

# China's Multidimensional Juggle

## The Challenges of A Rising Power

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As the 21<sup>st</sup> century unfolds, it is almost unarguable that East and Southeast Asia will be increasingly important in global economic, political, and security affairs. China, often depicted as a state which is continually violating human rights, is dealing with recurrent internal problems such as corruption, economic rebalancing, growth rate slowdowns, income inequality, pollution, and social unrest. Globalisation and strong interdependence between states in the international system create spill-overs: problems experienced in one region are felt in other regions. For example, economic and financial struggles in Europe and the US have impacted China in many ways. China now realises that increasing the interconnectedness of economic and political relations in the international system truly magnifies the shocks and aftershocks of boom and bust cycles. These have forced China to seek alliances and partnerships elsewhere, with much closer commercial ties between China and Southeast Asia being in-sync with the expanding architecture of regional interstate collaboration. Slowly but surely, China is rising as a regional and global power.

*Keywords: China, us, democracy, foreign policy, alliances, geopolitics  
South China Sea*



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### Introduction

From 2000 until 2013 the US has been swinging from crisis to crisis: Afghanistan, the Boston bombings, corporate bailouts, debt ceiling hiccups, Detroit's bankruptcy, Egypt, financial meltdowns, govern-

ment shutdown, insolvency, Iraq, Iran, Libya, violent shootings, North Korea, Pakistan, real estate bubbles, September 11, Syria – and the list goes on and on. These events, while regrettable, are opportunistically leveraged by rivals, especially China: they became aware that as the us was distracted with domestic affairs instead of international relations or foreign developments it stole the media spotlight away from Beijing. But for all the unfortunate experiences in the us, China has not remained immune and the media continues to be laden with stories of how China was busy dealing with internal challenges: abuses of power, corruption, economic rebalancing, growth rate slowdowns, income inequality, pollution, uneven geographical development, and social unrest (etc). Given the strong interdependence between states in the international system, problems experienced in one region are felt in other regions: economic and financial struggles in Europe and the us have impacted China in ways that have brought to light the interconnectedness not only of systems but also of people, and the way in which globalisation gives *new* meaning to transnational and global issues. In short, China has realised that increasing interdependence of economic and political relations in the international system truly magnifies the shocks and aftershocks of “boom and bust” cycles.

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These shocks and aftershocks have forced China to seek alliances and partnerships elsewhere. Much closer commercial ties between China and Southeast Asia are in-sync with the expanding architecture of regional interstate collaboration. These ties are not only conducive to politically friendly environments but also reduce the probabilities of interstate conflicts. Neighbours will be more open to Chinese ambitions if they perceive it as a constructive and understanding partner. It has become clear to most Asian states that increasing interdependence can be either reciprocally cooperative or mutually damaging, so a collectively supportive mind set is in everyone's interest.

As the 21<sup>st</sup> century unfolds, it is almost unarguable that East and Southeast Asia will be increasingly important in global economic, political, and security affairs. Because this region is, by any account, poised to become the true engine of global growth, ‘greater American political engagement, and especially an expanded us military presence,’ is expected by Asian nations.<sup>1</sup> But China is not Asia. The continent boasts dynamic powers like Japan, India, and South Korea, which enjoy, to varying degrees, close relationships with the us. Yes, many scholars

agree that the tectonic size of the Chinese economy, its accumulated foreign-currency reserves, and its growing military forces grant it increasing influence in world affairs. Yet, these do not necessarily imply that China becomes the de facto regional superpower. Events in this century seem to suggest that the political awakening of youth populations worldwide and the revolution in social media and telecommunications is shaping national and international discourses in globally important issues. Our world is now sculpted by the interaction of collective emotions, popular perceptions, and confounding narratives of societies that are no longer influenced by a single hegemonic power.<sup>2</sup> China cannot assume it has a well-delineated path to global stardom.<sup>3</sup>

Over the last four decades, China has profited from the liberal economic order crafted by the US and its European allies after WWII. Because China's economic growth has been driven by exports to rich countries, many scholars believe that Chinese leaders will not only strengthen the prevailing open trading system but also defend it (evidence of this strengthening is China's desire to protect key shipping lanes from the Indian Ocean to the South China Sea). China's reliance on overseas investments, financial interdependence, Western consumerism and tourism, US and European educational institutions, cutting-edge technologies, and foreign currency inflows will keep it anchored to an economic order that rewards certainty, transparency, legal rights, and peace while punishing uncertainty, corruption, torts, and wars. Being a part of this economic order calls for certain predetermined features that facilitate commerce and trade between parties, as well as demanding most participants to abide to widely agreed trade rules and codes of conduct. While this may hold true, Bremmer warns that China's autocratic capitalism is not only oriented to maximise profits but also to 'maximise the state's power and the leadership's chances of survival.'<sup>4</sup> And this type of capitalism runs the risk of placing political continuity and national security ahead of profits and wealth protection. As a consequence, China's revenue streams are destined to the acquisition of material possessions and the accumulation of key 'resources in the hands of the state...to project power internationally.'<sup>5</sup> It seems that China will continue to evolve in this economic order with its unique characteristics.

This evolution has proved beneficial as it opened space for prosperity and security to flourish. According to World Bank data, China's an-

nual percentage growth rate of GDP at market prices from 2008 to 2012 was 7.8%. This was 5.6% more than the 2.2% rate of the US.<sup>6</sup> In some circles China has gained clout for its still-impressive growth rates during and after the global economic downturn from 2008 to 2011. The subprime mortgage debacle and the financial crisis in the US, along with the ensuing recession, when combined with huge bailouts in the EU, have led many commentators to wonder if the Chinese model of autocratic capitalism with significant government involvement may be preferable to democratic capitalism. But state interventionism kept growth steady and unemployment low while accepting inflation, inefficiencies, productivity losses, and market disruptions. This top-down tinkering masked more fundamental economic, financial, and structural concerns that will surely come back up later on.

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Indeed, the Chinese politburo has identified a number of scenarios that could threaten economic growth, political legitimacy, and social stability: widespread acknowledgement of a deep culture of corruption and cronyism; loss of societal trust on leadership; income disparities between rich and poor; popular discontent and urban unrest; unbridled nationalism; and rising unemployment. These domestic issues, while contained and tactfully handled, provide us a glimpse of the still very relevant national challenges that policymakers have to deal with alongside regional affairs. Experts on Chinese politics in the East and West agree that regime survival is the highest priority of its rulers. This prioritisation is undergirded by solid national plans and policy actions aimed at dealing with crises without showing confusion, deficiency, or weakness; while communicating to its population that China is making progress nationally and internationally as a modern country.

This work examines China's difficulties in finding a sustainable economic footing, an acceptable role in world affairs, and strategic relationships without rising fear or suspicion. It takes a closer look at multidimensional issues including, but not limited to, democracy, diplomacy, economics, geopolitics, foreign policy, financial and real estate markets, transparency, and the environment. The main argument is that China is realising how challenging it is to be an established power and that juggling complex national, regional, and international problems can be a truly daunting task.

## Democracy and the Rule of Law

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Authoritarian states, such as China and Russia, have tightened their anti-democratic grips. In fact, today, democracy is waning slowly in every region of the world. The precise cause of this global democratic downturn can be linked to the slowing or reversal of economic growth. But one can also add the more general travails of globalised modernity: economic inequality, weak social welfare systems, stagnant wages, rapid spread of debilitating diseases, rampant urbanisation, environmental degradation, and increasing migration. These interrelated factors give autocrats and authoritarians short-term advantages in winning the electoral support of fearfully anxious middle-class constituencies, which adduce that further political change invites economic ruin. In diagnosing the troubled state of democracy worldwide academics quickly point out democracy's failure to reliably deliver economic security, shared prosperity, and social wellbeing.<sup>7</sup> However, it is still difficult to argue that non-democracies will ultimately perform any better than well-run democracies; or to establish their authority and legitimacy as alternative models of political rule.

An argument can be made against a strong reversal of democracy around the world. Evidence and practices gathered over the past 60 years suggest that, over the long run, democracy, growth, and the predictable peace among democratic nations trumps over communism and dictatorships. But if one assumes a global rebalancing of power as emerging countries start sharing the burden of international issues and spending their wealth without external directives, there is reason to worry about countries still making transitions into democracy. As Diamond noted in 2009:

support from an external authoritarian power can insulate a dictatorship that might otherwise be susceptible to western leverage, as with China's role in sustaining dictatorships in Burma and North Korea against extensive western sanctions and Russia's obstruction of democratic pressures on regimes in Armenia, Belarus, and Central Asia.<sup>8</sup>

As far as China is concerned, it has been years since its scale has been tilted toward authoritarianism—but more are welcomed.<sup>9</sup> Recently, China has found it hard to control people's interests in the outside world, especially via the internet, movies, and books or through international travel. The Chinese are demanding more freedoms as they

are exposed to countries where democracy reigns. They are witnessing the full spectrum of creativity, entrepreneurship, and innovation that arises from free and open exchange and communication between peoples, and how alternatives in the form of diverse political parties give way to competing opinions and views to be studied, reconfigured, and harmonised openly.

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### **Diplomacy: Tinkering as They Go**

The tactical configuration behind Chinese diplomacy and foreign policy choices include political legitimacy, concerns of China's international status, domestic stability, growth and antiterrorism. Its leaders are testing their roles in intergovernmental institutions and multilateral arrangements with hopes that participation will grant them an influential spot at the negotiating table as well as recognition as an established power. But as China played its cards in the UN Security Council it was clear to others that self-interest and zero-sum calculation frequently informed policymaking. A relevant consideration in geopolitical and geostrategic calculations in East and Southeast Asia is that China's regional ambitions are becoming more visible, with military assertiveness and nationalistic impulses undermining the carefully crafted messages of growth infused with peace, moderation, and patience. Yet China understands that Australia, India, Japan, Vietnam, and other ambitious states will compete for regional pre-eminence in the economic, diplomatic, and military domains, which sets off pre-emptive policies and actions that may result in misinterpretations. Also, there are features of Chinese nationalism that affect foreign policy and these, in turn, have put pressure on policymakers to move beyond their traditional distrust of multilateral diplomacy.

### **Globalisation Delivers its Lessons**

Concerns over intellectual property, rising wages, and volatile fuel prices are leading many foreign firms to rethink the wisdom of setting up shop in China. In fact, a re-conceptualisation is taking place as multinational companies are building up sourcing in Canada, the US, and nearby countries such as Mexico. Given the exigencies of rapidly fulfilling orders closer to customers, maintaining efficient supply chains, the

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broader use of just-in-time inventories, the steadily increasing share of sales occurring over the internet, and expanding regional trade with Latin America, the business of low-cost and dubious-quality manufacturing in China is tapering. These economic forces are forcing leaders to diversify the economy and broaden income sources.

The Chinese economy still lags far behind in technological innovation, now considered a main propeller of growth. China contributed 14% of global research and development spending in 2012, compared with nearly 24% for the EU and 29% for the US.<sup>10</sup> As its economy develops, Chinese businesses have had to increase salaries to retain workers and cope with inflation. So, in the interest of comparison, the monthly wages for garment workers in four different countries are: \$48 in Bangladesh, \$100 in Vietnam, \$235 in China, and \$1450 in Oklahoma, US. China can no longer rely on the export-driven model of the past—it must build on the accumulated wealth of its people to boost domestic consumption and foster regional trade.

State capitalism has created economic and market disruptions, including banking and finance. Foroohar, an economic observer and commentator for *TIME*, noted that

China used the financial crisis of 2008 as a reason to put the brakes on opening up its banking system. But state-owned banks have lent out mom-and-pop depositors' money at minimal rates to overzealous property developers, creating a real estate bubble of epic proportions: Chinese loans have grown by 20% a year since 2007 and are up to a whopping \$10.2 trillion. While it's impossible to know for sure, some financial experts estimate that as much as \$3 trillion worth of that may go bad.<sup>11</sup>

In short, top Chinese leaders will continue to fine-tune the links between national prosperity and political legitimacy, while adapting to international variation in demand, supply, and investment.

### Geopolitics: Asian Prosperity and Security as Priorities

The “China-hawks” on the US’s National Security Council and in the Pentagon want an economically revived Japan with more resources to build up its defence capabilities. Tellingly, in a speech at a Washington think tank, Shinzo Abe, Japan’s Prime Minister, said that he is willing

to do this in order to have a Japan that is not only diplomatic but also assertive in the region. The continuing gaps in wealth and power between the us and China are still a deterrent to the establishment of regional hegemony by coercion or the threat of force. Separately, the Russian government is eager to profit from China's economic progress and weapon purchases;<sup>12</sup> while Chinese policymakers view Russia as a critical ally on the world stage. This relationship sets off suspicion in the u.s. as their cooperation vetoed military action against Syria during its civil war.

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China's participation in humanitarian and peacekeeping operations is still taken with trepidation. For example, India, a regional power, has expressed anxiety and doubt over the deployment of Chinese navy ships to the coasts off the Horn of Africa to conduct anti-piracy operations. To the Chinese government, it is obvious that its military and naval build-up sets off fear instead of calm reassurance. Chinese scholars have for long wondered why us deployments are positively received and some have concluded that the us has built an institutionalised framework of influence through the promotion of liberal ideals and the establishment of international norms that are synced with us principles of acceptable demeanour. As these norms are embraced by more and more countries in the international system, us ideas, influence, and thinking become legitimised. This trust and legitimacy is so strong that the us counts on more than 50 military allies, while China has practically none. The bias upsets China's leaders as they wish to be trusted.<sup>13</sup>

The possibilities of seeing Chinese belligerence in East and South-east Asia are often overstated. China is very well aware of the military disparity between it and the us, plus the potential for full diplomatic isolation in the international system if Chinese intervention occurred. It is not helpful either that the majority of the world's industrial nations are not only democratic but also aligned to the us. A regional challenge to the established influence of the us will be surely met with a strong military reaction, followed by condemnations, recriminations, and sanctions. In recent years China has seen the power of Western coalitions in enacting economic and trade sanctions on countries, and the devastating effect it has on recipients as well as neighbours. From Cuba to North Korea and Russia to Syria, these examples paint a picture of targeted disciplinary actions. In other words, any weak country



that chooses to deviate from the norm will be punished, isolated, and not allowed to benefit from the liberal economic order sustained by its benefactors. It has for long been a relatively effective tool of diplomacy without the legalities of occupation and war. It also reveals to China's leaders that the world's prevailing status is one largely influenced by the US and its many allies: a powerful group that dictates order and structure. As it stands, China's actions and reactions in its backyard are somewhat constrained by US military might, strategic encirclement by allies in Asia, and a diplomatic front composed of rich democratic supporters.<sup>14</sup> In the end, China cannot help but notice that the targeted outliers share common characteristics: autocracy, dictators, oppressive to people, pugnacious, and ideologically shaped by communism.

Even if containment and restraint does not play out because of US economic-military decline at the hands of its dysfunctional government and bipartisan discords, China will find it very hard to become the *de facto* regional power given that this scenario would imply the total collapse of other powers in the Asia-Pacific, from Australia to India to Japan. Moreover, national collapse does not necessarily translate into outright subservience, much like outliers do not break their backs to acquiesce to US directives. To do so, China would have to deploy force against these countries, and its immediate neighbours, and force them to follow its lead. That said, it is unlikely that China will become a regional hegemonic power anytime soon, and less so if a regional power grab ensues. Traditional and emerging powers that are not heavily vested in weapons sales understand that conflict and war results in economic decline, and that if they want to stay in power their populations need to bank on national prosperity to secure their votes. Indeed, a regional "power club" that keeps each other in check is the most likely picture to emerge in Asia: an international configuration with rough parity and focused on peace.

As one narrows scenarios it becomes evident that China's economic growth has strategic impacts on US power, and only insofar as accumulated wealth is translated into military strength. If it turns out that China becomes the US's prime global competitor, there is wisdom in supporting other emerging countries in the Asian continent. For example, a strong and wealthy India, as well as a powerful coalition of Southeast Asian countries, can become strategic assets to American attempts to contain China. On the other hand, to have Brazil, Turkey,

South Africa, and Vietnam as staunch allies and defenders of the liberal economic order improves US odds. Even if China gives life to its idea of expelling the US from the Asia-Pacific region, this will be a complicated task to accomplish: regional control will present difficulties so long as Taiwan retains its independence and remains tied to the US for its protection, and so long as ASEAN, Australia, Japan, South Korea, and a litany of smaller countries host bases and troops.

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### *Claiming National Strategic Interests in the South China Sea*

And then, there is the South China Sea which spans from the Singapore and Malacca Straits to the Strait of Taiwan. It is considered as one of the world's most disputed bodies of water because of its strategic value. China, by recalling historic maps, lays claim to nearly the entire sea. Its claim overlaps with the maritime claims of Brunei, Malaysia, Philippines, Taiwan, and Vietnam.<sup>15</sup> As claimants hash out details, disputes emerge. These disputes threaten to destabilise Southeast Asia and even raise the risk of drawing the US into a conflict with an increasingly assertive China given that sovereign territory, natural resources, and national pride are at stake. To Chinese policymakers, exercising sovereignty over the South China Sea is a national strategic interest because more than half of the world's merchant tonnage, a third of crude oil trade, and half of liquefied natural gas trade pass through its waterways. China has assumed a reactive approach to disputes since it *perceives* that US economic, political, and military power is in decline. This approach has been followed by remarks from Chinese officials to US diplomats that the South China Sea is a core interest to China: a posture that was reaffirmed to (former) Secretary of State Hillary Clinton.

Whether the sea is a 'core interest' or not is irrelevant given that the government has continued to underline the protection of China's territorial integrity at any cost; which the US interprets as the islands and waters in South China Sea. Evidence of its importance can be glanced out of a Chinese defence report, released in April 2013, declaring that Chinese leaders will resolutely take all necessary measures to safeguard its national sovereignty and territorial integrity. At the heart of the claim lie reserves of gas and oil, fisheries, protection of ships and oversight of routes. But as the US continues to prefer dialogue, diplo-

macy, intergovernmental institutions, and rule of law instead of outright conflict, China will find itself utterly contained at the negotiation table; unless it breaks its repeatedly insistent promises of non-intervention, peace and collective growth.

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But global economics are an entirely different matter.

### Investments Abroad: A Blessing or Curse?

While Chinese investments in Africa have been criticised for their voracious exploitation of natural resources, many scholars argue that these monetary inflows have aided the continent to improve a large number of socioeconomic parameters. Radalet asserts that Africa's recent success – child mortality is down, as is the number of people living in extreme poverty – is a direct result of more democratic governments, a new class of civil servants and businesspeople, rising foreign investments and sounder economic policies.<sup>16</sup>

As critical resources start dwindling around the world, nationalism is seeing a resurgence and regional powers begin to exhibit signs of protectionism and influence exertion in order to carve out backyards or spheres of influence just like the us did in Latin America and colonial Europe in Africa and South Asia. Russia is extending its power position in the former Soviet countries while China has been active diplomatically and militarily in asserting control over the East and South China Sea and India claims oversight and rights in the Indian Ocean. If one takes these actions as signs of what is in store in the near future, the world can expect clashes between regional powers vying for gas, oil, and other natural resources to fuel their economies.

These investments in other countries are not only aimed to secure resources to sustain economic growth but are also diversification tools to avoid having a country so dependent on exports. It is clear that many countries are thirsty for foreign investments as they are trying to modernise their economies and boost their trade balances. In some regions China emerges as the ideal investor as countries move away from us dominance and as they broaden their clientele for products and services given that successful enterprises are usually followed by lucrative trade agreements. The problem for China is that the us is still too powerful, influential, and rich to justify swapping.

## Financial Markets: Is Trouble Looming?

Driven in the late 1990's by Beijing's large infrastructure investments and most recently by the Chinese Government's stimulus plan to combat the economic impacts of the global financial crisis, the Chinese bond market has quintupled in size to \$4.1 trillion since 2004.<sup>17</sup> For some time now the government has been worrying about an explosion in lending by the country's numerous banks – not all of which have been judicious lenders. By June 2013 Chinese banking regulators tightened access to cash by limiting banks sources of funding.<sup>18</sup> A collateral damage of reining in lenders was the quick selloff in the country's multi-trillion bond market; an event brought about by banks selling bonds to raise cash to honour withdrawals and make loans. These massive trades in fixed-income securities bolstered critics of China's financial system, who highlight its bond market as an underappreciated source of systemic risk to the country as it faces challenges in controlling fast-rising lending under a weakening economic environment. The issue at hand is that most bonds are not only held but also traded by the country's banks.<sup>19</sup> This concentration of bonds within the banking system consolidates risk that in most other nations are spread out among thousands of individual and institutional investors. Additionally, there are concerns over the bond ratings in the marketplace: critics say they are unrepresentative of credit quality and price valuations. The current bond rating system makes it difficult for analysts and investors to assess creditworthiness as well as the efficacy and reliability of state regulators.<sup>20</sup> It is with this delicate domestic background that China tries to move ahead despite setbacks. Many observers have noted that 'there is an inevitable tension between a bank regulator's mission of maintaining financial stability and the wider aim of promoting economic growth' by politicians. Therefore, foreign regulators are likely to force Chinese banks to create fully-capitalised units.<sup>21</sup>

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## Real Estate: Chinese Investors Bet on the US's Recovery

Investors from China – including Macau and Hong Kong – have emerged as the second-largest foreign buyers of buildings and homes in the US (second only to Canadians). The state-owned Bank of China has replaced big European banks as the largest foreign lender in commercial real estate deals in the US. As of mid-2013, the Chinese

government owned more than \$1 trillion of US treasury securities; the issue has been that these investments generate little returns as a result of low interest rates. Chinese and other investors are betting on a real estate rebound, with the expectation that the potential returns in US commercial property will be higher than in other countries. In addition to buying commercial and residential real estate, the Chinese are emerging as powerful financiers of other institutions' deals. A number of Chinese development firms are also lining up notable US commercial real estate projects such as luxury condominiums, lakefront townhouses, and waterfront neighbourhoods in order to profit from increasing US consumer confidence and a more surefooted economic recovery. The China Investment Corporation, which is China's main sovereign wealth fund, has taken direct stakes in properties, and also has invested billions of dollars in real estate funds overseen by large private investment funds in the US. All these indicators suggest that China is strategically investing its large foreign-currency reserves as it integrates more fully into the capitalist global economy.<sup>22</sup> In the end these bets will very much depend on China's internationally behaviours as there are widening beliefs that Chinese enterprises could be punished if the country behaves badly.<sup>23</sup>

### Trade, Technology and Threats: Making Friends, Worrying Foes

In Central Asia, when a new gas or oil field is discovered, the pipelines head to China instead of Russia. During 2013, in Turkmenistan – China's largest foreign supplier of natural gas – Chinese officials 'inaugurated production at the world's second-biggest gas field, Galkynysh.' Nearby, in Kazakhstan deals, worth 30 billion US dollars, included a stake in Kashagan, the world's largest oil discovery in recent decades.' And, in Uzbekistan, 15 billion US dollars in gas, oil, and uranium deals were signed. The Chinese state media has reported that trade volumes with Central Asia reached \$46 billion dollars in 2012, up 100-fold since independence from the USSR two decades ago.<sup>24</sup> This economic interdependence is critical to China, chiefly when it comes to security issues in Central Asia given that the Chinese government's main concern as NATO forces withdraw from Afghanistan is the threat posed by Uighur separatists and their supporters in this volatile region. If seen

purely through this prism, Chinese investments in Central Asia are aimed at promoting growth, peace, and stability by creating jobs, raising incomes, and improving living standards in a mountainous region that shares 1,750 miles of borders with China's western provinces.<sup>25</sup> But not all countries trading with China are willing to open their domestic markets.

In 2005, the RAND Corporation issued a report characterising Huawei, China's telecommunications behemoth, as part of a 'digital triangle' made up of the Chinese military, state-controlled research institutes, and consumer-driven technology companies, all of which are aligned to significantly improve China's defence capabilities. Additionally, US Congressman Dutch Ruppersberger, a member on the House Permanent Select Committee on Intelligence, commented that: 'We believe that China has the means, opportunity, and motive to use their telecommunications companies against the United States...and that the Chinese government is working with them and is involved.'<sup>26</sup> Indeed, US corporations and politicians are increasingly anxious with the rapid rise and global reach of China's top technology companies, especially after the explosion in Chinese cyber-attacks on the US government and business in 2012 and 2013.<sup>27</sup> China has learned that free trade is *not* free and that open markets are *not* really open.

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### Misperceptions and Misunderstanding

In the US, the level of distrust and scepticism towards China reflects the persistent worry that China's fast-growing economy, even though it has slowed, threatens jobs in a weak American economy, and that China's portrayal of itself as a newly confident and rich power – with a growing military capability – is a posture that is internalised as threatening to both Americans and Europeans. Moreover, American media outlets have had consistently negative coverage of China and Chinese issues in the news. For example, China's tense relations with Japan and Vietnam are thought to have contributed to the uneasy perceptions of China and its leaders. In 2013, there were reports in magazines and newspapers that wealthy Chinese families send their children to top colleges, schools and universities in Europe and the US, in some cases crowding out equally deserving applicants with fewer resources. This is also believed to be another sore spot that is breeding resentment.

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But if world leaders realise that China is a rising power trying to do what is best for its people and its economy, then some of the international behaviours displayed may be better understood as actions and reactions of a country finding its footing in the international arena. Europe and the US have the opportunity to accommodate Chinese ambitions within a cooperative framework, one that internalises the shift in power from West to East and profound respect for the development of national priorities that align with a supportive economic structure.

Many believe that if China democratises, the chances of great-power wars will be drastically reduced. But if it does not, it will only widen the already existing divide in the world: one part authoritarian and the other part democratic. The question is: for how long can the world prosper given the increasing interconnectedness and interdependence of economic and political systems? Should China resist pressure to democratise and counter all reform forces as its populations calls for more freedoms, the US and its allies will be forced to work hard at preserving and promoting the democracy-pegged liberal economic order that is grounded on western principles and values. This work will rely on existing institutions (i.e. ASEAN, NATO, and the UN) and new ones, as well as on international laws and accepted norms of conduct. In parallel, for the order to survive attacks and erosion, the West will have to convince rising powers that abidance is in their best interest, and that the strengthening of an agreed order will reinforce the notion that a superpower is *not* needed given that the institutions, norms, rules, and regulations will in a way replace the need to have overwhelming hegemonic power to keep ambitious states in full check.

### Strategic Opposition to the US

In the first half of 2013, National Security Agency contractor Edward Snowden left Hawaii to Hong Kong, and then to Moscow, after having leaked secret documents about US intelligence and surveillance operations. This was accomplished with the knowledge and support of China. This act highlights the assertiveness, determination, and willingness of new rising powers to challenge the United States in matters that affect the global commons. In addition to protecting Snowden from capture and extradition, Chinese government policy actions toward Syria have blocked the UNSC for two years (with Russian help). This blockage pre-

vented any sort of joint international action to stop a protracted civil war and to choke the genocidal tendencies of Bashar Al-Assad, Syria's president. Moreover, the Chinese People's Liberation Army launched cyber-attacks and hacked American companies and public institutions. This worried Washington. As if this was not enough, China carried out joint naval exercises with Russia, which, coupled with China's tepid support to end Iran's nuclear weapons programme, has undermined us policies in the Middle East, as well as endangering its energy and security interests given that any effort to coordinate additional sanctions and restrictions to halt enrichment may not come to fruition.

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China is aware that the us is overstretched with futile wars and domestic political gridlock, all of which provides fertile grounds for Chinese leaders to better advance their own interests by kicking down the White House while it is most vulnerable. China is not interested in a second Cold War; it will settle for a tired and weaker us that softens its rhetoric and tone in the Asia-Pacific region. China continues to seek diplomatic clout with developing countries in Africa, Asia, and Latin America by constraining us initiatives in Central Asia and the Middle East. This strategy may prove beneficial because states that resent American hegemony find pleasure in the sustained decay of the world's strongest power. This approach is hinged on the perception that China's political ideology and economic model is stronger than the one embraced by the us, and that its foundational principle of non-intervention underlines the impossibility of meddling in a country's sovereign affairs. Chinese leaders know that supporting a leadership overthrow could always backfire on them, so the marching order is not to interfere and let it be.

China's calculations in foreign policy are informed by cost-benefit analyses. Chinese strategists perceive the us in decline, fatigued with wars they could not win, burdened by alliances that no longer are viable, and losing influence with countries that have traditionally been receptive to its power. The lack of measurable results in a number of strategic objectives further support the idea that lawmakers in Washington are *not* in tune with the shifts in power and the economic changes that are taking place around the world. Hawks in Beijing interpret us foreign policy initiatives as offensive and downright hostile, with a number of military officials asserting that Washington is out to constrain Chinese power at any cost. When it comes to the promo-



tion of democracy, many in the politburo believe it is a macabre plan to undermine the evolving economic model of China. If the us supports Southeast Asian countries in their maritime claims in the South China Sea, Beijing internalises these actions as curtailing its regional influence – an intentional push against Chinese ambitions to build a regional sphere of influence. And, it is with this calculation that leaders of the Chinese Communist Party find more benefits than costs in pestering the us.

China understands that the us will continue to be wary of its partnership with Russia and its trade agreements with ASEAN, as well as its continued economic diplomacy in Africa and Latin America. The Chinese government has not been shy of expressing its interest in resources in Central Asia and the South China Sea, which explains why commercial bridges are being built with many countries in these regions – especially with those disengaged from us assistance and protection. China is a rising power in global and regional affairs that is more than willing to gravitate in support of Russian truculence as they understand it as a further burden for American policymakers. For commercial reasons China will maintain good working relations with the us but this convenient utilitarianism should not be confused with strategic long-term engagements.<sup>28</sup>

China is now an inescapable force in the international system. It is a state with its own interests, and its own plans. Agreeing or opposing us actions and policies is mere rhetoric that any state in the system can initiate, but the resulting behaviours following that rhetoric will matter as players define their space in view of developments in the global arena. The avoidance of interstate confrontation between China and the us will depend on the levelheadedness of its leaders and the stakes of the underlying dispute, but above all, any conflict will be limited by long-term impacts on prosperity and security. Indeed, transnational threats and global security issues cannot be managed without European and Chinese cooperation. The us will continue to protect its trade interests while acknowledging that Chinese leaders face challenges in addressing their own domestic economic problems, including pollution, inequality, and employment. As it is argued here, both China and the us are pleased to see each other busy with domestic problems.

As for Europe, both China and the us are interested in maintaining commercial ties, financial stability, and socio-cultural exchanges. In

Beijing, leaders are not discounting the possibility of having a world temporarily guided by three powers: a G3 transitioning into regional pockets of influence according to the dominant country that emerges as iterative power grabs play out. This arrangement, whether it occurs or not, calls for increased attention by China, Europe, and the US to economic and military power shifts.<sup>29</sup> This attention to actions and reactions as well as proposal and counterproposals will define the power balancing dynamics in a world in rapid flux.

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### *Foreign Policy and the US*

In a sober assessment of US foreign policy, CFR President Richard N. Haass wrote that the US must place greater emphasis on domestic investments and policy reforms given that the country is

nearly going over fiscal cliffs, threatening not to pay our bills to creditors, cutting much needed investments in human and physical capital, stealing from our children by refusing to rein in spending on retirement and Medicare, and educating people from abroad who want to stay and contribute to this society – and then refusing them the opportunity to do just that.<sup>30</sup>

Additionally, Haass warned that schools, colleges and universities are not preparing younger generations with the abilities, skills, and tools to efficiently compete in a globalised world, and that, to make matters worse, the US has embarked on an unsustainable debt path that will likely retard the much needed economic recovery of the country. Indeed, by mid-2011, the US credit agency Standard & Poor's downgraded the US credit rating from top-tier AAA 'by one notch to AA-plus on concerns about the government's budget deficit and rising debt burden.'<sup>31</sup> The above matters to China because – as of December 2013 – they hold the largest share of US debt, which is a little less than one quarter (~\$1.3 trillion) of the total \$5.6 trillion in foreign-held debt.

A stronger emphasis on national affairs, from economics to politics, matters to the world at large. Only if the US gets its act right and puts its affairs in order will it be able to set an example that other countries around the world will want to emulate. In effect, the US must first find ways to recover its economic stardom and creative strengths in order to judiciously accumulate the resources necessary to deal with the emergence of military and political competitors or to discourage

anti-American coalitions wishing to diminish its clout around the globe. It is no secret within US foreign policy circles that the US has been underachieving nationally and overreaching internationally, akin to a risk-loving gambler spending away on a borrowed credit card. As the White House shifts its attention away from China (and Russia) to deal with internal matters it opens the door for competitors to exploit weaknesses and to leverage all advantages.<sup>32</sup>

China finds itself with luck on its side as the US political system is all too often gridlocked, tightly roped into acrimoniously divergent views so far apart that conciliation seems nearly impossible. At the same time, the democratic system is a victim of its own machinations: an unprecedented polarisation at the hands of Democrats, Republicans, civil society, and special interest groups. These special interest groups represent associations, businesses and corporations, labour unions, and retirees, that when working together bring depth and breadth to public debates, along with handshakes, money, and pressures. Yet, within this complexity, that for the last 237 years has worked for better or worse, it is still not clear who speaks for “the people” as a social construct or who is looking out for the best interest of the nation. Given this situation in which politics and money are mutually complementary in decision making, China is not that different than the US: both countries using available powers to secure advantages and gains in a fiercely competitive world. However, there are limits to what China can do with economic superiority and military force, so national complexities beat regional realities that in turn trump international abstractions.

### Transparency and Global Standards Warranted

According to a Pew Global Survey, Americans view China in a markedly less favourable light in 2013 than in 2011, and that Chinese attitudes toward the US have also soured, a sign that the two countries are drifting apart at the level of public opinion. The figures showed that ‘since 2011, China’s approval ratings in the US have dropped 14 points to 37%, the lowest rating for China in any region in the world. Negative attitudes toward the US among the Chinese rose to 53%, a 9-point increase.’<sup>33</sup> This may be due to bad press coverage. Sure enough, in 2013, Obama’s White House and US corporate executives tried to convince Chinese

President Xi Jinping and his government that evidence of outright theft by the People's Liberation Army is set to damage China's growth prospects and reduce incentives of foreign companies to invest in China. Internationally, the collective concern over the longer-term is that Chinese hacking may end up establishing a new set of standards for web-based commerce and traffic, with few or no penalties for the theft of creative inventions or intellectual property.

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While generally lax and permissive, the Chinese government has been seen as acting tough against foreign companies they have determined to have engaged in unethical business practices. In mid-July 2013, authorities barred GlaxoSmithKline's finance director for China from leaving the country while they carried out an investigation into bribery, corruption, and fraud. This travel restriction came as the Chinese government ramped up an anti-corruption campaign against GlaxoSmithKline<sup>34</sup> (GSK) and other foreign pharmaceutical companies. The case is grounded on accusations that GSK used 'local travel agencies to bribe doctors, hospitals, medical associations and government officials in an effort to bolster drug sales and get regulatory approvals.' Chinese authorities are *not* known for bold moves against high-ranking business executives working in China, but commentators expressed surprise because 'the government has been extraordinarily public about the case, offering details and strong denunciations of what occurred and going as far as saying the fraud allowed the drug maker to raise prices in China, defrauding consumers.' In reaction to these accusations, government officials harshly criticised the company and its executives. For instance, the head of the economic crimes unit at the Ministry of Public Security suggested that GSK China operated in the country like a traditional criminal organisation.<sup>35</sup>

### The Environment: Turning a Blind Eye

The Chinese government has, for long, been dismissive of claims that its environmental position is delicate and indifferent to findings that a large number of cities in China suffer from significant pollution levels in air, land, and water. The evidence is abundant. In March 2013 thousands of dead pigs were found in creeks and rivers supplying Shanghai's water, a shocking discovery that has drawn attention to the country's recurrent toxic pollution. Some reports suggest that pollu-

tion alone contributes to over 700 thousand deaths each year, with the consequent economic costs by health care, lost productivity, and workers' family compensation, if any. Other examples include decades of toxic contamination of Tai Lake – a basin that holds China's 3<sup>rd</sup> largest body of freshwater, providing water for 30 million people – by Beijing's industries, which was labelled as a major natural disaster; the soil and water in Tianying, a manufacturing centre in north-eastern China, has been contaminated by lead runoff; wheat grown around Tianying has been found to carry 24 times the permissible level of lead; in Linfen, the country's coal-burning centre, once fertile farmlands are now populated with huge mines that spew thick columns of choking smoke, which has been linked to lung cancer and upper respiratory diseases; and in Urumqi, a cultural centre and transport hub for 3 million people in northwestern China, tests consistently report concentrations of airborne sulphur dioxide that are ten times the level that the US deems safe.<sup>36</sup>

## Final Reflections

The flourishing of democracy in China can be thought of as the inevitable and expected outcome of political evolution – an iterative harmonisation with international norms that support social progress, collective security, and shared prosperity. But adopting democracy may prove to be a difficult and lengthy process given that traditionalists and old-school officials of the Chinese Communist Party know that the configuration of ideas and balance of power in any region can invariably affect the breadth and depth of influence in countries within that region. This can partly explain why leaders and policymakers in China (and Russia) are bent on bulwarking their countries from accountability, democratisation, modernisation, free speech, and popular scrutiny. To them too much is at stake. In their calculation, they stand to lose everything and gain nothing. The key questions are: Is China democratising anytime soon? What would it mean for the West?

A reasonable argument can be made that a democratic and supportive China could more easily earn the trust of Europe and the US, thus facilitating the sharing of influence, power, and responsibility with a rising power.<sup>37</sup> But China seems convinced that economic performance and military might will force traditional powers to open up

the international space to newcomers, whether they want it or not. A cursory reading of history points out that democracy and its messy machinery of checks and balances takes time to work supportively for any given nation, yet there is evidence that forces and groups within China are demanding more and more freedoms as the Chinese government – with the passing of time – continues to align with a liberal economic order to create jobs, increase incomes, and sustain growth that has been used to cement its legitimacy. The West will continue to exercise strategic patience with China, waiting for it to stumble so that domestic or regional sparks catalyse the much waited “wave of democratisation” in Asia.

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From a strategic standpoint, China, as well as Russia and other authoritarian states, prefer to prevent displays of US power in the international system because it erodes any perceptual gains they have scored in the court of global public opinion. Autocrats and dictators around the world are pleased to see a weaker US and stronger competitors; to many of them this is evidence that world politics are becoming more inclusive and that the playing field is levelling. Yes, China rarely does anything that is fundamentally unsupportive of its vital strategic interests; however, the Chinese government understands that participating peacefully in an international liberal economic order is the safest path to increase its wealth, power, and security. This rationale undergirds its support of capitalism, free trade, and open markets, while remaining autocratic.<sup>38</sup> China's leadership is disinterested in upholding a world order they did not create and that was not designed with their inputs and interests in mind. Reluctant, too, is the Chinese government to take on burdensome and expensive global issues and responsibilities given that these are mostly inherited problems caused or exacerbated by traditional powers. Therefore, the balancing act of amassing economic and military power while remaining aloof and quiet will continue on display.

In the near future, it may also be relevant to consider that while China is vying for a unipolar regional scheme within a desired multipolar world featuring a weakened US, they may not attain the experience, knowledge, wealth, and military power to nourish and sustain such an idealised hierarchical structure.<sup>39</sup> Furthermore, in crafting a pathway into the future, China is *not* likely to be satisfied with a world order that favours Western values: political parties, voting, dissent, legal

rights, free speech, investigative journalism, and religious plurality, to name a few. Countries change as they acquire and accumulate power. They review, reformulate, and amend their ambitions, behaviours, interests, policies, and rationales. With this in mind, who is to say with any degree of certainty that China will stay peaceful, non-intrusive, and non-interventionist? If China ends up significantly influencing the global order, the international system can expect institutions, systems, norms, and values that conspicuously display Chinese features and ideals.

China's autocratic capitalism is effective in making decisions and launching actions on economic and financial matters in the short run, but it remains to be seen if this type of governance is, in the long run, accommodating and elastic enough to allow for adaptation to a rapidly evolving international environment where power, security, trust, and wealth are so tightly interconnected. As global power is shared, the world will witness incomprehensible alliances and partnerships. Here is an example: In an attempt to shore up allies in the region, in 2012 China suggested to Australia's 'foreign minister Bob Carr that Australia might have to choose between China and the United States.' While this offhanded suggestion created friction as it invited disloyalty to a long-time ally, it also presented an upcoming conceptual conundrum to Australian leaders given that the country is 'close to China economically but close to the United States strategically' and ideologically. Chinese political strategists know this very well, to the point of acknowledging the fact that throughout Asia Pacific this same 'dualism is so widespread' to become a nuisance.<sup>40</sup>

With the us busy with Afghanistan, Iran, Russia, Ukraine, Iraq and Syria, as well as deeply entrenched with its combative Congress, Chinese leaders might come to understand that, for policymakers in Washington, containment of China is not a perfect policy but an option with costs and risks that are much more easily mitigated and understood than those of outright war with a rising power. In addition to the above, Chinese leaders need to understand the evolving strategic landscape so they can embrace a national and international renewal aimed at revitalising China's global role.



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## Notes

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- 3 A. L. Friedberg (2011), *A Contest for Supremacy: China, America and the Struggle for Mastery in Asia*, New York.
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- 17 The Chinese bond market does not work as bond markets in Europe and the United States. In China, the bond market has a bond-ratings system where nearly every company gets top scores and bonds are rarely downgraded. Also, it is overseen by a patchwork of regulators with overlapping and redundant roles. The market is largely closed to foreign investors and offers few protections for those bond buyers that are willing to risk their clients' money.
- 18 By allowing interbank loan rates to rise, the Central Bank of China limited the market for loans between local banks, leaving some of them – those with small capital reserves – scrambling for cash. Banks responded by selling short-term bond holdings, which tend to be more liquid and therefore easier to trade in the financial market.
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- 22 Julie Creswell (2013), 'Chinese Investors Pursue us Property Deals,' *The New York Times*, 25 June 2013.
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- 24 China is the biggest trading partner of four of Central Asia's five countries. Most gains are on gas and oil imports, which drove Kazakhstan and Turkmenistan, both with large energy reserves, into China's arms.
- 25 Editorial, 'China in Central Asia: Rising China, Sinking Russia,' *The Economist*, 14 September 2013, p. 51.
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- 32 Gideon Rachman (2010), *Zero-Sum World: Politics, Power and Prosperity after the Crash*, New York: Atlantic.
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