynamics.

Notably, other ministries, especially the MEP, did not necessarily share the NDRC’s view of C&C and ET. This supports the theoretical argument that evaluations of governance performance depend on interpretations of a specific policy community, which are shaped by community members’ understandings of what counts as a policy failure. For the MEP, climate change is, in essence, an \textit{environmental protection issue} and not an economic/development one.

\textsuperscript{105} Lo and Howes, “Powered by the State or Finance?,” 400–401.
Therefore, some material sacrifices are necessary. Following this reasoning, the C&C should still be the strongest mitigation instrument. While the market mechanism can make the C&C operate more smoothly, it shall not be placed at the central position of the policy framework. This preference for C&C continuously guides the MEP’s governance of other environmental issues. The Inspection over Air Pollution Prevention carried out in 2017 reflected the MEP’s governance style: using strict regulations and heavy punishments to reach binding targets on pollution reduction. Therefore, we can infer that if the MEP rather than the NDRC oversaw climate policy-making, it would have tried to perfect C&C measures and utilize the ETS in a different way. Nevertheless, since the NDRC and its DCC held the authority of policy-making in the critical period of 2009-2011, the MEP’s voice was very weak.

4.2 Rejecting the Carbon Tax Option

Carbon taxation generates emissions reduction effects by levying a fee on production activities, which encourages market actors to reduce consumption and to increase energy efficiency. In this way, the carbon tax measure shares the same logic as the ET approach—giving market actors incentives and rooms to adjust their behavior. Like ET, the carbon tax measure also originates from the West. Therefore, the theoretical framework holds even if China selected the carbon tax rather than ET back in 2010. However, I claim that my theoretical framework can also shed light on this specific policy choice.

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106 Interview C22.
107 Interview C22.
In theory, the carbon tax measure was more suitable for the Chinese context. First, China’s institutional system and capacity are better equipped to handle the carbon tax system.\(^{109}\) “The limits of the current systems for managing emissions and the tradition of price controls could have justified the adoption of carbon tax instruments, which would involve lower transaction costs in such a regulatory context.”\(^{110}\) Second, as I will discuss in detail in the next section, the presumed key advantage of ET—better market mobilization—did not work out well. With the systems operating still relying heavily on governmental punishment, it is doubtful that ET works better than carbon taxation in China.\(^{111}\) As some economic studies show, although “the impact of ETS on economics is slighter…the stimulation of structural transformation of the economy by the tax is greater than that by ETS.”\(^{112}\) Third, the carbon tax measure was supported by the MEP and the Ministry of Finance (MoF), which carried out research on carbon tax in as early as 2007.\(^{113}\) Even today officials from other ministries (and even some from within the NDRC) still imply their support for the carbon tax.\(^{114}\)

Despite all these seemingly favorable conditions, the carbon tax failed to enter the stage of policy experimentation as ET. Why? Multiple insiders regard the selection of ET over carbon tax as the NDRC’s decision.\(^{115}\) However, the final decision-making process has remained a black-box. Even NDRC staff do not know how the final choice to use ET was made. Some critics even describe this as “a wrong decision made in a moment of weakness” (yinian


\(^{110}\) Lo and Howes, “Powered by the State or Finance?”

\(^{111}\) Interview C5.


\(^{113}\) Interview C23.

\(^{114}\) Meeting C6; Interviews C10, C23.

\(^{115}\) Interviews C1, C2, C10, C22, C23; Meeting C6.
Therefore, we can only make inferences by comparatively analyzing public justifications and private comments.

Some argue that the carbon tax measure was rejected due to technical and political difficulties. For instance, many argue that a new tax might spur opposition from companies and the public, which had already complained about heavy tax burdens. However, an equally strong counter-argument stated that this might not have been the case within the tax reform window of 2010-2013. Some argue that the Chinese government was fully capable of implementing a new type of tax, for public opinion by then prioritized environmental protection due to worsening smog conditions. As a result, a lack of political incentive to even try to promote carbon tax showed that it was not resistance from the society but a lack of policy interest on the ministerial level that blocked carbon taxation.

Some evidence shows that the NDRC’s assumptions about the promises of ET and carbon tax have affected policymakers’ decisions. Multiple insiders confirm that there was a dominant voice in the NDRC that claimed that by better mobilizing the private sector’s activities ET would deliver better mitigation results, while carbon tax could not reach that far into the market system. This view from the NDRC on carbon tax has also been confirmed by Xie Zhenhua on multiple occasions. Interestingly, this bureaucratic view may not be accurate, as the effective functioning of the ETS has been constrained by a strong dependence on governmental punishment, poor data quality, capacity shortages, and other issues. It was

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116 Meeting C5; Interview C23.
117 Interviews C11, C23.
118 Interview C23.
119 Interviews C11, C21.
contested within the NDRC from the very beginning whether a national ETS would work better than the carbon tax.\textsuperscript{121} In addition, it was not unclear why the NDRC refused the advice of two major carbon tax proponents, the MEP and the MoF. Clearly, the NDRC had more reasons to reject the carbon tax and to pursue ET.

In addition to the NDRC’s underestimation of the carbon tax, another important but often overlooked factor that influenced the NDRC’s policy deliberation was its political interests. Some suggest that the carbon tax proposal was rejected due to political calculations of the NDRC-CCD. ET served as an instrument that benefited the NDRC-CCD’s political authority. The NDRC-CCD, in theory, controlled most policy measures under the label of climate governance. However, in reality, few policy instruments were under the direct jurisdiction of the NDRC-CCD. For example, energy policies are controlled by the National Energy Administration, emissions regulation instruments (i.e., environment policing) are held by the MEP, while industrial upgrade (e.g., promoting the development of low-carbon technologies) are the responsibility of the NDRC’s Department of Resource Conservation and Environment Protection and the Ministry of Science and Technology (MOST). This reflects authority “fragmentation” in the climate field: the NDRC-CCD controlled climate policy-making, but its policies could not be implemented without cooperation from other agencies. As a result, the most visible “achievement” of the NDRC-CCD was its performance at the climate negotiations.

However, to survive in the NDRC, the NDRC-CCD must find an “NDRC-job” to do. This required the development of a policy instrument controlled by itself alone.\textsuperscript{122} Because the carbon

\textsuperscript{121} Interviews C10, C22, C23.
\textsuperscript{122} Interview C10.
tax, if applied, would fall under the jurisdiction of the MoF and MEP, it was only logical for the NDRC-CCD to promote ET and to suppress the carbon tax.123

In short, the NDRC as an authoritative policy body in the field of climate governance has played a key role in the selection of ET over the carbon tax measure. The NDRC’s choice was shaped both by its organizational beliefs about the promises of the two measures and by its bureaucratic calculations. Without more behind-the-door information, I can only speculate that both factors matter, with the political one playing a significant role. This further demonstrates the value of my theoretical framework, which is sensitive to bureaucratic boundaries and special bureaucratic interests. As noted in chapter 2, policy evaluation and selection are contingent processes that can be heavily influenced by both social and political factors.

4.3 Summary

The analytic narrative presented above showed that both domestic deliberations and international advocacy were needed for the diffusion of ET to China. Without deep policy deliberation and the NDRC-CCD’s support, the CDM and international entrepreneurs’ impacts on policy development have been limited (as detailed in section 2.2). ET proponents were presented with a good opportunity in the critical period of 2009-2010 when the robustness of two local practices—defensive climate diplomacy and the use of C&C for environmental governance—both declined. Meanwhile, the NDRC-CCD, driven by both general policy direction and its special political concerns, became a domestic entrepreneur for policy innovation. Blessed by the NDRC-CCD’s strong authority (than, for example, the MEP) in the

123 Interviews C9, C23.
climate field, ET became the final choice. Clearly, the local policy deliberation process was shaped by multiple factors, not all linked to international entrepreneurship.

5  The Early Development of the ETS in China: Ambition, Active Learning, and Limitations

This section traces the policy deliberation process a step further. As the theory predicts, driven by a strong motive for idea importation, early ETS pilot-building processes showed some signs of faithful learning: pilot governments and the central government set very ambitious targets and welcomed Western consultation. However, as ETS-building proceeded, norms and practices deeply embedded in China’s government-market relations, such as the governments’ tendency toward over-intervention and anxieties over free market and financial involvement, regained influence over the learning process.

For both the central and local governments, the ETS was a new policy measure. Learning is thus imperative. In addition, different from the EU which had much more time to conduct research and experiment with ETS designs, Chinese pilot builders were faced with a much tighter time frame. This was the case because proponents of the ET in the policy circle have attached strong political meanings to the ETS: it was not considered merely an experimental policy instrument but was also considered connected to China’s reputation in global governance.\(^\text{124}\) This belief was strengthened after Xi Jinping took office. Not only did Xi buy into the ET idea, but he also situated the China ETS program as a part of his international climate commitments. As a result, ETS pilots gained local governments’ enthusiastic support as they tried to impress top leaders by making ETS pilots effective. Under this context, the ETS pilot-

\(^{124}\) Interview 23
building process proceeded quickly. It took local governments only two years (from 2011 to 2013) to set up the institutional infrastructure for pilots from the stretch. Since policymakers of different levels needed to make ETS pilots operational within a very short period of time, they naturally dependent heavily on foreign intellectual assistance.

ETS pilot-building processes were marked by the deep involvement of local norm brokers and foreign advisors. The period of 2011-2013 witnessed close collaborations involving multiple actors, including local DRCs, local exchanges, Chinese researchers, Chinese consulting companies, and foreign experts. On the one hand, “during pilot-building, the NDRC organized several brainstorm sessions that brought together experts and bureaucrats from all over the country to one site; this was a rare case in the history of China’s public policy-making.” On the other hand, Western involvement was also welcomed during this period. Some local pilots also invited external experts as their consultants and even managers of carbon exchanges.

The design of Chinese ETS pilots showed many traces of Western influence. Those participated in pilot-building acknowledged that ETS pilots initially borrowed heavily from the EU ETS. For example, the initial goal of the Guangdong pilot was to build a system with higher efficiency and more sophisticated financial tools than the EU ETS. Practitioners from Guangdong and Shanghai pilots reflected that they initially considered various kinds of trading

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126 Interview C5.
127 Although some technical aspects of the institutional design (e.g., coverage, cap setting, permit allocation, etc.) were adapted to better fit local conditions, such institutional adaption was also encouraged by international experts. See Zhang et al., “Emissions Trading in China: Progress and Prospects”; Maosheng Duan, Tao Pang, and Xiliang Zhang, “Review of Carbon Emissions Trading Pilots in China,” Energy & Environment 25, no. 3–4 (2014): 527–549. Interviews C7, C16.
128 Interview C13.
products, including futures.\textsuperscript{129} In addition, the creation of the China Certified Emission Reduction (CCER)—widely referred to as “the Chinese version of the CDM”—reflected China ETS’s close link with the international carbon market.\textsuperscript{130}

The development of China’s national ETS, which occurred in parallel with pilot development, was also marked by active policy learning. The NDRC lacked both the knowledge and human resources to deal with the heavy policy-making workload. This forced it to constantly bring in external expertise during policy deliberation. Learning on the national level took three forms. First, Chinese policymakers learned from the Western ETS experience by participating in multiple international capacity building projects, championed by the EU’s multi-million project and the World Bank’s PMR.\textsuperscript{131} Although the policy impacts of these training programs are difficult to evaluate, “the practices of Chinese policymakers during training sessions (e.g., the time they were willing to spend and their dedication) reflected their openness to foreign advice.”\textsuperscript{132}

Western actors also directly influence Chinese policymakers through informal networks. For instance, the China Carbon Forum, an international NGO, has been able to build an informal bridge between Chinese policymakers and advisors from the EU. The NGO successfully organizes events in which senior officials of the NDRC and representatives of the EU ETS and the EU commissioner come together to discuss general climate policies and technical issues related to the ETS. Although the influence of such events cannot be exaggerated, the presence of

\textsuperscript{129} Interviews C9, C13.
\textsuperscript{130} Interview C9.
\textsuperscript{132} Interviews C16, C23.
high-level Chinese officials at NGO-organized events denotes a strong desire to learn foreign ideas.\textsuperscript{133}

On occasions when Chinese policymakers doubted foreign advice during substantive policy-making, knowledge brokers on the local level were still able to build a bridge between foreign and local knowledge.\textsuperscript{134} The NDRC adopted an outsourcing approach to policy development whereby local DRCs, carbon exchanges (e.g., Beijing, Shanghai, and Hubei), universities (e.g., Tsinghua), research institutes, and companies (e.g., Sino Carbon) all entered contracts with the NDRC to study and craft a certain component of the national ETS framework. As domestic actors, their advice was informed by both pilot experiences and foreign practices.\textsuperscript{135}

Of course, the idea importation process has also been distorted by local practices. Among many technical issues, the development of China ETS was most fundamentally troubled by unclear government-market relations. First, Chinese ETS pilots today are still compliance markets, with governmental punishment constituting the major motivation behind trading activities.\textsuperscript{136} This is reflected by the fact that trading activities often take place close to a compliance deadline while prices drop immediately afterward.\textsuperscript{137} Second, as a normal means of developing regional economies, provincial governments tend to apply protectionist approaches to their ETS pilots.\textsuperscript{138} The ambiguous relationship between local governments and carbon exchanges has limited the improvement of market efficiency. In theory, carbon exchanges should operate as market agents that compete with one another to provide better services to trading.

\textsuperscript{133} Interview C7.
\textsuperscript{134} Interview C2.
\textsuperscript{135} Interviews C6, C9.
\textsuperscript{136} Interviews C14, C19; See also China Carbon Forum, “Zhongguo Tanjia Diaocha (2018) [China Carbon Price Survey (2018)],” 26.
\textsuperscript{137} China Carbon Forum, 13.
However, pilot carbon exchanges’ informal relationships with local DRCs have caused them to receive extra political support.\textsuperscript{139} Third, and perhaps most controversially, based on a rising tendency to define the ETS as a “mitigation instrument” rather than a fully liberal market,\textsuperscript{140} as well as concerns surrounding potential financial risks,\textsuperscript{141} the NDRC over the past two years has become extremely cautious about the financialization of the ETS.\textsuperscript{142} The NDRC has constrained trading activities to spot contract transaction and banned financial tools like forwards and futures (derivatives trading) and the involvement of institutional investors. Ironically, these decisions run against the fundamental logic of the ETS: it requires financial actors’ participation to mobilize trading activities\textsuperscript{143} and to develop forward price curves for carbon.\textsuperscript{144}

Because the ETS is still young and changing, we should not judge it too quickly. We can understand the difficulties associated with the China ETS as temporary due to capacity shortages, rather than as reflecting fundamental normative differences between China and the West. In fact, the NDRC has ensured that financial instruments will be added as the ETS matures.\textsuperscript{145}

For the foreseeable future, the ETS’s development trajectory should be stable thanks to strong political support from top leaders. However, its fate may also be influenced by recent reforms made to the bureaucratic system. In 2018, the NDRC-CCD was merged into the new Ministry of Ecology and Environment’s (MEE) Department of Climate Change (MEE-CCD). Because the MEE is built upon the MEP, the policy development of climate governance will for

\textsuperscript{139} Interview C5.
\textsuperscript{140} Dai, Kang, and Xiong, Tan Jiaoyi Zhidu Yanjiu [Carbon Trading System Research], 129.
\textsuperscript{141} Interviews C1, C11, C12, C15.
\textsuperscript{144} Interview C5, See also Alex Y. Lo and Xiang Yu, “Climate for Business: Opportunities for Financial Institutions and Sustainable Development in the Chinese Carbon Market,” Sustainable Development 23, no. 6 (2015): 379.
\textsuperscript{145} Interview C15.
the first time be influenced by the organizational culture of the MEP. As reviewed in section 4.1, the MEP has favored C&C over market mechanisms and has never been an enthusiastic supporter of ET. For now, the development of China ETS remains un-disturbed given that the MEE-CCD mainly consists of NDRC people (thus, the climate policy community can be seen as unchanged). However, over the long run, the ETS will be influenced both by its own performance and by other forces in the MEE.

6 Conclusion: Alternative Accounts and Theoretical Implications

This chapter analyzed the processes that generated China’s current incentives for transnational learning in the field of global climate governance. More specifically, I conducted a process tracing study that focused on the local policy deliberation process in China’s climate policy circle, through which ET ideas first emerged as a policy option, and then survived the policy evaluation and selection processes. Different from traditional constructivists’ emphasis on international pressure and transnational idea diffusion, I showed that the impact of international factors was conditioned on the depth of local policy deliberation. Without strong local political incentives to establish an independent GHG emissions control framework, Chinese policymakers would not have the urge to learn novel ideas in the first place. If competing local ideas such as the C&C maintained its dominance, idea importation (even in the form of localization) would not have taken place. Even the carbon tax, a competing foreign idea, might have been the main policy measure had it not fallen in a victim to the political struggle between ministerial bureaucracies.
This research speaks to three existing accounts for the origin of the China ETS. First, the domestic interest approach is rejected by the empirical findings. This is in line with many existing studies. As Lo and Howes argue, in China, “market construction, operation, and participation are dominated by state actors; namely, central economic agencies, local governments, and SOEs...the role of environmental actors, including environmental authorities and non-governmental organizations (NGOs), in the domestic market community are less influential.”\textsuperscript{146} As one practitioner puts it: “the biggest problem with ETS in China is that it does not generate enough profit to feed those young people with green dreams.”\textsuperscript{147} The fact that people in the ET business in China are now working mostly for “green dreams” and have to find other business beyond ET to making a living shows that the incentives around ET in the Chinese context is dependent on the government, not the market.

The second approach to the original of the China ETS stresses norm diffusion effects generated by China’s engagement with the CDM and international entrepreneurs.\textsuperscript{148} I have assessed this argument in section 2.2. To reiterate my point: while agreeing with the presence of transnational teaching activities in the CDM era, I argue that the CDM’s socialization potential was not realized and later policy development in the climate field in China was not directly linked to it. In addition, although some scholars noticed the influence of domestic policy deliberation, they simply listed it as one factor among many others, without analyzing their relative policy impacts compared with other factors.\textsuperscript{149} With my theoretical framework, a staged

\textsuperscript{146} Lo and Howes, “Powered by the State or Finance?”
\textsuperscript{147} Interview C9.
\textsuperscript{148} Belis and Kerremans, “The Socialization Potential of the CDM in EU–China Climate Relations.”
narrative was presented, which provided a much clearer understanding of the processes leading to the adoption of ET.

Third, this study also speaks to another approach that stresses the role of “power displacement” concern. Lo and Howes argue that China’s construction of ETS is a reaction to its lack of market power (e.g., pricing power) in the international carbon market. However, because the two authors’ findings are based on a discourse analysis of newspaper reports, they must be checked by a closer look at the policy deliberation process. There are three reasons to question the power-based argument. First, during my investigation, with only one exception, none of my interviewees brought up the power argument in their reflections of the initial policy deliberation process. When I asked them to consider the power dimension, they often noted that this might be a nice bonus but doubted its realizability. Second, because Chinese policymakers’ faith in the international ETS was in decline in recent years, pricing power has become a minor concern. One expert even argued that the international ETS was a “nice but an impossible dream.” Third, and most importantly, the NDRC clearly defined the ETS as an “instrument for GHG emission reduction rather than a capital accumulation mechanism.” This focus on the ETS’s mitigation function is further reflected by the constraints on financial involvement in the ETS as reviewed in section 5. If China really intended to build market power in the future international ETS, it should have encouraged rather than constraining the development of financial capacity in the China ETS. As the above historical process tracing reveals, domestic

150 Lo and Howes, “Power and Carbon Sovereignty in a Non-Traditional Capitalist State: Discourses of Carbon Trading in China.”
151 Interview C6.
152 Meeting C6.
deliberations on best mitigation tools, rather than the concerns of international power in the future, determined policymakers’ choices.

Finally, tracing the genesis and historical evolution of ET in China tells us important lessons about how Western ideas can influence Chinese practices. As I explained in chapter 2, in the two-step local policy deliberation mechanism, the first step—uncertainty build-up—can be triggered by multiple factors, both international and domestic. However, further policy development—the search for new policies measures under uncertainty—is profoundly shaped by the inner workings of the local policy community. Only when the local policy communities exhausted local options would it be fully open to foreign ideas. More broadly, by analyzing the ET case, we can better grasp the reasoning of the climate policy community in China and make better sense of its attitude towards climate governance on the global level. Understanding the local enthusiasm for importing Western climate governance ideas allows us to understand the lack of enthusiasm for norm innovation. This chapter once again proves that general foreign policy strategies cannot determine China’s governance strategies in specific issue areas. The selection or rejection of a certain set of policy ideas during local policy deliberation depends a lot on the performance of policy experiments based on the candidate ideas, as well as on the authoritative policy community’s interpretations. China will not hold on to its premature local ideas just for the sake of innovation. Chinese policymakers tend to opt for the policy ideas that are deemed effective, regardless of its origin. However, because the selection process is bounded by specific bureaucratic knowledge and interests, the policy development outcomes may still end up being controversial.

Chapter 5
Incremental Integration: China and the IMF in Global Financial Governance

RMB’s inclusion in the Special Drawing Rights (SDR) basket was a milestone event in China’s reform and opening-up process... It was both the product of the reform and opening-up and a driving force for further reforms... This will certainly generate a ratchet effect on China’s opening-up.

Zhou Xiaochuan (Former Governor of the PBoC), 10 October 2017

The contemporary global financial governance system is a multilayered network: the Group of Twenty (G20) and the Financial Stability Board serve as central policy forums and the IMF serves as a monitor of economic and financial policies and a developer of specific financial governance strategies. The IMF has long been the primary institution in global financial governance. It “influences state policies by creating global norms and standards, setting conditions on loans, providing technical assistance, and issuing surveillance reports that send signals to public lenders and markets.”¹ Financial governance rules and norms held by the IMF (e.g., the capital freedom norm, and lending conditionalities) are Western by nature, as they were all constructed based on Western economic theories and financial governance practices. Therefore, concerning the reform of the global financial governance system, a key theme is how to change the IMF’s governance structure and its Western-centric rules and norms.

As a rising power in the financial realm and an important stakeholder of the IMF, China has promoted reforms of the IMF on several fronts, including adjusting the IMF’s quota and voting shares, elevating the status of the SDR, reforming the Dollar-centric currency system, and strengthening financial safety nets. However, all these seemingly reformist actions have targeted the power structure of the system, not its rules or norms. An analysis of China’s actions in the normative/regulatory dimension reveals that China is still supportive of the IMF’s central position in the global financial governance system. It continues to emphasize the linkage between mini-lateral financial safety nets and IMF programs and conditionalities. It has internalized or is actively learning IMF rules, such as (incremental) capital account liberalization and exchange rate marketization. In this sense, while it is a reformer in terms of power-sharing, in the normative/regulatory dimension, China’s approach can still be labeled as “incremental integration,” an approach that prefers learning to norm innovation. China’s choice is puzzling since IMF rules regarding capital accounts and the IMF’s performance in financial rescues have been much criticized by developing countries. China’s international leadership in the financial realm is thus much more conservative than expected.

In this chapter, I argue that China’s preference for learning Western financial governance rules and norms was underpinned by a liberal financial policy community led by the People’s Bank of China (PBoC) and, to a lesser extent, by the Ministry of Finance (MoF). Liberal financial ideas have dominated Chinese policymakers’ thinking since the late 1980s and have remained strong, despite the decline of the IMF’s authority since the late 1990s—due largely to

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2 Since 2008, the IMF’s approach to capital account liberalization has changed from “big-bang” liberalization to incremental liberalization. Nowadays, the IMF is more tolerant of temporary capital control measures. However, this change does not alter its general preference for liberalization and is not driven by China. I will discuss this matter in section 4.1.
the 1997 and 2008 financial crises. The historical evolution of financial governance ideas in China can be explained by the theoretical framework developed in chapter 2. The theory-guided analytic narrative can be summarized as follows: (1) Historically, financial restriction policies under the centrally planned economic regime made “finance” an alien idea for China. Against this backdrop, as the reform and opening-up in the 1980s required the establishment of a modern financial system in China, the policy community, especially the PBoC, had to rely heavily on Western financial governance knowledge. As a result, trust in the IMF’s policy advice was developed. This led to China’s quick adoption of IMF rules on current account liberalization in the early 1990s. (2) Bureaucratic preference for norm integration remained intact after the 1997-1998 Asian financial crisis, though incrementalism was added to the policy formula. Meanwhile, China continued to focus on domestic reform rather than international innovation. This made its participation in the post-crisis regional financial cooperation passive. (3) Although the 2008 global financial crisis gave China a golden opportunity to build international financial leadership, the PBoC and top leaders continued to prioritize domestic reform and relied on the IMF itself to revise relevant financial governance norms and rules. The IMF’s growing emphasis on “incremental” capital liberalization and temporary capital control was a result of its own policy reflections. China almost went down the path to deep capital liberalization in 2015, only to return to incrementalism after experiencing the negative effects of fast liberalization reforms. In short, since the 1990s, China has never developed harshly critical views of IMF rules and norms and has lacked innovation incentives.

This analytic narrative, which largely focuses on tracing changes in policy beliefs in the PBoC, is a simplification of the policy-making process. The CPC Center, the MoF, financial experts (e.g., those in the Chinese Academy of Social Science), and other interest groups (e.g., national banks) all have influence over policy development. However, as will be discussed in the
following sections, the PBoC can usually sell its policy ideas to the top leaders, just as the NDRC did in the climate case. Although the timing and scope of financial reforms are ultimately determined by bargaining among different bureaucracies and Chinese SOEs, the general normative belief on the desirability of financial liberalization is largely shaped by the PBoC. In addition, because other actors’ views are all evaluated and deliberated by the PBoC, by analyzing its changing beliefs, I am able to capture those views and weight their relative influence. Focusing on the PBoC is thus an analytically valuable approach.

The remainder of the chapter is organized as follows. The first section discusses China’s contemporary approach to global financial governance reform. I show that China is fixated on changing the power structure of the system instead of on rule/norm innovation. The second section traces the local policy deliberation process in the 1980s-1990s, which led to the creation of a liberal financial policy community. The third section traces the local policy deliberation process following the Asian financial crisis and shows that the crisis did not alter the focus on domestic reform and the conservative view of regional financial cooperation. The fifth section extends the process tracing to the post-2008 era. I show that even with increased incentives to promote reform in global financial governance, China is still generally satisfied with the IMF’s role and its rule provisions and thus lacks the incentives to conduct norm innovation.

1 Contemporary Global Finance Governance, the IMF, and China

The contemporary global financial governance system is a network that consists of multiple formal and informal institutions. Among them, the IMF serves as a key lender of the global financial safety net (GFSN)—which provides liquidity to countries in financial crisis—
and a key rule/norm maker. “The majority of the IMF’s time is spent conducting surveillance on national economic policy setting and economic performance…which forms the basis of policy advice that is communicated to states through regular Article IV consultations, multilateral surveillance reports, and, in the case of borrowers, through policy discussions over loan programs.” Although loan programs are negotiated between the IMF and borrower countries, the IMF often dominates the programming of loans (e.g., conditionalities applied). With all these tools, the IMF governs global finance by promoting policies and reforms (those it deems necessary) on the national level.

The IMF’s understanding of the best global financial governance practices has been influenced by several factors, including its key stakeholders’ (especially the United States) preferences, IMF staff’s professional knowledge (often obtained from training at Western universities), and the performance of its governance plans. While in its early days, the IMF applied a Keynesian approach to financial regulation, which emphasized active governmental intervention in the market and careful control of transnational capital flows, since the early 1970s, the rise of neoliberalism in the West has caused significant changes in the IMF’s governance strategy. Since the 1980s, the IMF has “moved from a limited focus on balance-of-payments lending to ever more sweeping structural interventions in members’ economies and societies” that “aimed to reconstitute these economies to conform with the market-dominated

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models.” It began to promote policies of market liberalization that were rooted in the “Washington Consensus” (e.g., eliminating subsidies, privatizing state-owned enterprises and the delivery of public services, and liberalizing interest rate and exchange rate controls). Capital freedom became the new orthodoxy. Controls of capital flows were seen as a market distortion, which would cause bad economic performance. Though capital liberalization was not a formal part of the Washington Consensus package, the IMF’s views of liberalization have generated strong policy impacts on countries using IMF programs.

Since the 2008 global financial crisis, the IMF has relaxed its firm opposition to capital control and accepted the value of temporary controls. Such changes in IMF policies were driven by Western financial experts and the IMF’s interactions with countries such as Iceland and Brazil. However, “controls…were still largely viewed within the IMF as exceptional measures.” The IMF’s “norm hierarchy that prioritized the long-run desirability of capital freedom” remains. The IMF’s liberalism stance was also reflected in its interactions with China.

6 Barnett and Finnemore, Rules for the World, 47; See also James Boughton, Tearing down Walls: The International Monetary Fund 1990-1999 (International Monetary Fund, 2012).
7 Regarding the causes of such strategic changes, see Chwieroth, Capital Ideas; Rawi Abdelal, Capital Rules: The Construction of Global Finance (Harvard University Press, 2007); Regarding the IMF’s Washington Consensus-like solutions to financial crisis, see Woods, The Globalizers.
on the SDR issue in 2015, during which the IMF promoted capital liberalization and exchange rate marketization reforms in China in exchange for the RMB’s inclusion in the SDR basket.

China has become an active participant and reformer of global financial governance, and its reform efforts have focused on several issues. First, China has actively promoted the internationalization of the RMB. Between 2008 and 2015, the PBoC “signed Bilateral Swap Agreements with 32 national or regional currency authorities and established RMB cross-border settlement mechanisms with 15 countries or regions.” As some studies estimate, the RMB has become a major currency for international trade and is on track to become a major reserve currency. In addition, the PBoC proposed the adjustment of the IMF’s SDR basket, which eventually led to the inclusion of the RMB in the SDR basket in October 2015.

Second, China has promoted the adjustment of the IMF’s quota and voting shares. Through the collective efforts of China and other emerging economies, a reform plan was developed in 2010 and approved in 2016. China’s quota jumped from 3.994% to 6.390%, climbing from sixth to third place. Its voting shares also increased from 3.803% to 6.068%. In the G20 Hangzhou Submit, China further pushed the G20 to provide clear guidance for the IMF regarding governance reforms—further increasing the quota of emerging economies and other developing countries.

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15 This change officially took effect in October 2016.
Third, China also sought to improve the IMF-led GFSN. In May 2000, finance ministers of ASEAN countries and Japan, South Korea, and China (ASEAN+3) decided to establish “a regional currency-swap mechanism, by which the 13 countries would lend one another part of their hard currency reserves if any of their currencies came under speculative pressure. By April 2005, 16 bilateral currency swap arrangements had been signed under the Chiang Mai Initiative (CMI), amounting to US$37.5 billion.”

In 2010, ASEAN+3 launched The Chiang Mai Initiative Multilateralization (CMIM), a US$ 120 billion “self-managed reserve pool” under a single institutional framework. This agreement upgraded the previously bilateral-based CMI. In May 2011, the ASEAN+3 Macroeconomic Research Office (AMRO) was established in Singapore, with the task of monitoring the regional macroeconomy and helping ASEAN+3 design financial rescue plans. Since 2013, members of the CMIM have successfully conducted 7 test-runs on regional financial rescue.

While Yi Gang, the current governor of the PBoC, considers these reform efforts as “Chinese wisdom and solutions” for the reform of global financial governance, they are all directed at changing the power structure and do not concern rule/norm innovation. “China has been much more vocal on governance reform than on any substantive policy topic at the Fund.” In two crucial issues noted at the beginning of this section—capital account regulation and loan

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22 Interviews F2, F4, F5, F6.
conditionality, China continues to align with the IMF’s views and has done little to explore alternative solutions.

On the one hand, although the capital freedom norm has been questioned by many developing countries since the Asian financial crisis, China has continued to pursue high-level capital account openness. The SDR review process, which started in early 2015, gave the IMF leverage over China’s domestic financial governance. To meet the SDR criteria, the PBoC followed the IMF’s guidance and conducted a series of reforms to eliminate various technical obstacles to the RMB’s SDR membership. Relevant reforms included reducing intervention to exchange rate movements, opening the inter-bank bond market, easing regulations on the Qualified Foreign Institutional Investor and the RMB Qualified Foreign Institutional Investor schemes, and so on. With all these compromises made by China, it is still debatable whether enhancing the status of the SDR will effectively improve the international monetary system. The SDR is not broadly issued and used in the international market. In addition, because the United States still holds veto power in the IMF, it will not allow the SDR to become the primary reserve currency.

On the other hand, China’s efforts to reform the IMF’s governance structure has done little to alter the latter’s governance style and rule provisions. China did not mobilize many political resources to deepen the inclusion of developing countries in the IMF governance system. For example, “when China had an opportunity to push for the election of managing director from the Southern countries, it did not do so. In exchange for Chinese support of

24 I will discuss this in detail in section 3.1.
26 I will discuss this point further in section 4.1.
Christine Lagarde of France, Zhu Min of China was appointed a deputy managing director.”

Meanwhile, China’s position on the building of mini-lateral financial safety nets remains conservative. The CMIM is clearly defined as a mechanism that serves “to supplement the existing international financial arrangements’ like the International Monetary Fund.” Although in May 2012, the “ASEAN+3” finance ministers and central bank governors decided to raise the IMF de-linked portion from 20% to 30%, the CMIM’s dependence on IMF programs and conditionalities was not altered. The AMRO has also depended on the IMF in its capacity-building efforts. In 2016, a test-run was conducted on the IMF-linked portion of the CMIM.

This shows the deep integration and close collaboration between the two institutions. As a result of the CMIM’s dependence on the IMF, this regional rescue mechanism has never been activated. For example, in facing an attack on its currency in 2008, South Korean turned to the US Federal Reserve for a swap arrangement. Similar to its position on the CMIM, China, while leading the design of the new US$100 billion Contingent Reserve Arrangement (CRA) of the BRICS, also required 70% of the CRA funds to be linked to the IMF.

In summary, although China is making great efforts to change the power structure in the global financial governance system, in the normative/regulatory dimension, China’s approach should still be categorized as incremental integration. A researcher of the Development Research Center of China’s State Council notes that “in the realm of financial governance, we are still in the phase of catching-up... [China believes that] in the context of financial globalization, all

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members of the system must follow the same set of rules. It is not right to take a unique path.”

This view was echoed by Zhou Xiaochuan, the former governor of the PBoC. China’s emphasis on normative integration and its lack of innovation incentives made its international leadership in the financial realm much less disruptive than expected. To account for China’s choices, I argue that we need to trace the process of norm changes within China back to the 1980s-1990s when the local financial policy community was first established.

2 From Financial Restriction to Financial Liberalization (1980s-1990s)

In this section, I study the origin of China’s financial governance community and its initial interactions with the IMF. I show that China’s commitment to building a modern financial system in the 1980s-1990s gave the IMF a golden opportunity to shape China’s domestic policies. Because Chinese financial policymakers lacked basic knowledge about finance, they had to rely on foreign knowledge to build local capacity and relevant policy frameworks. They thus became sympathetic to the IMF’s market-oriented policy advice. In the meantime, the focus on domestic reform also made China a passive actor on the international level (See Figure 5-1).

Between the 1950s and the 1980s, China applied a centrally planned economic regime. It was a “completely different financial system from that of the West, with a single monobank that handled all financial transactions in the country as well as acting as the central bank.” In this system, the PBoC was a part of the MoF and the only bank in China. It was responsible for both central banking and commercial banking operations. Because all financial transactions were controlled by the government, there was no free capital movement to govern. In this sense, in the period before the 1980s, domestic financial restriction policies resulted in a serious shortage of local knowledge about modern finance. “Chinese leaders had no understanding of the basic reporting conventions and obligations of a modern market economy, let alone of the institutions

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needed to make it function.”  

China also refused to join the IMF in this period—despite multiple invitations—as it did not want international interference in its foreign exchange policies.  

The start of the reform and opening-up in 1978 generated a strong incentive to establish a modern financial system. A crucial step of financial governance reform was the independence of the PBoC. In 1978, the State Council split off the commercial banking functions of the PBoC into four independent state-owned banks, including the Industrial and Commercial Bank of China, the Bank of China, the Agricultural Bank of China, and the China Construction Bank. In 1983, the State Council promulgated that the PBoC would function as the central bank tasked with managing the macro-economy. Since then, the PBoC’s independence and authority have increased steadily and were confirmed by the “Law of the People's Republic of China on the People's Bank of China” in 1995. As a result, a relatively independent PBoC—a child of the reform and opening-up—has become an active reform engine.

The early days of China’s domestic financial reform witnessed a deep involvement of the IMF. In 1980, China resumed its legitimate seats at the IMF and the World Bank. China’s first board governor to the IMF was Li Baohua, then governor of the PBoC. This started the tradition of authorizing the PBoC as the key local contact agency for the IMF. Within the PBoC an “IMF division” was established under its International Department and was designated to handle interactions with the IMF.  

34 Ferdinand and Wang, 900.  
38 Ferdinand and Wang, “China and the IMF,” 901.
The determinant of the IMF’s influence on China’s domestic policy-making was China’s own demands for foreign knowledge. Unlike many other developing countries, China has never been a large borrower from the IMF. China borrowed 450 million and 600 million SDRs from IMF’s General Reserve Account in March 1981 and November 1986 respectively, but had repaid all loans by late 1980s and never borrowed again. This exempted it from the IMF’s conditionalities.\(^{39}\) However, as noted above, due to the shortage of modern financial knowledge, China nevertheless warmly welcomed the IMF’s assistance and advice.\(^{40}\) As Yu Yongding, a prominent Chinese financial scholar, notes, since the 1980s, China “has maintained a very good relationship with the IMF and the WB, especially with the latter, due to these two international organizations’ sympathetic attitudes towards China’s reform and opening-up.”\(^{41}\)

The convergence between Chinese and Western financial governance knowledge has been driven by interactions through various channels, including the training of Chinese financial bureaucrats and formal and informal interactions between high-level Chinese policymakers and IMF officials. As researchers documented, “China has received continuous technical assistance from the IMF since the 1980s via training courses in IMF institutes, visits by IMF experts and lecturers to China, and periodical postings to IMF headquarters for Chinese officials…the main areas covered by these training programs are macroeconomic statistics, fiscal reform, taxation, the balance of payments, and budgetary and monetary operations. The number and levels of the IMF training programs attended by Chinese officials increased most strongly in the late 1990s and early 2000s, remaining stable in the most recent years.”\(^{42}\) The IMF has helped China to train

\(^{39}\) Kent, *Beyond Compliance*, 131.
\(^{40}\) Jacobson and Oksenberg, *China’s Participation in the IMF, the World Bank, and GATT*, 121–22.
a large number of financial experts. For example, in the year 2002 alone, China welcomed more than 50 groups of IMF experts. In the same year, a China-IMF joint capacity building center was launched in Dalian to host the fast-growing training programs. 43

Although these training programs initially focused heavily on technical skills, the IMF later used its expert authority and positive relationship with Chinese officials to promote changes in substantive policies, such as exchange rate policies and RMB current account convertibility. 44 China responded favorably to extensive IMF advice. 45 Researchers observed that many important Chinese decisions on financial reforms (e.g., exchange rate, RMB convertibility) were announced not long after the IMF’s Article IV Consultations. 46 In 1992, the 14th National Congress of the CPC stated that the goal of China’s economic system reform was to establish and improve a socialist market economy. This mandate requested that the market play a fundamental role in resource allocation. From the PBoC’s perspective, this central policy gave the green light for further domestic financial reforms, which required “the foreign exchange market to play a fundamental role in allocating foreign exchange resources…and the elimination of unnecessary restrictions on the market.” 47 Since then, China’s reform of the foreign exchange market has entered a high-speed track. In response to the IMF’s call on China to rapidly fulfill its obligations under Article VIII of the IMF Article of Agreement, in 1993, the CPC issued “Decision of the Central Committee of the Communist Party of China on Some Issues

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concerning the Establishment of the Socialist Market Economy,” which for the first time put “gradually making RMB a convertible currency” on the policy agenda. On December 31, 1996, the Chinese government announced to the IMF that China would make the RMB fully convertible on the current account. The achievement of RMB current account convertibility was praised by Michel Camdessus, then Managing Director of the IMF, as marking “yet another milestone in China’s historic transformation and decisive progress toward further integration in the world market economy.” Based on a positive view of all these reform achievements, the PBoC even expected that before 2000, it would make the RMB fully convertible under the capital accounts. 

In summary, the IMF-style financial liberalization was a key direction of China’s economic reform in the 1980s-1990s. According to some studies, China’s economic system in the 1990s had most of the elements of the Washington Consensus. “China closely abided by the [Washington Consensus] in terms of fiscal discipline, maintaining a competitive exchange rate (some would say too competitive), liberalizing trade, and liberalizing foreign direct investment. It had made gradual progress on four other aspects: reordering spending away from non-merit subsidies toward public goods, expanding the tax base, easing barriers to market entry, and strengthening property rights. It had moved the least on liberalizing interest rates and privatization, but even on the latter, a substantial portion of SOEs have been privatized since the late 1990s.”

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As a byproduct of its fixation on domestic reforms, China’s financial policymakers in this period did not develop an interest in studying the problems of international financial governance. As Pan Yingli, a prominent financial scholar and PBoC advisor noted in 2001, China’s “research on international financial strategy was very weak…[because] the government had not paid sufficient attention to this issue.”51 Other observers also acknowledged China’s passive behavior on the international level: “while Beijing participated in the organization in terms of posting officials to IMF headquarters in Washington, DC, it remained on the sidelines of policy debates…There was little interaction between Chinese officials and IMF staff at the working level, and at the board level, China ‘usually keeps quiet’.”52 As a result, in the 1990s, the Chinese executive director in the IMF played a passive role in discussions regarding the amendment of IMF articles—the amendment aimed to give the IMF formal authority over capital liberalization.53


As China’s domestic reforms were picking up speed, the Asian financial crisis erupted in late 1997. The crisis seriously challenged the authority of the IMF in the financial governance realm and gave developing countries stronger incentives to find alternative financial governance approaches. For China, the Asian crisis was a wake-up call. Fan Gang, a former member of the Monetary Policy Committee of the PBoC, noted that the Asian financial crisis was a rare case in

51 Yingli Pan, Guoji Huobi Yu Jirong Tixi Gaige Yanjiu [Study on the Reform of International Monetary and Financial System] (Shiji Chuban Jituan [Shanghai Century Publishing Group], 2012), 35.
52 Kastner, Pearson, and Rector, “Invest, Hold up, or Accept?,” 166–67.
the 1990s that caused “widespread deliberations, detailed research, and careful summarization of lessons.” However, the policy impact of the crisis on China was limited. On the one hand, although China quickly suspended its capital account liberalization reform, it did not deny the long-run desirability of capital freedom. On the other hand, although the crisis caused China to become more engaged in regional financial cooperation, China only took a passive participation approach and focused on balancing Japan’s political influence rather than exploring alternative crisis rescue plans. All in all, due to the conservative policy reflections on the IMF’s rules and practices, China remained a supporter (although with more caution) of the Western financial governance strategy (See Figure 5-2).

Figure 5-2 China’s Conservative Policy Changes in the Post-Asian-Crisis Era

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3.1 Capital Account Liberalization: The Return of Incrementalism

A direct impact of the Asian financial crisis on China was the problematization of the “big bang” liberalization approach,\(^{55}\) an approach promoted by the IMF and applied by Asian countries prior to the crisis. Before the crisis, East Asian countries were viewed as major success stories of IMF’s neoliberal policy advice.\(^{56}\) Just three years before the crisis, IMF Managing Director Michel Camdessus commented that “increasing openness to trade and financial flows [had] formed an essential and reliable basis of economic progress.”\(^{57}\) In March 1997, the eve of the crisis, Michel Camdessus again suggested that the East Asian economies were “the very essence of globalization—open, dynamic economies that continue[d] to amaze the world with their rapid growth and economic development.”\(^{58}\) It became clear later that while big-bang financial sector liberalization promoted by the IMF had allowed Asian countries (e.g., Thailand) to access international capital more easily, “the lack of an effective regulatory framework to manage the large increases in capital inflows—combined with the move to greater capital account convertibility during the late 1980s and early 1990s…made small economies especially vulnerable to changes in financial market sentiment.”\(^{59}\) However, the IMF did not see the problem in this way at the time of the crisis. When Malaysia decided to reintroduce capital control measures to combat capital outflow, the IMF criticized Malaysia and stressed the

\(^{55}\) This approach emphasized rapid liberalization, which was in contrast to incrementalism or gradualism, which “emphasized sequencing (i.e., ensuring that certain supporting policies and institutions are in place before additional liberalizing measures are undertaken).” See Chwieroth, Capital Ideas, 2.


importance of liberalization. The Malaysian approach was proven successful. This showed that the IMF’s interpretation of the crisis was heavily influenced by “the idea of orderly liberalization,” rather than by a careful analysis of East Asia’s situation. As Manuela Moschella notes: “given the deliberate association between the IMF and capital account liberalization that IMF staff had rhetorically built in the years preceding the crisis, it is hardly surprising that when the Asian crisis brought about a reconsideration of the benefits of liberalization, the IMF found itself entrapped in its own rhetoric.”

Compared with many East Asian countries, the impact of the Asian financial crisis on China was controllable. Although China was on track to liberalize its capital account in 1996, it had not made its capital account fully convertible by 1997. This allowed China to effectively defend itself against international speculation. Nevertheless, soon after the outburst of the crisis, the Chinese policy community started to reflect on the issue of financial security. “China’s State Council held an unusual high-level National Finance Work Conference in Beijing on November 17, 1997, to discuss the problems of China’s financial and banking system… Likewise, the CPC Central Committee convened a special session on financial security on May 12, 1998.” In December 1997, the State Council issued a “Notice Regarding Deepening Financial Reform, Building Financial Order, and Defending Against Financial Risks,” which required the “establishment of the mature financial institutional system, financial market system, and financial regulatory system… and increasing the capacity to resolve and prevent financial

63 Moschella, 873.
In addition, the PBoC also emphasized the importance of “summing up and drawing lessons from the crisis and rethinking the point of view [regarding capital account liberalization].” As a result of these quick policy reflections, Chinese policymakers concluded that control over the capital account at the time of the Asian financial crisis was a key factor that allowed China’s financial system to remain stable. In this way, the Asian financial crisis effectively caused the suspension of China’s financial liberalization reform.

However, although China avoided the negative impacts of the Asian financial crisis, it did not have any theory backing its policies of capital control, nor did it intend to promote those policies internationally. China’s practice of capital control at the time of the Asian crisis was a coincidence (i.e., reforms of the capital account were scheduled to take place later) rather than a deliberate choice. If domestic thinking about capital account control had been mature, China could have made fuller use of its experience and proposed a new regulatory system for capital account management (e.g., an alternative system that “allows countries to choose, based on their level of development and economic capacity, to moderately and selectively open the capital accounts.”). Instead, China did not actively participate in global debates on this matter. Critics of IMF’s “big-bang” liberalization policies came from within the IMF and from countries like Malaysia.

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69 As Chwieroth notes, debates about capital control took place largely among IMF researchers and officials. See Chwieroth, *Capital Ideas*. 208
In addition, China’s policy deliberations regarding capital account liberalization did not lead to the denial of its long-run desirability. This was different from other countries’ policy thinking at the time, which posed “‘doubts… on whether capital account liberalization per se was a good idea.’” For example, although Yi Gang in 1998 noted the value of the capital control policy in containing the financial crisis, he also argued that “control was not the only reason” that China’s financial system remained relatively stable during the Asian financial crisis. A healthy local economy with high foreign-exchange reserves, more long-term foreign direct investments (FDI) and limited debts were also considered as crucial factors. This meant that the PBoC did not simply relate the crisis to international speculation and the lack of capital control but instead emphasized macroeconomic conditions on the local level. Zhou Xiaochuan also reflected that the conclusion of the PBoC at 1998 was “to wait until after the financial crisis to talk about the capital account issue again.” This shows that the suspension of the financial liberalization reform was a temporary response to the crisis rather than a major change in policy thinking.

After the Asian crisis, China’s pursuit of liberal reforms resumed incrementally. The issue of gradually realizing the RMB capital account convertibility was raised again at the 16th National Congress of the CPC in 2002. At the Third Plenary Session of the 16th Central Committee of the CPC in 2003, capital liberalization was pointed out again. In the meantime, the PBoC’s liberal stance remained intact. In 2003, Zhou Xiaochuan became the new governor of the PBoC. Because Zhou was widely known for his preference for liberalization reforms, his

appointment ensured that the PBoC would continue to be a liberal reform engine in the financial realm.73

3.2 Regional Financial Cooperation

In addition to changing the speed of financial liberalization, China also moderately changed its attitudes to regional financial cooperation. At the peak of the Asian crisis in 1998, the Chinese government repeatedly declared that the RMB would not depreciate. “Compared with the sharp depreciation of the [Japanese] yen, this behavior of China demonstrated the image of a responsible power... This is the first time China has demonstrated its influence in the international currency field.”74 In the meantime, China and other Asian countries’ frustration with the IMF’s crisis rescue performance also increased. The IMF and Western countries were slow to rescue countries in crisis and put forward harsh conditionalities. For instance, in 1997, the IMF applied more than 100 structural reform conditions to its loans to Indonesia.75 In its rescue plan for South Korea, the IMF required very complex structural reforms that included the opening of the domestic financial service market, the elimination of regulations on foreign exchange, complete capital account liberalization, and the establishment of a floating exchange rate regime. These conditions were impossible to fulfill in a short period of time.76 As a result,

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76 Pan, Guoji Huobi Yu Jirong Tixi Gaige Yanjiu [Study on the Reform of International Monetary and Financial System], 8.
“many Asian countries also became skeptical about the presence of IMF conditionality per se. The critics of the IMF claimed that the expansion of loan conditions resulted in a loss of precious time, whether during negotiation or implementation.”77 Despite all the criticisms, the practice of conditionality did not change much until after the 2008 global financial crisis.78 In addition, Asian countries were unhappy with their under-representation in the IMF’s decision-making process. These problems motivated their pursuit of building an independent regional financial safety net.79

However, because China’s financial policy community had largely focused on domestic reforms before the Asian financial crisis, it had no clear plan to construct a regional IMF alternative. Creating an Asian version of IMF was a Japanese idea. In 1997, Japan made a proposal to construct an IMF-like regional financial institution, which was called the Asian Monetary Fund (AMF). In that proposal, Japan, China, and South Korea would collectively fund the AMF, making its total funding US$ 100 billion.80 This proposal was motivated by Japan’s concern that the United States and the IMF might lack the incentive to bail out East Asian countries in occasions of crisis,81 as well as its “interest in defending the Asian model of economic development against the US-led IMF bailout operation.”82 However, the “US objected to it as an avenue to circumvent International Monetary Fund conditionality.”83

78 International Monetary Fund Independent Evaluation Office, Structural Conditionality in IMF-Supported Programs (International Monetary Fund, 2008).
79 Sohn, “Asian Financial Cooperation.”
80 Ulrich Volz, Prospects for Monetary Cooperation and Integration in East Asia (MIT Press, 2010), 36.
81 Phillip Y. Lipsy, Japan’s Asian Monetary Fund Proposal, vol. 3 (Stanford University, 2003), 93–104.
83 Chung, “China’s Approaches to the Institutionalization of Regional Multilateralism,” 757.
Noticeably, China also held a negative attitude to Japan’s proposal. Rather than seeing the AMF proposal as an opportunity to explore alternative financial rescue solutions and a check against the IMF, China reasoned from a power competition angle. It was worried that Japan would take the chance to dominate the AMF and take financial leadership in East Asia. As a result, China joined with the United States in blocking the Japanese proposal. This episode shows that from the very beginning of Asian financial cooperation, China was not fully aware of the value of an independent Asian financial institution.

In response to strong objections, Japan instead promoted a more modest version of regional financial cooperation, which was anchored on a regional currency swap arrangement rather than on an independent regional financial institution. This revised Japanese plan was discussed by ASEAN+3 later in 1999. In the “Joint Statement on East Asia Cooperation,” countries agreed to enhance “self-help and support mechanisms in East Asia through the ASEAN+3 Framework.” Making the regional financial arrangement a more informal and bilateral-based version eased China’s suspicion of Japan’s intention and made it turn to support the proposal in 2000. In the same year, the then Chinese Premier Zhu Rongji claimed that China “stood ready to work with other East Asian countries for the reform of the current international financial architecture and was open to ‘all ideas’ about financial co-operation in the region.”

Clearly, China’s role in the process leading to the construction of the CMI was passive. China made very few proposals about the CMI. It was Japan and ASEAN countries that assumed

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84 Japan did not negotiate with the Chinese government before proposing this plan, which further deepened China’s doubts of the Chinese government. Interviews F5, F6.
the leadership role. One exception was then Chinese Premier Wen Jiabao’s proposal in 2003 to integrate the bilateral currency swap network under the CMI into one multilateral rescue mechanism. However, the Chiang Mai Initiative multilateralization process did not pass the research stage until four years later.\(^{88}\) The lack of interest in researching, developing, and experimenting with alternative plans for financial management and crisis rescue was also shown in China’s preference to link the CMI with IMF programs. Linking the CMI and the IMF was supported by both Japan and China. Initially, both countries insisted that 100% of CMI’s rescue funding must be linked to IMF programs. It was under Malaysia’s pressure that a 10% delinked portion was created.\(^{89}\) China and Japan took the same position for different reasons. While for Japan, the major concern was US disapproval, China, on the contrary, was well positioned to make the CMI more independent. After all, CMI had the potential “to reduce the dependence of East Asia on [IMF] support in crisis management…and thereby increase the autonomy and bargaining power of East Asia vis-a’-vis the rest of the world, and the United States in particular.”\(^{90}\) However, China itself did not want to completely delink the CMI from the IMF. Despite the IMF’s controversial performance, Chinese policymakers and financial experts continued to believe that the IMF was more knowledgeable regarding the operation of Asia’s financial system and that regional institutions lacked the necessary capacity for independent financial governance.\(^{91}\) Some Chinese experts even argued that “since the IMF was already in place, we could not confidently argue that a regional AMF-like arrangement would do a better job. AMF-like institutions would likely become overlapping projects.”\(^{92}\)

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\(^{88}\) See Li, “Dongya Huobi Zhixu de Zhengzhi Jichu [The Political Foundation of East Asian Monetary Order].”
\(^{89}\) Li.
\(^{90}\) Sohn, “Learning to Co-Operate,” 310.
\(^{91}\) Interviews F3, F4, F5.
The development of the CMI in the 1990s-2000s and China’s conservative position show that China was not only reluctant to take the ideational leadership in regional financial governance, but it also did not even see rule innovation per se as necessary. As a result, the CMI was designed with serious flaws, which reduced its functionality. In response, rather than putting their hope on mini-lateral arrangements like the CMI, most Asian countries turned to use their own foreign-exchange reserves as “self-insurance.”

4 Global Financial Crisis and China’s Conservative Leadership (2008-today)

As a financial crisis in the developed world, the 2008 global financial crisis led to the decline of the legitimacy of the Western-dominated international financial system and gave China more authority. This was due to the fact that China (and many emerging powers) showed great resilience in the crisis and that Western countries needed China’s support to reboot the global economy. However, even with the rise of China’s international financial power, the influence of the IMF and its financial governance norms and rules have remained strong. China largely viewed the global financial crisis as an opportunity to increase its share of formal power in the IMF and a chance to deepen its domestic financial reform. It continued to lack incentives to research and experiment on new financial governance rules.

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4.1 RMB Internationalization, SDR, and the RMB Capital Account

Although the internationalization of the RMB mentioned in section 1 is effectively posing a challenge to the Dollar-centric international monetary system, it was not designed principally by the PBoC as a reformist endeavor. RMB’s internationalization was initially driven by market demands and later picked up by the PBoC as a tool to drive domestic financial reforms. The PBoC’s campaign to push for the RMB’s inclusion in the SDR basket was also targeted at promoting China’s own financial liberalization.

4.1.1 Reforming the International Monetary System?

The PBoC was indeed concerned about China’s dependency on the Dollar. During the 2008 global financial crisis, the United States responded to its domestic financial crisis with two rounds of quantitative easing (QE), which generated a serious externality for the international financial system. This incentivized the PBoC to explore ways to balance the power of the Dollar. In March 2009, Zhou Xiaochuan published an article titled “Thoughts on Reforming the International Monetary System,” which argued that “creating an international reserve currency that is decoupled from sovereign states and can maintain long-term stability of the currency value, is an ideal goal of the reform of the international monetary system.” For Zhou, one possible approach was to give the SDR a greater role (e.g., setting up a settlement system between the SDR and other currencies, promoting the usage of the SDR in international trade, commodities pricing, investment). However, even people in Chinese policy circles doubted that

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95 Interviews F3, F4, F5, F6.
97 Zhou.
an SDR-centric currency system would be functional. Many Chinese experts believed that the SDR had not been a successful world currency candidate and that it would not replace the Dollar in the near future. As Pan Yingli notes, to some extent, Zhou’s proposal was “merely about expressing China’s frustration of the current Dollar system.” It was not a practical reform plan.

While some researchers see promoting RMB internationalization as another Chinese maneuver to balance the influence of the Dollar, labeling it “as a coherent ‘strategy’ based on a timetable with theoretical underpinnings…would be inaccurate.” In 2011, Yi Gang, then PBoC’s deputy governor rejected the idea that promoting RMB internationalization was a principal goal of the PBoC. He argued that “the internationalization of the RMB was supposed to be a natural process. With sufficient market demands and optimum institutions, market participants will naturally choose to use the RMB. No extra push was needed.” Similarly, Zhou Xiaochuan explicitly argued in 2012 that “the PBoC did not ‘encourage’ the use of the term ‘RMB internationalization strategy’” because the growing usage of the RMB in the international market was driven by demands. “With the strengthening of the RMB, there were needs for cross-border use of local currency at the corporate and individual levels…It should be said that these factors have created a historical opportunity for the RMB to ‘go global’.” This view is shared by many other PBoC officials. As Han Wenxiu, a former senior PBoC official notes, because the policy circle “never had a high expectation for RMB’s international role,”

98 Interview F3. Pan Yingli also notes the lack of political feasibility of a SDR-centric system, see Pan, *Guoji Huobi Yu Jirong Tixi Gaige Yanjiu [Study on the Reform of International Monetary and Financial System]*, 114–16.
99 Pan, 145.
102 Zhou, “Tuijin Ziben Xiangmu Keduihuan De Gainian Yu Neirong [Meaning and Contents of Promoting Capital Account Convertibility].”
there were no mature and systematic strategies of RMB internationalization.\textsuperscript{103} In this sense, the PBoC’s efforts to support the internationalization of the RMB were more economically motivated (e.g., to help Chinese firms engaged in foreign trade to avoid financial risks, to limit the impacts of US monetary policy on the Chinese economy).\textsuperscript{104}

\section*{4.1.2 Reforming China’s Financial System?}

Understanding the PBoC’s view regarding the international monetary system and RMB internationalization can shed light on its decision to promote the RMB’s SDR membership in 2015. Since RMB’s internationalization was not primarily designed to challenge the Dollar system and elevating the SDR’s role was a project of limited promise, it seems more plausible that the PBoC intended to utilize international pressure to energize domestic reforms.

As noted in section 3, even though China reflected on the pace of capital account liberalization after the Asian financial crisis, it continued to see high-level capital account convertibility as a desirable goal. Dai Xianglong, the former governor of the PBoC claimed that “realizing capital account convertibility was the general strategic mandate set by the Chinese government in 1996. The Asian financial crisis and the 2008 global financial crisis only slowed down [but not altered] the reform process.”\textsuperscript{105} Similarly, Zhou Xiaochuan notes that although the spirit of incrementalism recommended that China start with reforming the easiest parts of the financial system, “we cannot avoid the difficult jobs [in capital account liberalization] … even if

\begin{footnotesize}
\begin{itemize}
\item \textsuperscript{103} Han, \textit{Renminbi Maixiang Guojia Huobi [RMB Ascending Towards an International Currency]}, 218.
\item \textsuperscript{104} Bowles and Wang, “Renminbi Internationalization,” 1377; Yongding Yu, “Bimian Meiyuan Xianjing [Avoiding the Dollar Trap],” \textit{Caijing [Finance]}, 2009.
\end{itemize}
\end{footnotesize}
there are costs associated with the reform.”

In 2012, the PBoC’s research team concluded that although caution on capital account liberalization must be applied, “overemphasizing local preconditions” for capital liberalization (e.g., interest rate and exchange rate reforms, RMB internationalization) “might alienate the incremental reform model into a passive, static one and delay the progress of the reform. The opening of the RMB capital account and its preconditions are not in a simple sequential relationship. Instead, they can mutually reinforce each other.”

This PBoC report showed its intention to speed up capital liberalization rather than to wait for domestic conditions to be ready. As Sheng Songcheng, a senior PBoC official reflected, by 2012, many officials inside the PBoC believed that capital account liberalization reforms could be completed in five years.

Although the PBoC has become increasingly enthusiastic about capital account liberalization since 2010, relevant reforms were slow due to the influence of domestic interest groups and the CPC Center’s hesitation. The PBoC’s reform proposal was much debated in China. Han Wenxiu worried that “if promoting RMB internationalization was made a ‘national strategy’, extreme and distorted policies” might be applied, which would lead to premature financial liberalization reforms. Many other Chinese financial experts also worried that

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109 Interview F3.
110 Han, Renminbi Maixiang Guoji Huobi [RMB Ascending Towards an International Currency], 218.
because China’s capital service market was not open and regulation capacity was not strong enough, liberalizing capital accounts would cause financial risks.  

In this context, the RMB’s inclusion in the SDR basket was a joint project underpinned by an informal deal between the PBoC and the IMF. The IMF relaxed its SDR criteria (i.e., revising the previous definition of “freely usable”—freely convertible or tradable—to a more flexible one— “widely used in international transactions”). This satisfied the PBoC’s preference for “regulated convertibility,” which stated that controls must be applied to illegal transactions and that in crisis times, “self-defense tools” must be kept. However, this was not a very major regulatory change for the IMF for it had already become more tolerant of controls in certain circumstances (see section 1).

Compared with the IMF’s small regulatory changes, China’s domestic reforms were deeper and wider. In 2015, the IMF’s still required quick and deep reforms in China’s financial regulatory system in exchange for the adoption of the RMB in the SDR basket. In 2015, the IMF published a report that contained several reform requirements for China. Those requirements, which focused a lot on capital liberalization and exchange rate marketization, were seen by the PBoC as a reform checklist. With the pressure of SDR evaluation, the PBoC could finally move quickly to reform China’s capital account and other financial regulations. The PBoC’s reasoning was revealed by Zhou Xiaochuan’s last address before his retirement. Zhou said that the RMB joining the SDR basket was “both the product of reform and opening-up and a driving force for further reforms.” He further argued that SDR membership would “trigger ratcheting effects on

111 Interviews F3, F5.
112 Zhou, “Renminbi Ziben Xiangmu Keduihuan de Qianjing He Lujing [RMB Capital Account Convertibility: Future and Approach],” 11–12; See also Da Huang’s forward for Han’s book Han, Renminbi Maixiang Guoji Huobi [RMB Ascending Towards an International Currency].
China’s opening-up.” This means that as the RMB becomes part of the SDR basket, China’s hands will be tied. It can no longer easily roll back the reform efforts. To some extent, Zhou’s remarks supported Yu Yongding and many others’ suspicion that the PBoC’s main intention in 2015 was to use the “glory” of RMB’s SDR membership as a tool to sell its own political agenda to top leaders.

Beyond the capital account, the PBoC even intended to use the opportunity in 2015 to complete its reform of the exchange rate formation system. “The PBoC has been eager to let go of interventions to RMB exchange rates—policies criticized by the IMF—for a very long time. The pursuit of SDR membership gave it a reason to finally take the action.” On August 11, 2015, the PBoC decided to give market forces more power in determining RMB’s exchange rates. This reform, according to the PBoC, was to satisfy the criteria for the RMB’s SDR membership. However, the liberalization of both capital control and the exchange rate formation mechanism in a short period of time unleashed huge depreciation pressure on the RMB and worsened the capital outflow situation. To maintain the stability of the RMB exchange rate, the PBoC spent over US$ 800 billion of its foreign-exchange reserves. “The negative impacts of the August reform did show that the RMB was probably not truly ready for the SDR basket.” This crisis also supported previous concerns about the negative impacts of capital liberalization.

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115 Interview F5.
116 Interviews F4, F5, F6.
117 For very long, the PBoC has intervened the market to keep the RMB exchange rate from straying more than 2% above or below a midpoint it prefers. In the August 11 reform, it declared that the midpoint would be the previous day’s closing value. This effectively took away a policy tool of the PBoC to control the exchange market.
Notably, since late 2015, in response to the capital outflow crisis, incrementalism and policy caution have returned. Xi’s Report to the 19\textsuperscript{th} National Congress of the CPC did not mention “gradually realizing RMB capital account convertibility”—a phrase emphasized in the policy document “Decision on Major Issues Concerning Comprehensively Deepening Reforms” that was adopted by the Third Plenary Session of the 18th CPC Central Committee. Xi instead stressed the importance of improving “the financial regulatory system to forestall systemic financial risks.” In practice, more control measures on capital flows have been applied since late 2015. All these measures worked to ease financial instability, but they also negatively influenced the speed of RMB internationalization.\textsuperscript{119} Such policy changes show that top leaders can alter policy trajectories when they deem it necessary. It is, however, too early to say whether the tightening of capital control is a temporary risk management measure or a new long-term strategy.

### 4.2 Supporting IMF Leadership in the GFSN

The 2008 financial crisis indeed triggered a new round of criticism of the IMF’s effectiveness in global financial governance. However, to what extent did Chinese policymakers want to change the IMF and the GFSN? As noted in section 1, similar to its approach in the 1990s-2000s, Chinese policymakers still showed a much stronger interest in changing power-sharing than in rule innovation. As some researchers document, “US officials who have engaged with China in the G20 report that, in the May 2009 bilateral Sino–US Strategic and Economic

\textsuperscript{119} Interviews F3, F6.
Dialogue, Chinese diplomats repeatedly asked US negotiators to lobby the EU about the vote shares issue on China’s behalf.”120

In the dimension of regulation, however, despite verbal criticisms, China’s trust in the IMF’s governance expertise endured. For example, China still chose to rely on the IMF to strengthen the surveillance of the financial markets of advanced economies. In 2009, Zhu Min, the deputy director of the IMF, who was previously vice-governor of China’s PBoC, supported the IMF’s conditional loan to Sri Lanka, which required reforms in the recipient’s exchange rate system.121 Zhu’s position in this matter showed again the Chinese financial policymakers’ approval of the IMF’s conditionality practices.

Another example of China’s support for IMF conditionality was its choices during the construction of CMIM. As the global financial crisis erupted, some Asian researchers proposed to completely delink the CMI from IMF programs and eliminate conditionality.122 However, although China as a key stakeholder of the CMIM was “in a much better position to play a greater role in shaping its rules and norms,”123 it did not invest much in the rule/norm innovation work. As noted in section 1, instead of exploring alternative financial rescue mechanisms in the CMIM platform, China continued to support the integration of regional financial safety nets and the IMF. As many Chinese experts argue, although IMF conditionality was often considered as too strict, it was nonetheless necessary to apply some conditions in the rescue loans. They asserted that the acceptance of the necessity of conditionalities naturally implies reliance on the IMF, which had the strongest financial surveillance capacity and expertise in promoting

120 Kastner, Pearson, and Rector, “Invest, Hold up, or Accept?,” 171.
reforms. Therefore, linking the CMIM to the IMF was a deliberate effort to maintain the uniformity of global rules of crisis rescue.

To some extent, the AMRO’s close collaboration with the IMF was also due to the lack of rule innovation incentives by countries in the region. Although the AMRO was given tasks similar to those of the IMF (e.g., macro-economic surveillance, developing financial rescue plan), the building of its surveillance and solution-finding capacities relied on the support of regional financial powers, especially China, Japan, and South Korea. However, China’s initial focus was still power-sharing. It worked hard to make sure that a Chinese official served as the first chair of the AMRO. As a compromise with Japan, Wei Benhua, the former deputy administrator of China’s State Administration of Foreign Exchange, chaired the AMRO for only one year in the first three-year term, with Japanese official Nemoto Yangyi completing the remainder of the 3-year term. Apart from influencing the AMRO’s governance structure, China did little to increase the new organization’s governance capacity.

China’s continuous support for the IMF was reasonable, as the IMF had also made some pragmatic changes in its financial governance practices. During the 2008 crisis, the IMF claimed its policy advice and loan programs were “tailored to country-specific circumstances” with fewer structural reform conditions. Outside researchers also observed that the IMF had “narrowed the scope of its contemporary advice for borrowers to tax and spending policies oriented toward fiscal consolidation…rather than promoting the broader structural reforms that were closely associated with IMF programs during the 1980s and 1990s.” In addition, the IMF also

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124 Interviews F2, F6.
125 Interviews F5, F6.
“significantly revised its policy on conditionality, as reflected in its recently introduced Flexible Credit Line, which permits some IMF loans without prior review or *ex-ante* conditionality. In this respect, the delinking of the CMIM from the IMF program may become a less divisive issue between East Asia and external economic powers in the post-crisis world.”

In summary, while the 2008 global financial crisis put China in a favorable place to reform global financial governance, China continued to follow the previous path, which focused on domestic reforms and reforming the power-sharing structure on the international level. The PBoC used promoting RMB internationalization and RMB’s SDR membership as tools to gather momentum for domestic financial reforms. China did participate actively in the construction of the CMIM, but it made few efforts to support research on alternative financial governance rules.

5 Conclusion: Alternative Accounts and Theoretical Implications

In this chapter, I first clarified China’s relationship with the IMF on the normative/regulatory dimension. While I agree with the argument that China could be considered as a reformer in the power-sharing dimension, I argue that in the normative dimension, China is still a follower. China not only adopted the IMF’s capital liberalization norm but also lacked interest in delinking mini-lateral financial safety nets (e.g., the CMIM) from IMF conditionalities. This is different from China’s choices in the IDC case that was analyzed in chapter 3. I then traced the historical processes leading to the construction of the liberal financial beliefs in China’s policy community. I showed that the pro-rule adoption policy norm was constructed in the 1980s-1990s as China heavily relied on the IMF’s support to construct its

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modern financial system. While the Asian financial crisis and the 2008 global financial crisis did bring incrementalism to China’s financial reform efforts, China did not gain sufficient incentives to conduct norm innovation. In the meantime, with much political energy devoted to domestic reform, China has also acted passively in regional financial cooperation.

The empirical study in this chapter speaks to several approaches. First, structural realists would argue that as China’s relative material power increases, it will gain stronger incentives to reshape rules of international relations in its favor.129 As I noted in section 1, China indeed took efforts to promote reforms in the IMF’s governance structure.130 However, I argue that if we consider the regulatory/normative implications of China’s so-called reformist activities, we could see that China still tends to integrate into rather than depart from the existing global financial governance order.

Second, I agree with the argument that China’s embrace of Asian financial co-operation was partially driven by its intention to reduce the “China threat” perception.131 However, this factor neither necessarily generated China’s enthusiasm to reform its domestic financial system nor discouraged it from exploring alternative financial rescue plans. After all, since the Asian financial crisis, many Asian countries have desired a mature and independent CMIM as a regional alternative to the IMF. China’s position was the opposite of developing countries’ wishes.

Third, the national interest approach certainly explains China’s efforts to promote RMB internationalization. However, the capital account and exchange rate liberalization reforms

following the RMB’s inclusion in the SDR basket have caused instability in China’s financial system. In this sense, it is fair to argue that the PBoC’s cost-benefit analysis about the SDR issue was heavily influenced by its beliefs about the best financial governance practices, which might not have been the best choice.

All in all, this case again shows that the absence of homegrown governance knowledge can constrain China’s capacity to reform global governance on the normative/regulatory dimension and make China more open to foreign ideas. Driven by a liberal policy community, normative integration into the IMF system has become the routine and policymakers in China seldom considered to develop alternative financial governance rules and norms. As a result, China’s domestic and international activities in the financial realm seldom challenged the IMF’s normative dominance. Although the norm evolution outcome of this case is similar to that of the climate case in chapter 4, their trajectories of policy deliberation differ. While the incentive to learn foreign knowledge in the climate case followed a negative evaluation of policy experiments based on local ideas, in the financial governance case, learning took place as a result of the absence of transferable local ideas. No local-centric policy experimentation has been conducted.
Chapter 6
Conclusion

My overarching conclusion in this dissertation is that in the regulatory/normative dimension of global governance, China’s general approach cannot simply be categorized as revisionism (as argued by power transition theorists) or status-quo (as argued by some liberalists) but should rather be defined as pragmatism. China’s choices of governance rules and norms vary across issue areas: sometimes, the choice has been to construct local norms and rules; sometimes it has been to import foreign ideas and revise domestic policies accordingly. Such variations cannot be explained by system-level theories of major power behavior. China’s global governance strategies have been constructed through the logic of local policy deliberation, a socio-political mechanism centering on local policy communities’ internal policy reflection, experimentation, and evaluation. Acharya once called for the development of “a Global IR.” He points out that “a key challenge for Global IR is to develop concepts and approaches from non-Western contexts on their own terms and to apply them not only locally, but also to other contexts, including the larger global canvas.” 1 He also notes that the Global IR program challenges existing IR theorists to “rethink their assumptions and broaden the scope of their investigations.” For example, it pushes “constructivism to fulfill its unrealized agenda in terms of taking stock of different forms of agency in the creation and diffusion of ideas and norms.” 2 My dissertation is an answer to that call. I seek to both address the broad question of “whither world

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1 Amitav Acharya, “Global International Relations (IR) and Regional Worlds: A New Agenda for International Studies,” International Studies Quarterly 58, no. 4 (2014): 650; See also Amitav Acharya and Barry Buzan, Non-Western International Relations Theory: Perspectives on and beyond Asia (Routledge, 2009).

order” and to revise IR theorization of local norm dynamics. Wang Yizhou, a prominent Chinese IR scholar once encouraged researchers to open the black box of China’s foreign policy-making.³ My work is also such an attempt, which seeks to break open the black box and investigate the dynamics of policy ideas and practices inside China’s key policy bodies. In this concluding chapter, I first summarize my main theoretical arguments and empirical findings. I then offer some reflections on three questions. First, what are the broader implications of this research for understanding the transformation of global governance? Second, how does the theory synthesis work in chapter 2 contribute to the constructivist theorization of local norm dynamics? Finally, what future research projects may stem from this dissertation?

1 Main Arguments and Findings

I began my project with an empirical puzzle: while China is seemingly committed to building ideational leadership in global governance, why do its approaches to Western global governance rules and norms still vary across issue areas—sometimes favoring transnational learning and idea importation, and sometimes preferring local innovation? I argued that some IR approaches (such as power transition theories, the liberal optimism approach, and the identity theory) suffered from a holism failure: they saw China’s international behavior as being determined by a unitary strategy or identity, which did not fit with the complicated reality. I further argued that IR approaches that emphasized national interest and domestic interest groups could not go far enough to explain China’s choices of global governance rules/norms. On the

theoretical dimension, the linkage between interests and the selection of norms and rules is often not straightforward. The fact that interests themselves are social constructs makes the national interest approach a less useful analytical tool. In several cases I studied, I did observe policies that were counterproductive from a rationalist perspective. Concerning the domestic interest approach, I agree on its emphasis on the central role of domestic policy formation processes in shaping a country’s international behavior. However, I argue that in the Chinese context, domestic interest groups’ policy impacts should not be overstated. Actors outside of the policy community in charge (e.g., SOEs, NGOs) alone are insufficient to shape China’s global governance strategies. Tracing the policy development processes in the empirical cases also reveals the limited normative impacts of domestic interest groups. These reflections and findings call for a theoretical framework that focuses on the social construction of policy beliefs in a special kind of local actor—local policy communities.

In chapter 2, I developed a theoretical framework that synthesized theories of transnational idea diffusion, norm localization, and social practice. I argued that varied dynamics of China’s global governance strategies—local innovation versus idea importation—were determined by varied policy deliberation trajectories within local policy communities. My framework places great emphasis on cognitive dynamics at the community/bureaucracy level. I believe that policy communities are where a country’s global governance strategies (i.e., norms, rules, practices) are constructed, though its activities in other dimensions (e.g., institutional investment, struggle for power-sharing) can be shaped by different logics. Building on the pragmatist theory of norm change, I argued that local policy deliberation was a pragmatic

4 For example, China’s decision about institutional investment can be shaped by the international opportunity structure it perceives. Policy outcomes on this material dimension are largely results of rational calculations from a diplomacy angle. See Kastner, Pearson, and Rector, China’s Strategic Multilateralism.
mechanism, the trajectory of which might be determined by two processes: (1) policy reflections on orthodox local governance norms and practices; (2) was the challenged local policy community’s conduct and evaluation of local policy experiments. The first process is the trigger of policy deliberation and norm change. Without it, the policy community’s resistance to novel ideas (either local or foreign ones) is hard to break. In the second process, local policy communities tend to use local ideas for policy innovation, rather than importing foreign ideas directly. However, failing to develop an effective governance strategy based on local ideas can generate strong political momentum for idea importation. Multiple factors—local, international, social, political, and material—can influence the manifestation of the policy deliberation mechanism. However, those factors’ policy impacts are shaped by local policy communities’ interpretations. My framework is thus a process-based one with moderate causal claims.

In the empirical chapters, I applied this framework to specific cases and checked whether the theory can provide clearer guidance to navigate the policy development processes in those cases. Chapter 3 showed that the contemporary Chinese IDC strategy was a production of local policy deliberation that took place in the 1980s-2000s. During that period, Chinese policymakers, especially those in the MOFCOM, drawn from several ideational sources—legacies of the Maoist foreign aid model, China’s own project implementation and financing practices, and a simplistic interpretation of the Chinese development model—and constructed the post-Mao IDC model. This IDC strategy was based on fragmented practices rather than on mature development theory or careful top-level design. Nevertheless, these practices have received a strong political endorsement as they met the narrowed goals of the MOFCOM—maintaining project portfolio, quality, and sustainability. In this chapter, I also found that the launch of the BRI had given Chinese IDC policymakers new tasks and more responsibilities (e.g., controlling risks, improving developmental impacts of IDC programs/projects). I argued
that these changes might trigger a new round of local policy deliberation, which might open new space for learning and innovation.

Chapter 4 presented a different kind of local idea dynamic in the climate governance case. I traced the processes leading to China’s adoption of the ET. I argued that although China did encounter ET-like ideas in the early 2000s, ET was not a favorable idea until much later. It was the rising incentive to develop an independent climate governance policy framework that opened more space for novel climate governance ideas. It was due to the negative performance of the C&C-based policy experiments and the NDRC’s political interests that ET won the idea competition with C&C and carbon taxation. Although factors such as international pressure, idea entrepreneurship, and local interests all had some policy impacts, the key determinant of the policy selection outcome was the climate policy community’s evaluation. Though ET is a case of domestic public policy-making, it is used to show the logic behind the great transformation of the cognitive status of China’s climate policy community and to help us understand the lack of incentives for local norm innovation.

Chapter 5 further showed the importance of local knowledge and the local policy community in shaping China’s norm-oriented international behavior. I showed that the local norm dynamics in the financial governance field was unique, as the construction of the policy community (the core being the PBoC) from the very beginning relied on Western knowledge. Throughout history, the PBoC has served as a promoter of financial reforms in China. Regarding regulations of the capital account, the PBoC has promoted the adoption of IMF rules. It has also lacked the interest to study or experiment with financial rescue approaches that might provide alternatives to the IMF. Such a passive behavioral pattern in the regulatory dimension has remained intact despite challenges of the two financial crises. This case study again shows the
value of tracing the origin of Chinese norms and practices on the international level back to the
cognitive dynamics in local policy communities.

Through tracing the historical evolution of China’s global governance strategies in these
three cases (see a summary of findings in Table 6-1), I showed that my framework not only
accounts for the historical construction of Chinese global governance norms and practices in
each case but could also travel across cases and explain variations of norm change trajectories
and outcomes.

Table 6-1: Summary of Analytic Narratives

<table>
<thead>
<tr>
<th>Presence of Processes</th>
<th>Outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Problematization of the orthodoxy</td>
<td>Transferable local ideas</td>
</tr>
<tr>
<td>Orthodoxy Changed:</td>
<td>Policy evaluation on</td>
</tr>
<tr>
<td>Climate Governance (2007-2010)</td>
<td>local idea-informed</td>
</tr>
<tr>
<td>Orthodoxy Changed:</td>
<td>trajectory</td>
</tr>
<tr>
<td>defensive climate diplomacy</td>
<td>Yes: C&amp;C</td>
</tr>
<tr>
<td>Orthodoxy Remained:</td>
<td>Negative</td>
</tr>
<tr>
<td>general principles, request-driven, some specific</td>
<td>Idea Importation:</td>
</tr>
<tr>
<td>IDC (1980s-2000s)</td>
<td></td>
</tr>
<tr>
<td>Orthodoxy Changed:</td>
<td>Positive</td>
</tr>
<tr>
<td>development knowledge promotion, resource-</td>
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<td>allocation approaches, “blood transfusion” aid.</td>
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<td>Transferrable local ideas: hard-infrastructure, domestic</td>
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<td>project implementation and financing methods</td>
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<td>Chinese IDC strategy 2.0</td>
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2 Rising China and the Transformation of Global Governance

As noted in chapter 1, this dissertation tackles the broad question of the transformation of global governance. With the rise of emerging powers, uncertainty about the future of the liberal world order has been increasing. In Acharya’s words, although the United States is still the most powerful country in the world, “it is no longer in the position to create the rules and dominate the institutions of global governance and world order in the manner it has done for much of the post-World War II period.”\(^5\) China’s international behavior attracts special academic and policy

attention worldwide due both to China’s strong material power and to its non-Western culture and political system. However, most IR works on China’s international engagement either focus on the grand strategic analysis or simply point out the complexity of China’s behavior without systemically examining reasons for such complexity. When scholars do try to develop an explanation, they often simply attribute the behavioral complexity to China’s “interests.” Such a convenient explanation is not analytically useful as it does not tell us anything about the origin of China’s diverse interests. One exception is Pu Xiaoyu’s recent book on China’s “status signaling,” which traces the decision-making processes of China’s signaling activities (i.e., when does China frame itself as a major power, and when does it signal a developing country status). Similar to Pu’s work, this dissertation also emphasizes China’s behavioral variation, although from a unique angle—China’s engagement with Western global governance norms and rules. In this way, this study is different from Kastner and his colleagues’ work, which focuses on China’s regime maintenance/creation practices—investment, hold-up, and free-riding—and does not investigate China’s activities of rule/norm adoption and innovation.

An important implication of this research is that China is not a reformer or innovator all the way down, especially in global governance issue areas that require concrete and operational governance solutions. Simply being dissatisfied with existing Western norms and rules is insufficient to make China take reformist actions in the normative dimension. China does have more local ideational sources potentially useful for constructing homegrown global governance solutions. However, as a pragmatic actor who constantly reflects on its governance strategies’

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6 An example of linking China’s international impacts to authoritarianism can be seen in Larry Diamond, Marc F. Plattner, and Christopher Walker, Authoritarianism Goes Global: The Challenge to Democracy (JHU Press, 2016).
7 Xiaoyu Pu, Rebranding China: Contested Status Signaling in the Changing Global Order (Stanford University Press, 2019).
8 Kastner, Pearson, and Rector, China’s Strategic Multilateralism, 223.
performance, China tends not to promote governance plans its domestic policy bodies deem premature. It can also be open to Western ideas when local policy deliberations generate strong uncertainty about the performance of old and new local ideas and thus strong incentives for transnational learning. Throughout the study, I argue that to understand the social construction of China’s perceptions about different global governance plans, we need to go beyond foreign policy documents and to open the black box of domestic policy formation and study specific policy communities’ changing beliefs.

Building on the above discussions, I argue that the pragmatist logic can help to develop a larger thesis about China’s thinking on global governance reform, one that can reconcile China’s apparent reformist actions—developing alternative general discourses such as Tianxia—and its varied governance practices. I argue that the reform philosophy deeply entrenched in Chinese elites’ beliefs in the post-1978 era may serve as an ideational roadmap that guides China’s behavior in today’s global governance. I call this “the reform and opening-up playbook.”

The reform and opening-up, which began in 1978, was a process dominated by incrementalism and pragmatism. Yuen Yuen Ang’s “directed improvisation” model clarifies two key pillars of the reform. On the one hand, to create space for new ideas and policy experimentation, the CPC Center broke the ideational monopoly of the orthodox Maoist ideology. This was done through a series of social, ideational and political campaigns, such as the publication of the Guangming Dail’s article “Practice is the Sole Criterion for Testing Truth” (1978) and Deng Xiaoping’s most famous speech, “Emancipating Our Minds, Seeking Truth from Facts, Unite as One, and

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Looking to the Future” (1978). On the other hand, with the space for innovation opened, China then started to develop concrete plans for domestic governance and economic development. In this process, special economic zones (SEZs) have served as policy innovation and experimentation sites tasked with providing tested novel policies to the rest of the country.11

Applying a policy analogy approach,12 we can argue that China is now applying the “reform and opening-up playbook” to its engagement with the current global governance system. To some extent, President Xi Jinping’s promotion of the “Community of Shared Future for Mankind” concept can be seen as the international version of the two aforementioned 1978 documents. Similar discursive actions can be seen in Xi’s speech at the Ceremony Marking the 95th Anniversary of the Founding of the CPC, in which Xi states that the “question ‘what kind of international order and global governance system is good for the world and for the people of all countries’ is to be determined by the collective deliberation of the people of all countries, rather than by…a small group of people.”13 Such statements did not provide a clear articulation of China’s own plan of global governance reform, but by emphasizing the inclusiveness of global governance, China intends to break the Western monopoly of best global governance practices and to create new space for governance innovation and experimentation. In this context, China’s more substantive activities, such as launching the BRI, can be seen as SEZ-style policy innovation and experimentation attempts. China is indeed trying to develop some alternative

11 Ang, How China Escaped the Poverty Trap, 2016, 82.
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global governance plans in the BRI platform, but the pragmatist reform philosophy will
discourage China from forcefully promoting governance strategies with bad performance to the
world.

However, a natural deduction from the above discussion is that China’s choices in global
governance may not only be determined by China itself. Perhaps equally important is the
feedback China receives from its international engagement. While China can be a pragmatic idea
taker, the West must be a qualified norm entrepreneur, who has effective solutions to global
problems and is flexible in its engagement with China. The West is doing a good job in some
cases. For example, in the climate case, the West’s leading-by-doing approach has worked well.
Through promoting China’s own policy deliberation and collaborating with China when it was
ready to import new ideas, the West successfully promoted policy changes in China. However,
as the IDC case showed, the West has used strategies like stigmatization in their engagement
with China. Many of the Western criticisms of China’s IDC are not backed by solid evidence and
often contain ideological bias.\textsuperscript{14} The blame game may only help to unite and solidify the Chinese
policy community, which then closes the door for idea exchanges and mutual learning. In the
meantime, although the BRI has created a golden opportunity for Western influence on China’s
IDC, the West, responding very passively to the initiative, is not taking such an opportunity.

To emphasize, I am not claiming that the West cannot change China at all. I simply argue
that changes in China’s policies can be promoted through constructive engagement, in which the
West and China work collaboratively and deliberate collectively. In this process, the West also

\textsuperscript{14} For example, criticisms like the “rouge aid” argument are proven false. See Naim, “Rogue Aid”; Dreher and
Fuchs, “Rogue Aid?” In addition, in January 22, 2019, \textit{Wall Street Journal (Chinese edition)} posted a news article
about China’s deal with Cameroon on a US$ 5.2 billion debt relief. This is quickly proven fake, because the number
even exceeds Cameroon’s total Chinese debt. The actual volume of debt relief was US$ 72 million and only on low
interest-rate loans. This is a huge blow to the credibility of Western media. See discussions about this fake news in
needs to embrace changes when necessary. In this way, a truly “global” governance (or what
Acharya calls a “multiplex world”) can be created.15

3 Pragmatism, Community, and Local Norm Dynamics

In chapter 2, I pushed forward constructivist theorization of local norm dynamics using
the pragmatist theory as a hook. Pragmatism is an approach that is flexible enough to incorporate
multiple variables around a central mechanism. Using the pragmatist logic of norm reflection,
innovation, and selection, I was able to synthesize several constructivist approaches.

Agreeing with practice theory, the pragmatist framework also emphasizes the profound
influence of practical knowledge.16 This is reflected in my two theoretical arguments: first, local
policy communities tend to resist foreign influence when their practices are stable; second, under
uncertainty, policy communities tend to rely on local ideas, which are borrowed from other issue
areas or accumulated through improvisation, to develop new governance strategies. These
arguments echo Pouliot’s argument that “in the social world, practices elicit practices elicit
practices, etc.”17 As the empirical studies showed, this approach did seem to fit with reality.
Especially in the IDC and climate cases, I did observe that local ideas enjoyed some advantage in
the early policy deliberation stage.

Unlike Pouliot’s practice theory, however, my framework does not deny the viability of
transnational idea diffusion and localization mechanisms. Although I did argue that local
deliberation is a mechanism that is superior to transitional diffusion, I argued that the out-side-in

15 Acharya, The End of American World Order.
16 Schmidt, “Foreign Military Presence and the Changing Practice of Sovereignty.”
17 Bennett and Checkel, Process Tracing, 239.
idea diffusion processes might take place when local conditions are set—by pragmatic local deliberations. Compared with norm diffusion theories, my pragmatist framework of local norm dynamics gives local actors more agency, not only in terms of their capacity to resist foreign influence but also in their ability to conduct pragmatic policy reflection, innovation, and experimentation. I believe that I have developed an “agent-oriented” constructivist approach—as advocated by Acharya, which tells “how actors…through their material, ideational, and interaction capabilities, construct, reject, reconstitute, and transform global and regional orders.”\(^{18}\) In this sense, my framework aims to bridge pragmatism, practice theory, and idea diffusion theories. This is different from Pouliot’s task: to theorize an alternative behavioral logic— “the logic of practicality”—that is independent of other constructivist theories.\(^{19}\)

Because my theoretical framework is based on processes rather than on causal factors, it cannot predict policy outcomes without examining the cases in detail. However, the theoretical framework is not purely descriptive, as it provides a theory-based analytical cookbook. The theory directs researchers to pay special attention to several factors and processes when doing policy analysis: the nature of the policy community, its background knowledge and normative beliefs, its reflections on those orthodoxy (if any), similar local policy ideas that can be borrowed (if any), the policy community’s particular interests in certain ideas (if any), and its evaluation of relevant local policy experiments’ performance. The focus on local policy deliberation directs us to avoid overestimating the influence of factors such as local interest groups and international pressure (or entrepreneurship). Such a framework and analytical cookbook can be taken to other cases. I argue that by figuring out these local contexts, we can

\(^{18}\) Acharya, “Global International Relations (IR) and Regional Worlds: A New Agenda for International Studies,” 651.
\(^{19}\) Pouliot, “The Logic of Practicality.”
foresee local policy community’s choices: not only the choice between foreign and local ideas but also the choice of a specific idea (e.g., ET versus carbon tax).

However, the theory is not without limitations. Because this theoretical framework is developed based on the Chinese context, I do not want to overstate its generalizability. As discussed in chapter 2, although I believe that policy community is a valuable analytical focal point, I do think that in other countries, local political communities may not be as coherent or as resilient to external influence as those in China. This will not reduce the analytical usefulness of the general policy deliberation mechanism but will influence the applicability of the theoretical assumption about the central role of local bureaucracy in shaping policy selection outcomes. If local policy communities do not enjoy high autonomy and authority, the policy selection process can be much more complicated with many actors—both domestic and international ones—competing and bargaining with each other. This may make it much hard to tease out the central mechanisms and key agents at play. In this sense, focusing on China’s cases is ideal for the construction of a simplified framework, but adjustments are needed before the framework is applied to other contexts.

Another controversial component of my research might be the method I use. As the “research design” section of chapter 2 and the empirical chapters showed, I have relied a great deal on my interpretations of government documents and elite opinions. This approach follows a standard constructivist methodology, which focuses on understanding “what is that social actors…believe to be real.” Because the analytic narratives were constructed based on my own interpretations and reflections, I cannot guarantee that the story satisfies every point of view. In this regard, I agree with Pouliot’s argument that “the best criterion to assess the relative validity

20 Pouliot, “‘Objectivism,’” 364.
of an interpretation is its *incisiveness*, that is, its capacity to ‘see further’ than previous interpretations.”²¹ However, I must emphasize that qualitative data is examined carefully through triangulation.

### 4 Future Research

This dissertation is a comparative case study but focuses exclusively on cases within China. It is suitable for theory development but is only a first step towards larger programs on theory development and testing. First, an obvious agenda for future research is to continue tracing the processes of post-2018 policy deliberations in my cases. As discussed briefly in the empirical chapters, an important event took place in late 2017, when the core bureaucracies of IDC and climate governance were changed by the CPC Center’s order. Therefore, it will be interesting to see the local norm dynamics under the leadership of new bureaucracies. For example, will the MEE bring in more C&C-like policies to the climate field? Will carbon taxation be brought back to the policy discussion? How will all these factors influence the building and operation of the China ETS? How will different policy measures in the climate and the pollution control fields interact with each other? For the IDC case, as the NDRC is gaining a much stronger policy influence under the BRI, how will it promote its own understanding of development to the IDC field? Now that China has an independent and professional IDC agency, what changes will the new vice-ministerial level bureaucracy bring about?

Another obvious path ahead is to add more case studies in the larger research program on the interactions between Western and non-Western actors. The cases in this dissertation are

²¹ Pouliot, 379.
selected based on their varied policy development outcomes. They also serve to illustrate the operation of three policy deliberation routes. However, this small number of case studies do not provide sufficient confidence for the generalizability of the framework. Adding more cases of China’s global governance choices, such as its unique approach to international peacekeeping, will better showcase the explanatory power of the framework. In addition, adding more cases of local norm innovation by other countries may provide more opportunities to either illustrate the theory or to revise it.

Third, by basing the analysis on more case studies that exclusively focus on local innovation, I am looking forward to exploring a general theory of idea innovation in global governance. I can even go beyond a focus on cases in the developing world and examine cases of innovation in the developed world. I may then compare cases of innovation conducted by the EU and the United States (e.g., the creation of ET, US efforts to change the international trade regime) with those conducted by Southern countries (e.g., Brazil’s development assistance ideas) and see whether they have different patterns and mechanisms of social production.

Finally, because the focus of my dissertation is on activities on the local level, another piece of the story is not addressed, i.e., local activities’ global impacts. Different from power transition theorists, I believe that changes in global governance can be made through a rather healthy “governance competition,” in which different actors push each other to accelerate governance innovation and to perfect the system. I once argued that in the IDC field, some early evidence showed that emerging donors’ practices had pushed the World Bank to conduct more

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22 See for example, He Yin’s work. Although his work also uses the practice theory, he simply emphasizes the importance of “fields” on the production of practical knowledge, without discussing the mechanism of social construction. He, “Guifan Jingzheng Yu Guifan Hubu: Yi Jianshe Heping Weili [Norm Competition and Norm Complementary: The Case of Peace-Building].”

23 This is emphasized in Acharya’s “global IR” agenda. Acharya, “Global International Relations (IR) and Regional Worlds: A New Agenda for International Studies.”
active governance innovation (e.g., the Program-for-Result Lending). Such innovations are not “race to the bottom” but are driven by creative and cautious policy deliberations.\textsuperscript{24} However, the mechanism of this governance competition is not yet fully theorized, and there are not enough case studies on this topic.

5 Concluding Remarks

Let me conclude the dissertation by coming back to the 1978 Guangming Daily article “Practice is the Sole Criterion for Testing Truth.” This article was the ideational trigger of a nationwide discussion on the orthodox Maoist ideology, which set the precondition for the reform and opening-up. Since then, China has incrementally constructed a policy environment that values substantial performance rather than fixed ideologies. In this sense, we can argue that China is a country that is good at learning from its past and making pragmatic judgments about optimal policies. Its development achievements were built on the spirit of inclusive and pragmatic reform. As I showed throughout the dissertation, China’ s global governance choices were not constructed based on unitary reformist/revisionist grand strategies but on its pragmatic assessments of the best ways to govern global issues. Such political deliberation mechanisms may be influenced by multiple factors. These deliberations do not necessarily produce optimal policy outcomes. However, China will not stop reflecting, learning, and innovating. If the pragmatism reform philosophy is fully applied to the international level, and if the targeted

global governance system and orthodox global governors are open and inclusive, we will eventually make the global governance system more dynamic and truly “global.”
## Appendix 1 List of Interviews and Meeting Notes

**Interviews (52 in total)**

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<tr>
<th>Code</th>
<th>Person description (affiliation)</th>
<th>Date, location</th>
<th>Case</th>
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<td>Interview (C) 1</td>
<td>A researcher at a climate research institute of the central government</td>
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<td>An international carbon market expert based in Hongkong</td>
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<td>A manager of China Beijing Environmental Exchange (CBEEX)</td>
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<td>Huw Slater, Research and Project Manager of China Carbon Forum</td>
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<td>A professor and PBoC advisor at a university in Shanghai</td>
<td>11/22/2017, Shanghai</td>
<td>Finance</td>
</tr>
<tr>
<td>Interview (F) 6</td>
<td>A researcher and PBoC advisor at a government research institute in Beijing (b)</td>
<td>12/07/2017, Beijing</td>
<td>Finance</td>
</tr>
</tbody>
</table>

**Meeting Notes (13 in total)**

<table>
<thead>
<tr>
<th>Code</th>
<th>Event description, participants description</th>
<th>Date, location</th>
<th>Case</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meeting (C) 1</td>
<td>Academic meeting on stakeholders’ role in climate governance and climate diplomacy (NGOs, officials, researchers)</td>
<td>12/07/2016, Shanghai</td>
<td>Climate</td>
</tr>
<tr>
<td>Meeting (C) 2</td>
<td>Academic meeting on climate governance under the Trump era (officials, NGOs, researchers)</td>
<td>04/08/2017, Beijing</td>
<td>Climate</td>
</tr>
<tr>
<td>Meeting (C) 3</td>
<td>Public meeting on the IEA’s new report on clean technology (officials, IEA representatives, NGOs, researchers)</td>
<td>06/12/2017, Shanghai</td>
<td>Climate</td>
</tr>
<tr>
<td>Meeting (C) 4</td>
<td>Academic meeting on NGOs’ role in climate governance and climate diplomacy (officials, NGOs, researchers)</td>
<td>06/25/2017, Beijing</td>
<td>Climate</td>
</tr>
<tr>
<td>Meeting (C) 5</td>
<td>Academic meeting on economic decarbonization in China (researchers, government advisors, front-line practitioners)</td>
<td>09/23/2017, Shanghai</td>
<td>Climate</td>
</tr>
<tr>
<td>Meeting (C) 6</td>
<td>Public meeting on policies and practices of the China ETS (over 500 participants, including officials, government advisors, company representatives, representatives of carbon exchange institutes, and researchers)</td>
<td>09/23-24/2017, Beijing</td>
<td>Climate</td>
</tr>
<tr>
<td>Meeting (D) 1</td>
<td>Public meeting on CSR issues of Chinese SOEs overseas (Chinese NGOs, officials, researchers)</td>
<td>05/17/2017, Beijing</td>
<td>Development</td>
</tr>
<tr>
<td>Meeting (D) 2</td>
<td>Academic meeting on SOEs’ activities under the BRI, (SOE representatives, researchers, officials)</td>
<td>05/22/2017, Shanghai</td>
<td>Development</td>
</tr>
<tr>
<td>Meeting (D) 3</td>
<td>Public event on international energy cooperation under the framework of BRI (officials, representatives from private sectors, researchers from both Chinese and international institutes/universities)</td>
<td>06/26/2017</td>
<td>Development</td>
</tr>
<tr>
<td>Meeting (D) 4</td>
<td>Academic meeting with staff members of the NDB (staff members of the NDB, researchers)</td>
<td>07/28/2017, Shanghai</td>
<td>Development</td>
</tr>
<tr>
<td>Meeting (D) 5</td>
<td>Academic meeting on Sino-African cooperation (officials, NGOs, researchers from both Chinese and international institutes/universities)</td>
<td>11/03-05/2017, Beijing</td>
<td>Development</td>
</tr>
<tr>
<td>Meeting (D) 6</td>
<td>Public event on south-south cooperation in agriculture (officials, diplomats, researchers from both Chinese and international institutes/universities)</td>
<td>12/04/2017, Beijing</td>
<td>Development</td>
</tr>
<tr>
<td>Meeting (F) 1</td>
<td>Academic meeting on the global financial crisis and global financial governance (officials, government advisors, and researchers from both Chinese and international institutes/universities)</td>
<td>09/05-06/2017, Shanghai</td>
<td>Finance</td>
</tr>
</tbody>
</table>
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