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The Chinese World Order

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The End of the Asian Century: War, Stagnation, and the Risks to the World's Most Dynamic Region

by Michael R. Auslin

Yale University Press, 279 pp., \$30.00

Post-Western World: How Emerging Powers Are Remaking Global Order

by Oliver Stuenkel

Polity, 251 pp., \$64.95; \$22.95 (paper)

Destined for War: Can America and China Escape Thucydides's Trap?

by Graham Allison

Houghton Mifflin Harcourt, 364 pp., \$28.00

Ten years ago the journalist James Mann published a book called *The China Fantasy*, in which he criticized American policymakers for using something he called “the Soothing Scenario” to justify the policy of diplomatic and economic engagement with China. According to this view, China’s exposure to the benefits of globalization would lead the country to embrace democratic institutions and support the American-led world order. Instead, Mann predicted, China would remain an authoritarian country, and its success would encourage other authoritarian regimes to resist pressures to change.¹

Mann’s prediction turned out to be true. China took advantage of the growing potential of unrestricted global commerce to emerge as the number one trading nation and the second-largest economy in the world. It is the top trading partner of every other country in Asia, not least because of its crucial position assembling parts that have been produced elsewhere in the region. Sixty-four countries have joined China’s One Belt One Road (OBOR) infrastructure initiative, which was announced in 2013 and consists of ports, railways, roads, and airfields linking China to Southeast Asia, Central Asia, the Middle East, and Europe—a “New Silk

Road” that, if it succeeds, will greatly expand China’s economic and diplomatic influence. Twenty-nine heads of state attended Beijing’s OBOR conference in mid-May.

Meanwhile, China has remained an authoritarian, one-party state that is backed by an increasingly powerful military. China’s military budget has risen at the same rate as its GDP for the past quarter-century, from \$17 billion in 1990 to \$152 billion in 2017—a 900 percent increase. This has allowed China to acquire aircraft carriers, sophisticated missiles, advanced submarines, and cyberwar capabilities that challenge American military dominance in Asia. It has vastly expanded its naval presence in what it calls the “near seas” around its coast, and even into the Pacific and Indian Oceans.

China has attained this new position of power while mostly complying with the rules of the World Trade Organization, which it joined in 2001. Still, in 2016 Western governments found it necessary to renege on a commitment they made when China joined to give it full “market economy status” after fifteen years of membership. This status would have made it harder for other WTO members to sue China for “dumping”—selling products at less than market-price production cost to drive out competitors—but the promise to accord that status had been based on the expectation that China would turn into a Western-style market economy.

That has not happened. Instead, the state has continued to control the Chinese economy in its effort to expand the market share of Chinese enterprises both in China and abroad. Beijing has carried out industrial espionage to acquire advanced Western technology, forced the transfer of technology from Western to Chinese enterprises through joint ventures and merger agreements, and, for a time (although not now), suppressed the exchange value of its currency in order to stimulate exports. Since 2006, Beijing has used various forms of regulation that are not banned by the WTO to make it difficult for foreign businesses to enter and compete in its domestic market, and to give an advantage to Chinese enterprises—especially in cutting-edge fields like semiconductors, advanced manufacturing, and information and communications technology.

China’s increasingly pervasive economic influence has contributed to the populist and antiglobalization movements that are now taking hold in many countries in

the West, including in the US with Donald Trump. In a striking reversal, it was Chinese President Xi Jinping rather than a European or American leader who delivered a strong defense of globalization at the January 2017 meeting of the World Economic Forum in Davos.

President Barack Obama sought to strengthen US alliances in Asia in the hope of keeping China's rise in check. By contrast, President Trump has questioned the value of alliances with Japan and South Korea, withdrawn from the Trans-Pacific Partnership, and for a time put a hold on American Freedom of Navigation Operations (FONOPS) in the South China Sea. At the Mar-a-Lago summit in April, Trump embarrassingly acted like Xi Jinping's pupil on the question of North Korea's growing nuclear menace, stating, "After listening [to Xi] for ten minutes, I realized it's not so easy." He then cast aside his campaign commitments to raise tariffs on China and challenge China on currency manipulation in what turned out to be the vain hope that China would solve the North Korea problem for him. To the contrary, the threat has only grown, with Pyongyang's successful July 4 test of a long-range missile that may be capable of reaching Alaska.

To make matters worse, the Trump family have placed themselves conspicuously on China's payroll, accepting future profits in the form of trademarks for both the Trump and Ivanka brands, and seeking Chinese investment in Kushner real estate projects. When China Labor Watch, a New York-based labor rights organization, published information on poor conditions in a factory where Ivanka's brand-name shoes had recently been produced, China detained the group's three field investigators, the only time CLW's investigators have been detained for exposing the abuse of Chinese workers.²

These signs of confusion in American policy have accelerated the growth of China's economic and political influence. In Asia, Philippine president Rodrigo Duterte softened the previous Filipino administration's position on its South China Sea territorial dispute with China and accepted a large Chinese trade and investment package; Malaysian leader Najib Razak agreed to the first purchase of Chinese vessels for his navy; Korean voters selected a new president, Moon Jae-in, who has promised closer relations with Beijing; and Vietnam has stepped up diplomatic and military relations with China.

Japanese Prime Minister Shinzo Abe has stuck to the American alliance, but if US policy continues to show weakness, Japan will ultimately face a choice either of compromising with China's territorial claims in the East China Sea or of rearming itself more heavily, perhaps even with nuclear weapons. According to Graham Allison, director of Harvard Kennedy School's Belfer Center for Science and International Affairs, in his new book *Destined for War*, "As far ahead as the eye can see, the defining question about global order is whether China and the US can escape Thucydides's Trap," which he defines as a likely war between a dominant power and a rising power.

Two other recent books, however, while approaching the subject in very different ways, suggest that China is not as threatening as many commentators would have us believe. **Michael Auslin**, a research fellow at the conservative Hoover Institute, declares the end of the Asian Century before it has much begun, because leading Asian countries, including China, have not adopted the business-friendly economic practices, pro-democracy political reforms, and cooperative regional institutions that would enable them effectively to rival the West. Oliver Stuenkel, a Brazilian academic more on the left, argues instead that the emergence of China and other Asian powers is an accomplished fact that cannot be reversed, but that the power shift does not present a serious threat to Western interests. Although both books discuss all of Asia, China is central to their arguments.

Auslin's analysis is grounded in the contested set of ideas that used to be called the Washington Consensus—the belief that free markets, free trade, and political democracy are necessary for economies to grow and political systems to be stable. Since the Chinese approach disregards this theory, Auslin thinks the country will stumble before it seriously challenges American preeminence. He sees many problems in the Chinese economy, including the excessive number and size of state-owned enterprises, opaque corporate governance, huge government debt (200 percent of GDP by some estimates), a property bubble, and overdependence on exports. But this adds up simply to a description of how the economy is run, not to an argument that this way of running it will not work.

In fact, the Chinese economy is not as vulnerable as Auslin thinks. First, because the Chinese currency, the yuan, is not freely convertible, it is difficult for yuan holders to invest on a large scale anywhere but China without government permission. To be sure, there is a dribble of capital abroad sufficient to allow the

purchase of high-end real estate in Vancouver, Los Angeles, and New York, but this is hardly enough to starve investment in China or subject the yuan to currency speculation. Second, just as the US dollar enjoys the “exorbitant privilege” of being accepted everywhere as a bearer of value even though it is not backed by any tangible asset, so too the Chinese yuan is accepted by participants in the Chinese economy and even to a limited extent overseas as a bearer of value, which gives the government the ability to print money at will in order to stimulate economic growth, with limited risk of inflation.

Third, both the debtors and the creditors in the Chinese economy are mostly government entities, so the government can adjust their debt relationships without causing a financial crisis. Beijing worked its way out of previous debt overhangs by creating “asset management companies” (or “bad banks”) to take bad loans off the books of state banks, and it worked. Such tactics can be used again if necessary.

Auslin is more persuasive in suggesting the extent to which high-level corruption has damaged the legitimacy of China’s one-party rule, and how ineffective the regime’s heavy-handed propaganda is in its aim of reinforcing that legitimacy. Even so, surveys show that the Chinese public gives the regime credit for sustained economic growth and for carrying out a serious battle against corruption. Auslin agrees with an unnamed China specialist—apparently the well-respected George Washington University scholar David Shambaugh—that the Chinese regime has entered its “endgame.”³ This may be true, but the same prediction has been made so often for decades that it is hard to be convinced by it now. By seeing the Chinese regime and other Asian political systems like Thailand, Myanmar, and Malaysia that haven’t developed Western-style governments as examples of “unfinished revolutions,” Auslin commits the fallacy of conflating political stability with democratization.

Unlike Auslin, Stuenkel does not believe that Chinese power will fade, but he sees China’s ambitions as more economic than military. It is true that China has built and fortified sand islands in the South China Sea, increased its allocation of troops to UN peacekeeping operations in Africa, established a small naval base in Djibouti, used Chinese naval forces to evacuate some 36,000 Chinese workers

from Libya, and dispatched ships to participate in the multilateral anti-piracy patrol in the Gulf of Aden.

But in Stuenkel's view, these efforts are not likely to lead to the creation of a US-style global military empire. It would be difficult for China to defend its far-flung, fragile network of economic interests by chiefly military power. China's enormous investments in resources and infrastructure abroad can pay off only if peace is maintained across these turbulent regions by political means, including respect for international law. According to Stuenkel, China wants nothing more than to preserve the main elements of the world trading order from which it has benefited so much, while gaining greater influence in the institutions that enforce and develop this order.

Because the US Congress refused until recently to authorize increased voting rights for China in the World Bank and the International Monetary Fund—and, one might add, because China accumulated a huge stock of foreign exchange that it needed to invest—Beijing set out to create what Stuenkel calls a “parallel order” of international economic institutions. He identifies twenty-two newly created multilateral institutions, ranging from the Asian Infrastructure Investment Bank to the Shanghai Cooperation Organization to the Free Trade Area of the Asia Pacific, in which China is a participant and usually the leading member.

Stuenkel argues these are “parallel” rather than “alternative” institutions: they provide infrastructure investment, regulate trade, facilitate international payments, and carry out security and diplomatic dialogues in much the same way as similar Western-dominated institutions that they parallel. They operate according to rules that are consistent with existing institutions in the same fields, and their participants continue simultaneously as members of the older institutions. In Stuenkel's view, their creation is a good thing:

[They] will provide additional platforms for cooperation (among both non-Western and between non-Western and Western powers), and spread the burden of contributing global public goods [such as UN peacekeeping operations, anti-piracy patrols, and the control of climate change] more evenly.... All these institutions will deepen China's integration into the global economy, possibly reducing the risk of conflict, and lifting all boats.

Auslin and Stuenkel both present, to use James Mann's phrase, "soothing scenarios": either China's rise will stall before it poses a serious threat to American interests, or it will bring new vitality to the existing international order. But both are too optimistic. Although China's rate of growth has slowed from double digits to an official annual rate (which some economists think is exaggerated) of 6.7 percent in 2016, and will slow further as the economy matures, few believe it will fall below 3 percent in the foreseeable future.

As Stuenkel points out, at that rate it will inevitably overtake the US economy, even if the US were to accelerate its own rate of growth, simply because China's population is four times as big as America's. In a few more decades, China's economy will be twice as big as that of the US. An economic or political crisis, if it occurs, can slow China's rise, but China is not going back to the poverty of the pre-reform era.

Stuenkel is persuasive in arguing that Beijing cares chiefly about political stability at home and economic access abroad, and not about promoting its authoritarian political model to the rest of the world. Nor do China's leaders seek, as some have suggested, to expel the United States from Asia, or to "rule the world." They are, however, pursuing two goals that clash fundamentally with important American interests (leaving aside China's abuse of the US-China economic relationship, which is a problem that can be gradually resolved through negotiations).

The first is its effort to alter the military balance in Asia. Along its long, exposed coastline, China is confronted with a string of American allies and partners: South Korea, Japan, Taiwan, the Philippines, Singapore, and Vietnam. There are some 60,000 American troops deployed in the area, and American bases in Guam and Pearl Harbor command the Pacific. Just beyond the line twelve nautical miles from the Chinese coast that defines its sovereign "territorial waters," the US Seventh Fleet conducts regular intelligence-gathering and surveillance operations. Along its land borders China likewise confronts American deployments, alliances, and military cooperation arrangements—in Afghanistan, Pakistan, Central Asia, Mongolia, and India.

With China's power rising, its rulers no longer accept being so tightly hemmed in. They are now in a position to press South Korea to reverse the deployment of an American Terminal High Altitude Area Defense (THAAD) missile system; to move

Chinese military ships and submarines through strategic straits between the Japanese islands; to challenge the Japanese claim to the Senkakus, the disputed islands in the East China Sea; to pressure Taiwan to accept unification with China; and to harass US ships and planes in the South China Sea. These moves challenge the established American position in Asia.

The second serious clash of interests has to do with the freedoms of thought and speech. The regime is hypersensitive about its image because of its shallow legitimacy at home. This has led it not only to engage in standard public relations and media work around the world, but also to use diplomatic pressure, visa denials, financial influence, surveillance, and threats to try to control what journalists, scholars, and Chinese students and scholars abroad say about China. The effort to silence critics extends to human rights institutions like the United Nations Human Rights Council in Geneva, where China works to assure that it and other authoritarian regimes are not criticized; it even reaches Hollywood, where studios eager to gain access to the Chinese market increasingly avoid unfavorable portrayals of China. This offensive poses a special challenge to the West, one in which the usual cliché about balancing values and interests in foreign policy does not apply. As China extends its efforts at thought control beyond its own borders, our values are our interests.

Some have suggested that the US scale back its position in Asia to accommodate China's desire for greater military influence in its own region. In his 2011 book *On China*, Henry Kissinger proposed that the two sides agree on a "Pacific Community"—"a region to which the United States, China, and other states all belong and in whose peaceful development all participate." Graham Allison's ideas for how to avoid war are equally anodyne: "Understand what China is trying to do," "Do strategy," and "Make domestic challenges central."

Other strategists have been more specific, proposing that the US and China establish a mutually acceptable security balance by making concessions to each other over Taiwan, the Senkakus, military deployments, and offensive and defensive missile systems. Through such an approach, Washington and Beijing could demonstrate that each does not seek to threaten the other's core security interests.⁴

The difficulty with such proposals is that Beijing is likely to interpret them as asking it to accept an intrusive American presence just when the shifting power balance should allow that situation to be corrected. And on the US side, yielding preemptively to Chinese ambitions would destroy its credibility with all of its allies, not only in Asia but elsewhere as well. The resulting destabilization would not serve American or Chinese interests.

Auslin's recommendations for managing the rise of China are for the US to strengthen its military presence in the region; build additional links—such as with India and Indonesia—on top of its existing alliance system; and intensify American pressures for democratic transformation. It should stick to these policies, he says, until “China's leaders...come to appreciate the benefits of constructive engagement.” This is a grand vision that faces three obstacles—the lack of consistency across administrations in Washington needed to implement such a strategy; the unwillingness of countries like India, Indonesia, and even our formal allies South Korea and Japan to tilt so conspicuously against the largest and still-growing regional power; and the unlikelihood that China would come to accept this American posture as beneficial.

For his part, Stuenkel recommends that the United States enlarge the participation of the rising powers in existing institutions so they have a fair share of influence, encourage China and other rising powers to contribute even more to global public goods such as UN peacekeeping operations, anti-piracy patrols, and the control of climate change, and “fully embrace, rather than criticize or try to isolate” the new parallel economic institutions that China is creating. These are constructive ideas, but they do not address the core problems of regional security and human rights.

The US should cooperate with China in those areas where common interests exist, such as nonproliferation and climate change (the position of the Trump administration notwithstanding). And the US must push steadily to open the Chinese economy on a reciprocal basis—an effort that would have been greatly aided by staying in the TPP. But in order to respond successfully to China's growing military power, the US must hold the line firmly where strategic interests clash, such as over Taiwan and the US naval presence in the South China Sea. Above all, the US must defend international standards of human rights and

freedoms more strongly than it has in recent years; it makes no sense to defer to the loudly voiced sensitivities of the Chinese regime even as China interferes more and more often in our freedoms. Competition, friction, and testing between the United States and China are unavoidable, probably for decades. To navigate this process, the US needs an accurate assessment of China's interests, but even more of its own.

1. James Mann, *The China Fantasy: How Our Leaders Explain Away Chinese Repression* (Viking, 2007). ↩
2. John Ruwitch, "Activist Probing Factories Making Ivanka Trump Shoes in China Arrested: Group," Reuters, May 31, 2017. ↩
3. David Shambaugh, *China's Future* (Polity, 2016). ↩
4. For example, James Steinberg and Michael E. O'Hanlon, *Strategic Reassurance and Resolve: US–China Relations in the Twenty-First Century* (Princeton University Press, 2014), and Lyle J. Goldstein, *Meeting China Halfway: How to Defuse the Emerging US–China Rivalry* (Georgetown University Press, 2015). ↩