
Chinese Foreign Policy in the 21st Century: Insights from the Two-Good Theory

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Preface

We analyze recent trends in Chinese international behavior through the use of the two-good theory of foreign policy. That general theory has states pursuing two desired goals - change and maintenance, which refer to their abilities to alter or to protect specific aspects of the status quo. The extent to which countries pursue change and maintenance is a function of state preferences and of the relative capabilities of the country. The theory has been tested in other circumstances and has been shown to explain international behavior well. In this paper we introduce our theory briefly and apply it to three components of Chinese foreign policy - the initiation of international conflict, the formation of alliances, and the donation of foreign aid. We find that the incidence of the Chinese initiation of international conflict is strongly affected by the growth of its economy. Nonetheless, our analysis indicates that, generally, China is significantly less active in seeking to bring about change in the international system than is sometimes alleged. Further, we argue that China has moderated its foreign policy in response to Western diplomatic overtures. We suggest that continued attempts to engage China diplomatically may prove fruitful.

Introduction

The current generation of American foreign-policy decision makers faces a unique challenge. Having grown up in the fifty years following WW II, their attitudes and thinking are grounded in the Cold War mentality. During that period, the focus of American foreign policy was clear - to defend the country and its allies against the Soviet Union. Virtually every aspect of American foreign policy was evaluated in terms of its effect on the U.S.-Soviet relationship. The American military was designed to defeat the Soviets, its alliances were constructed to contain the Soviets, the primary concern in the third world was with keeping those countries from falling into the Soviet sphere of influence. The Cold War provided not only the goal of American foreign policy, but the foundation on which to base an understanding of world events. Any unpleasant occurrence could be explained as having been orchestrated by the Soviet enemy.
This convenient conceptual framework was a casualty of the dissolution of the Soviet Union and corresponding end to the Cold War. No longer was the purpose of American foreign policy clear and no longer was there an obvious culprit on which to place blame when things went wrong. The most important challenge facing the post-Cold War generation of American foreign-policy decision makers is to develop a new foundation upon which to base an understanding of events and an evaluation of policy alternatives. Some have seen simply the end of a threat and have viewed this end as an opportunity to scale back America's global involvement. Others have seen this as a chance to re-orient foreign policy around a completely new way of thinking (i.e., one that is not based on a power politics vision of the world). The most common reaction, however, has been to change little about the way in which one thinks about foreign policy except for the identity of the primary enemy.

Some have identified an enemy located, somewhere, within the Arab world, others see the Japanese (or European) economic threat as pre-eminent, and some worry about immigrants and drugs from Latin America; but, the main concern is usually with China. China has many features in common with the former Soviet Union. It is a large, populous, Communist country that is relatively well-endowed with natural resources. It has a large army and a demonstrated nuclear capability. Though not nearly the equal of the U.S. in economic wealth or technological sophistication, its rate of advance in both is rapid. It is generally presumed that China is dissatisfied with the current structure of the international system and is somewhat jealous of the American hegemonic position. China has unresolved territorial disputes with many of its neighbors and a history of enmity with most. While there is little fear that China poses an imminent threat to vital American interests, there is a concern that the level of this threat could grow substantially in the near future. Even the recent economic turmoil in Asia has not eliminated this concern. Economic downturns may delay China's rise, but they are unlikely to halt it permanently.

A view of the world in which China replaces the Soviet Union as the main threat to American interests begs several questions. First, it is not obvious that the realist/power politics perspective is, or ever was, an appropriate guide to policy. The levels of threat
emanating from the international system generally or individual states specifically play central roles in the realist perspective. Policy makers are forced to respond to threat by viewing other state's capabilities in their most dangerous light, by viewing other state's intentions as unremittingly hostile, and by requiring that the response negate the danger of the threat. During the Cold War, the manifestation of the realist perspective applied to the United States was, of course, the policy of containment. The implementation of containment may very well have led the U.S. to engage in behaviors that created more threat and danger than they alleviated. In short, there may not be, and we may not need, an arch enemy, and creating one may do more harm than good.

Second, even if the U.S. is destined to clash with someone who is dissatisfied with American hegemony, it is not clear that it is the Chinese. Other countries (e.g., Japan or Germany) or combinations of countries (one thinks of Europe) may represent greater and more immediate threats to the Pax Americana. Concerns that China represents the next great threat are driven primarily by superficial considerations; that is, that it is communist and potentially very powerful. Largely on that basis it is assumed that Chinese interests are inimical to American interests. It would be useful, however, to establish empirically whether China is unhappy with the international status quo and that is making attempts to alter it. To develop policy under the (mistaken) belief that China is an expansionist, inevitably hostile country might serve only to create the feared situation.

Last, regardless of how one answers these first two questions, it is far from clear what the U.S. should do. If China is going to challenge the U.S. at some point in the future, the U.S. can adopt two strategies: it can attempt to forestall (or end) that challenge by impeding Chinese economic growth, or it can accommodate Chinese interests so that the People's Republic has no incentive to overturn the prevailing status quo even if it has the ability to do so. In any case, attempts to answer this final question are futile until the first two have been addressed.

Our purpose in this paper is to focus upon the first two of these questions. We do so by applying the general theory of foreign policy that we have been developing in previous
work to an analysis of Chinese foreign policy. The theory differs from realism in important respects—primarily in the assumptions made regarding the goals of foreign policy and the role of domestic politics on foreign policy. Basing a discussion of Chinese foreign policy on this theory provides a novel interpretation of recent Chinese behavior and offers what we believe is a superior basis from which to forecast future trends. In the next section, we provide a brief introduction to our theory. We discuss the fundamental assumptions upon which it is based and we develop the hypotheses that follow. We then show how this provides expectations about, and explanations of, the foreign policy behavior of specific states. We demonstrate the usefulness of this theory in the Chinese case by showing that it provides a solid explanation for Chinese behavior in the era following the communist revolution. We do this by showing that the behaviors and trends that occurred in Chinese foreign policy were consistent with expectations derived from our theory. We then use the theory to offer forecasts regarding future directions in Chinese foreign policy.

**A General Theory of Foreign Policy**

A fundamental premise on which our theory is based is that international politics is a struggle to affect outcomes on a wide variety of issues. Actors (usually states) vie to have their preferences realized on many dimensions and, at any moment, any state will be relatively pleased with the status quo on some issues and relatively displeased with the status quo on others. States have limited resources available with which to pursue their foreign policy goals. We believe that the fundamental decision facing states involves allocating these resources between efforts to change unfavorable aspects of the status quo and efforts to maintain those favorable elements of the status quo.

Note that this is substantially different from many traditional approaches to international relations, which are based on the fundamental assumption that all foreign-policy actions are guided solely by a desire to enhance national security. Under these approaches, any action can (and must) be seen as security-enhancing and so the role of analysis becomes to devise some account for any observed action that shows how that action increased
national security. A major flaw with this approach is that it renders the concept of security nearly meaningless. Actions that obviously decrease a state's security (Iraq's invasion of Kuwait comes to mind) can only be explained through rather tortured mental gymnastics (recall those arguments suggesting that Vietnam was vital to American security). One fundamental problem is that such a perspective does not allow for the consideration of tradeoffs over objects of value that are generally present in any decision to commit resources.

Furthermore, note that this perspective differs from those that assume that some states seek to prevent changes in the status quo while others seek to bring such changes about. Many theories of international relations base their explanations on the idea that some states are status quo oriented while others are revisionist. Such arguments typically associate status quo states with stability (i.e., they are good) and see revisionist states as the source of instability (i.e., they are bad). The classification of states typically says more about the values of the analyst than the goals of the particular state.

Our theory assumes that all states, at all times, wish to preserve some aspects of the status quo and to change other aspects. We make no moral judgments about such desires in general, they are simply rooted in state preferences. Furthermore, we presume that any resources devoted by a state to change some aspect of the status quo cannot also be devoted toward maintaining other aspects. Thus, our theory forces us to consider the tradeoffs states make in the allocation of their foreign-policy resources. This leads us to a fundamental assumption of our theory: states seek to produce two goods through their foreign policies--change and maintenance. Change refers to alterations in some dimensions of the status quo and any policies so devoted are considered to be change-seeking. Maintenance refers to preserving the status quo on other dimensions and any policies so devoted are considered to be maintenance-seeking.

From this perspective, the fundamental task of any explanation of foreign policy is to account for the precise mix of change- and maintenance-seeking policies adopted by any particular state at any moment in time. We assume that this precise mix for a given state
is determined by three general factors. The first is how close the existing status quo is to the ideal point of the state on all dimensions. A state whose ideal point is at the current status quo should seek no change and a state whose ideal point corresponds with no element of the status quo should seek no maintenance. Neither heaven nor hell exist on earth, however, so we believe that no such states should exist. Second, the foreign policy resources available to a state determine how much of the foreign policy goods can be sought. This largely refers to the state's resource endowment, its economic strength, its military capabilities, and so forth. Better endowed states can simply do more in foreign policy. Capabilities are relative, however, so we must also consider the resources, and policies, of other states in determining how much maintenance and change a state can seek to produce.

Finally, we assume that a state's preferences over maintenance and change matter. Naturally, we presume that more is always better. That is, every state at every time would prefer having more of both maintenance and change to less. Since we assume that resources are limited, however, these preferences cannot be realized. Thus, each state must make some tradeoffs over how much of the two goods it seeks to produce. We assume that some states' preferences are heavily weighted toward maintenance. At the extreme, this would correspond with the ideal state in traditional realist theory—it seeks but one thing, and that is to defend itself against any encroachments. This would characterize those states that have sought autarky and, at a lower level, those states that have pursued isolationist policies, such as the U.S. between the world wars. Other states' preferences are weighted toward change seeking. These states see altering the status quo as sufficiently valued to risk much of what they already have. Nazi Germany and Napoleonic France are two clear examples, but other states may have the same preferences without the capabilities to pursue change so dramatically—modern Libya may be an example. Most states, however, are more balanced in their preferences. They will seek a mixture of change and maintenance, and the precise tradeoffs over the two goods will be a key determinant of how they allocate their foreign policy resources.
We also make a specific assumption concerning the relationship between available resources and the production of maintenance and change. We assume that, as capabilities increase, a state's ability to produce change increases at an increasing rate and its ability to produce maintenance increases at a decreasing rate. That is, a unit increase in capabilities will bring a greater increase in the ability to produce change in a strong state and a greater increase in the ability to produce maintenance in a weak state, though both states will increase their ability to produce both goods.

The argument to this point is captured in figure 1. In this figure, we represent a state's foreign-policy portfolio by a point in two dimensional space. The coordinate of the horizontal axis depicts the amount of change sought by the foreign-policy portfolio and the coordinate of the vertical axis depicts the amount of maintenance sought. The northwest to southeast curves represent possible production possibility frontiers, or the maximum effort that can be devoted to maintenance and change. As a state increases in capabilities it moves to frontiers farther from the origin. If a state pursues levels of maintenance and change beneath its frontier, it can increase both. On the other hand, if its policy portfolio provides a balance of maintenance and change that is on this frontier, the state could increase one only at the expense of the other. This frontier reflects the tradeoffs across the two goods that the state must make. The other curves in the figure represent the indifference contours for the (unitary) actor. The state is indifferent between any combination of maintenance and change that falls on a given contour and it prefers those combinations on contours farther to the northeast to those on contours closer to the origin. This model provides an equilibrium 'prediction' regarding the specific maintenance/change combination the state will select. This occurs at the point at which the production possibility frontier representing the state's level of capabilities is tangent to an indifference contour--this puts the actor on the most desirable indifference contour.

Note that the state in this figure values maintenance and change about equally. We can also represent states that value one over the other. A maintenance-seeking state's indifference contours would be nearly (or at the limit, totally) horizontal. Such a state would be unwilling to trade any maintenance for even a large amount of change and
would correspond to the type of state assumed in traditional realist theory. Note also that the equilibrium specifies a particular combination of maintenance- and change-seeking policies. It does not identify the specific policies adopted. In fact, we assume that a wide range of policy portfolios can produce a specific mix of change and maintenance; that is, to some extent, different policies are substitutable. For example, a state seeking to enhance its change could achieve this either by forming an alliance with a smaller state or by initiating a conflict aimed at altering the status quo in its favor. Thus, at this stage, our expectations are probabilistic. We identify factors that should increase the probability of certain types of actions rather than attempting to specify determinant hypotheses.

At this point, we can see that the model already leads to a number of hypotheses. First, we expect strong states to engage in more of all types of foreign policy activities than will weak states, ceteris paribus. They will engage in more disputes, they will spend more on the military and foreign aid, they will join more alliances, and so forth. Further, as a state increases in power, we expect it to increase all types of its foreign policy activities. More interestingly, we expect changes in power to have different effects, depending on the level of capabilities of the state. In particular for our interests in this paper, we expect a strong state that is getting stronger to engage in an increasing amount of change seeking behaviors.

In order to provide empirical meaning to these hypotheses, we must associate specific forms of foreign policy behavior with change and maintenance seeking. We recognize that any policy behavior can be either change- or maintenance-seeking, depending on the motivations that drive it. We believe, however, that all behaviors are usually either change- or maintenance-seeking. In particular, we associate the initiation of militarized disputes with change-seeking behavior. A dispute can be initiated to preserve some aspect of the status quo (e.g., to keep sea lanes open) but, in the majority of cases, the initiator is trying to bring about some change.

Following Morrow (1991) we assume that a state entering an alliance with a stronger power is seeking to protect its interests, and is thereby pursuing maintenance. A state
entering an alliance with a weaker power, however, expects little additional ability to protect its interests; but, it can expect an increase in its ability to influence the behavior of its weaker ally. Thus, such a state is seeking change. We view military spending as maintenance-seeking, in general, though we believe that the allocation of the military budget is telling. Resources devoted to high-tech military capabilities and toward force projection capabilities (e.g., a blue-water navy) are indicative of change-seeking. Finally, we treat foreign aid as change-seeking behavior. While aid can certainly be used to preserve some aspect of the status quo, we believe that it is most often, and most effectively, used to influence recipient states (Wohlander, Morgan and Palmer, 1998).  

The fact that several types of foreign policy behavior can produce change and several types can produce maintenance leads us to expect that there will be a number of foreign policy "substitutability" relationships (Most and Starr, 1984). For example, if we expect an increase in change-seeking behavior, we might observe an increase in dispute initiation, an increase in foreign aid, or both. We generally expect states to engage in the type of behavior that most efficiently produces the desired good, however, so we typically expect to find an inverse relationship between behaviors that produce the same good--if we control for the availability of resources.  

To this point, we have treated states as though they are unitary actors in the realm of foreign policy. Our theory affords a strong role for domestic politics, however. In general, we see states as being made up of a number of actors who have preferences over the balance of change- and maintenance-seeking in foreign policy. Domestic politics is the aggregation of these preferences into a "preference ordering" for the state. Elsewhere (Morgan and Palmer, 1998a), we have gone into some detail regarding domestic political institutions and foreign policy within the context of this model. For the purposes of this paper, it will suffice to note that we see China in the post-revolution era as being a dictatorship. This suggests that the dictator's preferences in foreign policy are the state's preferences. It also suggests, however, that the state's preferences regarding desirable tradeoffs between change and maintenance can be altered quickly--especially when there is a leadership transition.
In the next section of this paper, we demonstrate the extent to which the model's expectations are consistent with China's foreign policy behaviors. In particular, we expect that changes in China's relative capabilities will be directly associated with the amount of all types of foreign policy behaviors in which China engages. More interestingly, we expect changes in power to interact with the level of Chinese power in specific ways. As China gets stronger, we expect increases in capabilities to have an increasingly greater effect on change-seeking behaviors (foreign aid, dispute initiation, alliances with weaker states, military resources devoted to the projection of force).

The precise relationships depend on Chinese preferences over change and maintenance. One of our tasks is to infer Chinese preferences from the observed empirical relationships. We can then use these preferences and expectations regarding future capability growth to offer some forecasts regarding future Chinese behavior. This point can be clarified through Figure 2. Here we depict several production possibility frontiers, which can be seen as representing the capability growth of a state over time. We also offer three curves depicting the policy changes that would be associated with capability growth for three types of state: one that is predominantly maintenance seeking, one that prefers a balance of change and maintenance, and one that is change seeking. All types of state increase both policies as capabilities increase and all types increase the pursuit of change at an increasing rate. It is obvious, however, that the precise pattern of policies depends heavily on preferences--a strong maintenance-seeking state may produce less change than a weak change-seeking state. Our intent is to use the past pattern of Chinese behavior to determine which type of trajectory China is following.

**Chinese Foreign Policy and the Two-Good Model**

To analyze the direction of China's foreign policy in the near future, we concentrate our analysis on three components of foreign policy: conflict involvement, alliance participation, and foreign aid. Each of these components is a widely recognized and discussed aspect of a state's foreign policy. For instance, the scholarly community knows much about the general "correlates of war", that is, those political, geographic and
economic factors that tend to increase the likelihood of war between states. Alliance activity is a topic that has attracted attention for decades, and many of the motives for the formation and continuation of alliances have been identified. Further, intra-alliance behavior has been widely analyzed, and we know about the effects of some alliances on allies' defense expenditures.

These aspects of foreign policy do not comprise all the activities a state can pursue in furthering its international interests. Such things as declarations before international organizations, trade policy, and arms transfers are also available to a state. However, these three comprise some of the most widely discussed components of foreign policy. Looking at Chinese activity in these areas allows us to apply scholarly knowledge and, more directly, our model to the near-term future of China's foreign policy.

In undertaking our analysis, we assume that China is like other states in that its foreign policy is coherent and goal-oriented. We make no a priori judgment as to what those goals may be. Further, we do not discount the role of domestic political institutions or of international political turmoil in the formation of foreign policy. But we reject the argument that China's uniqueness means that no general approaches to the study of foreign policy can be applied.

We will look at the general factors that are expected to affect China's conflict behavior, alliance behavior, and foreign aid, and to which we have applied our model in the past. By separating the components of foreign policy in this way, we will be able to identify the areas where we expect China to become more (or less) active in the future. We will also see an area where Western decision-makers may be able to affect significantly an important aspect of China's behavior.

**Conflict Behavior**

In our model, the role of militarized conflict initiation is quite simple: states initiate militarized conflict in an attempt to change the status quo. That is, the initiation of conflict is change-seeking behavior. To be sure, change-seekers have a range of other
policy options available, but in our model the probability of conflict initiation is greatest in those countries highly motivated to alter the status quo in a direction they favor—specifically, in relative strong countries increasing in power. Since China is a relatively strong country, we expect it to initiate conflict when it is increasing in capability. We subjected this expectation to empirical analysis. We used the Militarized Interstate Dispute (MID) data set, which records all threats, displays or uses of military force by one nation against another (Jones, Bremer and Singer, 1996). We focus, of course, on the disputes that involved China; from 1949 through 1992 (the last year for which we have complete dispute data) China has been involved in 118 military conflicts. To measure the relative power of China, we used two measures, both derived from the widely used Correlates of War Project. The first is China's share of the world's economic production, measured by a combination of iron and steel production and energy consumption.9 We use this because China's recent growth in power (and conceivable decline) is most manifest to its political leaders in the economic realm, and we are trying to tap the leaders' perception.10

Our model predicts that as a state grows in capability, it will initiate more militarized disputes in an attempt to alter the status quo, and that the relationship increases with greater power. In other words, the relationship increases exponentially. We have tested this expectation elsewhere and found that it holds true (Morgan and Palmer, 1997, 1998a, 1998b). Here, we analyze China's initiation of militarized disputes from 1950 (the first full year after the formation of the People's Republic) through 1992. Since the dependent variable represents the number of times in a particular year China initiated the use of force against another state, we use Poisson regression. We use three explanatory variables: China's share of the world's economy, the change from one year to the next in that share, and an interactive variable formed by multiplying the first two variables together. The results of the analysis are displayed in Table 1.

The results show that all three independent variables have significant effects on the likelihood of China's initiating the use of force against another state. The size of China's share of the world economy has a negative effect on the likelihood of China initiating
militarized disputes, as does the change in that share. However, the positive coefficient on the interactive variable has a strong effect on the predicted likelihood of initiation of conflict, such that the more China's share of the world economy grows, the more likely it is to initiate conflict with other countries.

To illustrate the predicted effect of a growing Chinese economy on the likelihood of China's initiating international conflict in a particular year, we construct five hypothetical situations. These five alternatives present different possible growth rates for the Chinese and world economies. In the first, the Chinese economy grows at 9.86% while the world's economy increases 3.6%, both numbers representing the averages for the years 1994-1998, according to the International Monetary Fund (1998). As Table 2 shows, with these growth rates, there is a very high probability (approaching 1.0) that China would initiate more than one militarized dispute in a year. The other four cases present the Chinese economy growing at different rates while the world economy grows at 3%. The probability of initiating at least one dispute increases rapidly once the Chinese economy grows faster than the world's, and the probability that China would initiate more than 1 dispute becomes significant once the Chinese economy grows at a rate faster than 6%.

In sum, our model predicts that should China's economy continue to grow at a pace faster than the world's economy, it is very likely that China will initiate militarized conflicts with other states. Some of those conflicts may escalate, while the majority are likely to be at a relatively low level of hostility. We do not see, for instance, a significant probability that China will initiate a major war in the near future. But we do predict that China will make greater efforts at altering the status quo in directions it favors, and will do so, in part, through the exercise of the threat or use of military force. Should China's economic growth slow to something like 5% a year or less, on the other hand, we can anticipate a relatively non-assertive China, at least in terms of the initiation of international conflict is concerned.
Alliances

The second area of Chinese foreign policy we investigate is alliance membership. In our model, alliances are one of the components of a state's foreign-policy portfolio. States join and remain in alliances in order to gain either maintenance or change more efficiently than they could without the alliance. In other words, membership in the alliance represents a considered choice, and is a tool for achieving foreign-policy goals. In our theory, as well, smaller states gain maintenance through alliance membership, while larger states acquire change, particularly in alliances containing both larger and small states; such alliances are referred to as "asymmetrical alliances." Our model implies that strong states, particularly strong states getting stronger, are more likely to form asymmetrical alliances with smaller states. By doing that, the stronger states are able to gain change. Such countries are not likely, however, to form alliances with other powerful states.

Currently, China's foreign policy is remarkable for its very few formal alliances, all of which are easily listed. China currently has a defense pact with North Korea, in force since 1961, and bilateral neutrality pacts with Guinea, Afghanistan and Burma (each since 1960), with Ghana since 1961, with Tanzania since 1965, and with Japan since 1978. The Soviet Union, of course, had a defense pact with China from 1950-1961.

China is a powerful state, and its ability to exert influence internationally increases as its economy grows. As a result, one of the direct implications of the application of our model to China is that China will likely attempt to form more asymmetrical alliances with smaller states in the near future. Three questions emerge from that simple prediction: how likely are Chinese attempts to form alliances to be successful; who are the countries China approaches likely to be; and what will be the results of the formation of those alliances.

Any observed alliance must represent a jointly preferred arrangement over no alliance. If China (as our model suggests) gains change through the formation of an asymmetrical alliance, it must provide maintenance to its new partner, and that partner must be willing
to allow Chinese influence over its domestic and/or foreign policies. This will require one of two changes in situation. First, China's demands on a potential new ally must be modest enough to be acceptable to the new ally. This will mean, most centrally, that China make no demands for fundamental alterations in the political or economic structure of its new partner. Smaller and less fundamental demands are more likely to be acceptable. Second, the international situation may become increasingly threatening to one of China's potential allies, such that it may come to value an alliance with the People's Republic. Until either of these two conditions is realized, new Chinese alliances are unlikely.

Who might China's new allies be? Beyond specifying the general conditions required for an alliance to be realized, our model does not predict which specific arrangements will be made. The number of countries that might be willing to enter into such an alliance with China may be quite small, and limited to those states that might value China's ability to contribute meaningfully to their maintenance. In other words, potential Chinese allies will be drawn from those states facing an external or internal threat that China would be able to address. Two possible allies that we analyze are Pakistan and Laos. If Pakistan or Laos were to be threatened by India or Vietnam, respectively, those countries are more likely to welcome a Chinese alliance.

Our model can address the effects of these new bilateral alliances on the foreign policies of China, Laos and Pakistan. In particular, we can predict the effects of the formation of a new alliance on the subsequent conflict behavior and defense spending. In making these predictions, we assume that Laos' and Pakistan's current relative capabilities are approximately what they were in 1992, the last year for which we have complete data; we assume that neither is increasing its capability significantly; and we assume that China is increasing its power at about 6% per year. Under the assumptions we have made about Chinese bilateral alliances with Laos or Pakistan, should those or similar alliances be realized, the probability that People's Republic will initiate an international dispute will increase by slightly more than one-third. Additionally, the probabilities that either of those two countries will initiate a dispute increases by about 20%.
Next is our estimate of the effect of the new alliances on China's defense expenditure. Simply, our model has shown that joining new alliances has the effect of increasing a state's defense spending. (Weaker states spending goes up more than stronger states, other things being equal.) China's military spending increased at an average rate of slightly less than 2.8% per year from 1991 through 1995, according to the World Military Expenditures and Arms Transfers, 1996. Should it join a new alliance, we expect China's military spending to increase at about 7.1% per year for the subsequent five years, leading to an increase of about 41% over 5 years.\textsuperscript{15} According to our model's general empirical findings, that spending is likely to be seen largely in capital-intensive areas of the military establishment, such as a deep-water navy. A greater ability to project force would result.

To summarize, new alliances would have definite, though limited impacts on Chinese foreign policy. Countries like China (powerful states getting more powerful) frequently form more alliances with smaller states. While China has remained relatively non-allied, the application of our general model predicts that to change. Should that happen, our model predicts that dispute initiation will be slightly more likely and military spending will increase.

\textbf{Foreign Aid}

The third area of Chinese foreign policy we investigate is the giving of foreign aid. In our model of foreign policy, states give foreign aid in order to extract concessions from the recipient nation (see Wohlander, Morgan and Palmer, 1998). Foreign aid can, depending on the precise circumstances, serve maintenance- or change-seeking ends, but by-and-large it is given in order to alter policies in the recipient. Indeed, we have argued elsewhere that foreign aid is one of the most effective change-seeking policies available to a state. Our model therefore sees aid as given more by large states than by weaker states, and more by large states increasing in power. When we apply our model to China, we might expect to see that China's foreign aid has increased dramatically as its economic situation has improved. That, however, is not the case, and we will argue here
that the pattern in policies that our model has uncovered provides an opportunity for Western leaders to affect the direction of Chinese foreign policy in the near term.

Based on our model's implication, we undertook a series of statistical analyses of the major economic and political causes of changes in Chinese foreign aid from 1956 through 1987, the last year for which we have reliable aid data. In brief, we found no statistical relationship between changes in Chinese aid and any political or economic factors that we normally associated with the donation of foreign aid. Rather than being defined and largely determined by structural factors, Chinese foreign aid appears to be an aspect of foreign policy that is strongly affected by political considerations and easily manipulable. There are few domestic interest groups that push for continued or increased foreign aid, while other institutional actors (primarily the People's Liberation Army) have significant political clout. Chinese aid has never reached very high levels, indicating that its effectiveness has never been terribly great. Because it is readily manipulable and independent of structural constraints or factors, we are not able to make predictions regarding the direction of foreign aid in the near future.

Our general theory has been applied to the phenomenon of foreign-policy substitutability (Morgan and Palmer, 1998c). Essentially, we argue that when a state seeks to pursue one of our goods, change or maintenance, it has a set of policies that are better able to accomplish that relative to some other group of policies. When it pursues a particular good, for instance, change, by increasing emphasis on one policy, such as foreign aid, we expect to see a subsequent decline in the emphasis on another policy that is generally used for pursuit of that same good. However, we expect little effect on policies that are better at achieving the other good. We have applied these general expectations and found that they are well supported (Morgan and Palmer, 1998c). That is, some policies are substitutable for each other, while others are not. We applied our model of substitutability to China's foreign policy, with results consistent with our model.

Two policies that our model identifies as relatively efficient at pursuing change are foreign aid and conflict initiation. We therefore looked at those two policies to determine
whether a change in emphasis on foreign aid is associated with the involvement in conflict. We applied ordinary least squares to a equation where the dependent variable was change in Chinese foreign aid from one year to the subsequent year, measured in millions of US dollars. Two independent variables were used: the first measured the change in China's share of the world economy and the second was a simple dummy variable that captured whether China was involved in a militarized interstate dispute in a particular year. The results are shown in Table 3.

As the table shows, involvement in interstate disputes has a significant and strong effect on Chinese foreign aid: in years when the People's Republic is involved in militarized conflict, its foreign aid allocations are about $700 million dollars less that in years when it is not involved. We have strong evidence that involvement in conflict and foreign aid allocations are substitutable policies. Each policy is efficient at the production of change. That is, each is generally primarily directed at altering the policies of states that are the targets or recipients of conflict or aid. When the Chinese decision makers emphasize conflict, fewer resources are allocated to aid; and when conflict is absent, more resources are allocated to aid.

Note also that changes in China's share of the world economy have no significant effect on changes in foreign aid allocation. That is consistent with findings in other analyses: structural factors seem not to affect foreign aid decisions.

In summary, the allocation of foreign aid is not affected directly by changes in China's economic well-being. Instead, we find, consistent with our theory of foreign-policy substitutability, that there is a direct, significant, and large trade-off between China's conflict involvement and its foreign aid allocations. Herein lies an opportunity for Western (non-Chinese) policy-makers. Should the West desire peaceful interaction with China in the near future, it would seem that encouraging greater Chinese foreign aid might be useful. Should its foreign aid allocations meet with success (from China's perspective), the People's Republic would most likely increase its aid. This in turn would have the effect of decreasing China's involvement in international conflict. Allowing
China greater influence in international institutions where multilateral aid is allocated might encourage China to forego the use of force to achieve its ends. This implication is worth further exploration.

**U.S. Policy and Chinese Behavior**

One of the general strategies that is suggested for the West's dealings with China is for the West to be accommodating and to recognize the legitimacy of (at least some) Chinese demands. Our analysis of past patterns has suggested that Western actions that increase the efficiency of Chinese aid are likely to see a decline in the Chinese use of force; in other words, we indirectly infer that engagement will have a moderating affect on China's behavior. We can analyze the effect of a Western policy of engagement in a more direct fashion: by looking at the recent history of Chinese foreign policy we can see whether past overtures to China have led to a discernable change in behavior. If we can determine that past Western efforts to moderate China's foreign policy by including it in the "world of nations" have been successful, we have even greater evidence that China responds to Western attempts at accommodation.

Previously in this paper, we investigated the effect of the size and growth of China's economy on the rate at which it has initiated Militarized Interstate Disputes. We now want to see whether that rate has been affected by Western, specifically, American cooperative measures. We undertook an analysis of the rate of Chinese initiation to see whether it has changed since the United States extended formal diplomatic recognition to the People's Republic in 1979. We ran a simple analysis of variance (ANOVA), where the dependent variable was the yearly number of disputes that China has begun and the sole independent variable was coded 1 for every year from 1979 onward. The results are impressive: prior to 1979, China initiated, on average, two military disputes each year, while after 1979 that average fell to .43. That decline of more than 75% is highly statistically significant. In other words, China has been noticeably less aggressive militarily since the United States extended diplomatic recognition. A policy of encouraging China diplomatically seems to have dramatically lowered the propensity to
use military force. This finding, of course, lends further support to our conclusion regarding foreign aid. China appears to respond very strongly to Western diplomatic attempts to encourage a peaceful expression of interests.

**Concluding Remarks**

In the analyses above, we applied the two-good model of foreign policy to an evaluation of Chinese foreign policy. Our tests suggest that Chinese behavior in the post-revolution period has been reasonably consistent with the expectations of the model, giving us some confidence in our ability to forecast future behavior. It should be remembered, however, that our forecasts are contingent (i.e., the nature of the forecast changes considerably with changes in assumptions about future economic growth rates) and that they are intended to identify general trends, not specific instances (i.e., if current trends continue, we can say that we expect China to initiate more militarized disputes but not that, for example, China will initiate a naval dispute with Vietnam on March 8, 2003). While there is reason to believe that China will engage in more change-seeking behavior in the future, we cannot say which elements of the status quo they will seek to alter.

One particularly interesting finding is that, since the early 1980's, the Chinese have engaged in far less change-seeking policy behaviors than one would have expected, given their level of capabilities. They have initiated few militarized disputes, they have formed very few alliances with smaller countries, they have provided little foreign aid, and their ability to project force remains underdeveloped relative to other states that have been in similar positions capability-wise. That the Chinese are unique would be of no surprise to China experts; but, it is interesting to note that their patterns of behavior still conform to the general model in spite of this uniqueness. In fact, the theory we offer provides a parsimonious way of characterizing their unique attributes. The evidence we have is consistent with the inference that the Chinese, at least since 1980, have been remarkably maintenance seeking, considering their capabilities. This is not to say that they have sought no change or that the amount of change sought is unrelated to increases in
capabilities. Furthermore, we cannot be absolutely certain that this will continue into the future, particularly as China undergoes leadership transitions.

If we assume that the pattern of preferences over change and maintenance holds, however, we can conclude that the Chinese are not the significant threat to international stability that many seem to fear. The Chinese are maintenance oriented and will defend their interests but they are not likely to seek a large number of significant changes. To speculate on a specific example, for instance (and we note that this goes beyond what the model tells us), we would not expect the Chinese to attempt to force the re-integration of Taiwan with the mainland; but, if there appears to be an effort to change the status of Taiwan in a way contrary to the Mainland's wishes (e.g., independence) we would expect them to react vigorously. In short, if the U.S., or anyone else, treats them as an enemy, they are likely to become one; but this enmity is not an inevitable result of Chinese preferences.

Continued growth in Chinese capabilities does lead us to expect increased change-seeking behavior on their part, however. While they may be considerably less change-seeking than similarly powerful states, we would still expect them to engage in more change-seeking behavior than far weaker states (which characterizes most) and that this should increase as does Chinese power. In particular, the model does suggest that, at current growth rates, the frequency of dispute initiations by the Chinese could increase noticeably. Two factors mitigate some of the apprehension that this conclusion could create.

First, if the Chinese continue to be predominately maintenance seekers, the change they seek will probably be on the fringes. They are not likely to risk what they have in a push for revolutionary alterations on the international scene. They are most likely to pursue their change against relatively weak, isolated opponents and/or on issues that are not highly salient to strong adversaries. Second, our analysis provides fairly strong indications that the Chinese change-seeking behavior can be channeled toward peaceful instruments. There has been a substitutability relationship between dispute initiation and
foreign aid in the past. If other states are as concerned with how the Chinese pursue their interests as with what these interests are, this could be a crucial point. Efforts made to encourage the Chinese to use peaceful means to effect change might very well succeed where confrontational tactics would lead to the militarized disputes they were intended to deter.

Bibliography


Notes

1 We do accept that some preferences can be immoral and that it is appropriate for scholars, and citizens, to make such judgments. Our point is that the morality of a preference is not rooted solely in whether it is to change the status quo or to maintain it. The preference to preserve the institution of slavery was immoral as is the preference to change the status quo by eliminating a particular ethnic group. More importantly, our explanation for state behavior is not dependent on whether any state's preferences are moral or not.

2 Any state that exists must be content with some aspect of the status quo and any state that does not control the entire world must be discontent with some aspects.

3 At this point, we are treating states as unitary actors that are characterized by preferences over the goods. Below, we note that we view state "preferences" as the aggregation of individual preferences and that domestic politics comes into play through the aggregation of individual preferences.

4 Note that our model does not provide for a third good to be pursued, nor do we allow a state to invest resources in savings. States use the resources they have for current consumption.

5 This seems to be especially true in the Chinese case, which is our interest here. See, Harding, 1981 for a discussion of the motivations for Chinese foreign aid.

6 The precise substitutability relationships expected from this model are actually quite complex. They are presented in Morgan and Palmer, 1998c.

7 We recognize the danger of inferring future preferences from past behavior, particularly in a country where the next leadership transition could alter foreign-policy preferences drastically. There is no compelling reason to assume such a change, however.

8 The initiation of a militarized conflict may on occasion be a maintenance-seeking act designed to preempt an attack by another country. While we think it more likely that the initiator of a particular conflict is the state most interested in altering the status quo, the
exceptions to this make our model harder to prove but they do not invalidate the empirical applications of the model.

9 China's share of the world's economy using this measure is around 15%, though it has grown dramatically in the last 10 years, at least according to Chinese accounts.

10 In the past we have used a different measure of power in our empirical tests. While that measure is good for measuring cross-national differences in power, over a short period of time it fluctuates relatively little for one country.


12 Examples of large states forming alliances with smaller states in this way are numerous. The United States joining in the formation of NATO in 1949 is one example. NATO made it easier for the US to play a role in determining the political and economic direction of the rebuilding European states. NATO continues to function as a way for the United States to exert influence in Europe.

13 The statistical model that we use here to estimate the new alliances' affects is outlined in Morgan and Palmer, 1998b. Here we concentrate only on using the model. Briefly, however, a state joining a new alliance has a significantly higher probability of initiating international conflict. That probability is slightly offset by the power of the new ally (the more powerful the new ally, the less likely the initiation of conflict), by an increase in the state's own power. The probability is slightly increased by the existing power of the state and by the interaction of the new ally's power and changes in its own power.

14 This, of course, may be far too conservative an estimate. As we have shown in the previous section, the stronger the economic growth, the more likely conflict initiation, and the likelihood would increase exponentially.

15 If Laos were to ally with China, we would expect its military spending to increase about 12.3% per year for five years. A new alliance with China would lead Pakistan to raise its military expenditures approximately 12.0% a year for 5 years.

16 One analyst took note of a large decline in Chinese foreign aid in the late 1970s, and sought to explain that drop. His primary explanation fits our model of foreign policy extremely well:

"[B]y the mid-1970s China had already achieved the goals that had promoted it to increase its foreign aid program in the first place: it was a member of the United Nations, it had diplomatic relations with most developing countries, and it was regarded as a major force in the Third World" (Harding, 1981, p.275).
In our words, the use of foreign aid as a change-seeking aspect of foreign policy had succeeded, and China moved to de-emphasize that goal.

Our model provides for states to change their foreign-policy orientation if they are satisfied with the status quo, but we do not want to use changes in policy to reveal that satisfaction to us. To do that would make our model and arguments circular: "China reduced foreign aid because it was satisfied, and we know China was satisfied because it cut foreign aid."

Ordinary least squares was appropriate for this particular analysis as there was little serial correlation in the error terms. The Durbin-Watson statistic using the OLS equation was 2.06.

Note

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