

## **China's Current Problems and Prospects**

Remarks to a panel at Brown University's "China Summit"

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The dominant features of Chinese politics in this decade have been the rise of Xi Jinping, the return of repressive autocracy, and an inconclusive effort to re-engineer China's economic model. China's middle class has expanded enormously but the Chinese Communist Party has yet to find a political model that can accommodate this new, educated urban majority's aspirations for greater participation in government decision-making. The major trends in China's national security situation over this period have been a more ambitious role for China in global governance, worsening relations with most neighbors, strengthening ties with Russia, and escalating rivalry with the United States. China now finds itself less confident internally and in a markedly less peaceful international environment than before.

Foreign views of China have shifted too, and not in ways favorable to Beijing. The Chinese Communist Party has lost its previous reputation for superhuman competence in managing economic affairs. China's political system has become even less attractive than before, with significant implications for its eventual integration of outlying parts of the Chinese commonwealth, like Hong Kong and Taiwan. Some now worry that China may suffer economic collapse and political turmoil that could destabilize all of Eurasia. Many more fear that China will use its growing economic and military power to force its neighbors to defer to it.

In short, after a quarter-century in which its domestic and foreign affairs trajectories seemed relatively predictable and unchallenging to Chinese and foreigners alike, China is back to a future of multiplying uncertainties and potential crises. The reconciliation of Taiwan with the

China mainland is once again in doubt. The danger of cross-Strait conflict is no longer receding. Reef-top posturing and naval games of “chicken” in the East and South China Seas nurture possibilities of armed conflict between China and Japan and the United States.

Meanwhile, as the Dalai Lama approaches death and reincarnation, Tibetans are restive. Some members of China’s Uyghur minority have embraced Islamist terrorism in pursuit of an independent national identity. And, in the absence of a Sino-Indian border settlement, the PLA and the Indian Army continue to scuffle along the contested line of control in the Himalayas.

China has followed -- not led -- the downturn in the global economy, but the impact of slower Chinese growth has been worldwide, reflecting China's new status as a great economic world power. There are few, if any, countries without a stake in the success of Beijing’s efforts to re-engineer its economy toward a larger role for services and domestic consumption. But success in this venture is far from assured. And, without the emergence of some sort of rule of law, it is hard to see how China can protect its people from abuses of cadre-capitalist privilege, clean up its now toxically polluted natural environment, or realize the potential of the enormous investment it is making in its scientific, technological, engineering, and mathematical workforce.

The anti-corruption campaign has killed tigers, swatted flies, intimidated Chinese officials, and unsettled entrepreneurs. Perceptions of heightened political risk now inhibit deal-making and exacerbate the slowdown of the Chinese economy. Many of China’s wealthy are hedging by shifting part of their wealth abroad.

This is a formidable list of challenges. Beijing’s handling of them has been uneven at best. Some of what it has done has been not just inadequate but counterproductive. Still, to say that China has brought many of its problems on itself is too simplistic. The Great Recession was not triggered by Chinese financial engineers, but by overly clever people on Wall Street and in the City of London. The United States, Japan, and other great and lesser powers have played a big part in worsening the foreign policy dilemmas China now faces. Overcoming these challenges will require diplomatic imagination. It will also demand a flexible approach to rejuvenating the world’s trade, investment, and financial systems. Neither imagination nor flexibility is much in

evidence in Beijing or competing capitals these days.

Other states and peoples must accommodate China and China must accommodate them if current tensions are not to shape a future hostile to peace, security, and prosperity in the Indo-Pacific region and beyond. China's policies toward its neighbors need reformulation to emphasize empathy and comity. Without such tempering of xenophobic nationalism, the Chinese dream of national reinvigoration risks becoming a nightmare for China as well as for its region.

Good US-China relations are also a dream that may be going bad. President Xi began his term in office by proposing "a new type of great power relations" as a model for China's interaction with the United States and other powerful states. The Obama administration initially embraced his slogan. After all, China is a great and growing power with which Americans must cooperate to advance our international agendas. But Washington soon had second thoughts. It feared that accepting China as an equal might imply ending America's seven-decade-long dominance of the Indo-Pacific security architecture. Americans were also influenced by Japanese and Indian concerns that Sino-American partnership might sideline them in the management of regional and world affairs.

The failure to engage with the Chinese in defining the concept of "a new type of great power relations" to American advantage must now be seen as a major lost opportunity. Such engagement might have enabled the United States to stipulate principles for the future development of a relationship with an ever-more powerful China. Managing China's rise will require striking a precarious balance between rivalry, competition, and partnership in problem-solving. By default, Xi Jinping's concept of a new pattern of great power cooperation has found expression only in Sino-Russian relations. Sino-American and Sino-Japanese relations are now characterized by rivalry that is increasingly difficult to distinguish from the sort of hostility that requires active conflict management.

Things are not likely to get easier between the United States and China anytime soon. Chinese, Japanese, and Filipino nationalists are none of them in a conciliatory mood. Antipathy to China in Washington is everywhere. Both the U.S. academy and military-industrial complex are

crawling with proponents of short-sighted Taiwan-centered China policies, ideological agendas, and military confrontations. Most American politicians question the legitimacy of the People's Republic. Many openly express the hope that it will follow the USSR into collapse. In short, China and the United States have both become committed to postures and courses of action that promise to actualize the menace each posits in the great strength of the other.

The United States is now committed to deploy its armed forces to counter China's power and to fend off Chinese intrusion into the sphere of influence in Asia that America has policed since World War II. Not content with backing existing "allies," Americans are inventing new ones – like Vietnam – whose maritime claims we can defend against China's. In effect, U.S. forces have been placed on call to initiate combat with the People's Liberation Army Navy and Air Force whenever Tokyo, Manila, and Hanoi decide they should.

And, if a fight breaks out, no one has a clue how to keep it from escalating. War between the United States and China – both nuclear powers – was once hard to imagine. We now appear to be heading in the direction of some sort of eventual standoff with nuclear characteristics. If we are lucky, when this occurs, it will end without military or civilian casualties on either side, as the Cuban missile crisis did. But relying on luck to avert catastrophe is unwise. It should not be acceptable to Americans, Chinese, or Asian peoples caught in the middle between China and America.

Snowballing U.S. opposition to globalization adds further uncertainty. China has been a key beneficiary of the liberal economic order that was created under the Pax Americana. Now that China has joined that order, Americans question it. Trade, investment, and economic interdependence have been the main drivers of stability in Sino-American relations. Rising xenophobia and protectionism in the United States work against this. Some of this trend is rooted in American economic malaise but much of it originates in reaction to Chinese cyber piracy and commercial sharp practices. Many Americans have come to see the US-China trade and investment relationship in the same zero-sum terms they apply to military interaction between the two countries.

The Trans-Pacific Partnership (TPP) was never the transformative counter to Chinese economic preeminence in Asia that its proponents claimed it would be. But even those opposed to TPP should be disturbed by its near-universal rejection in American politics. The looming failure by Congress to ratify TPP would be a defeat for further liberalization of global trade and investment regimes. It would also be a significant step toward diminished American influence in Asia. Many there would see congressional repudiation of TPP as an “own goal” by the United States that is a potential game changer.

But, while Americans and Chinese strut, posture, and exchange insults over souped-up sandbars in the South China Sea, China continues to expand both its economy and its commercial outreach. The Chinese have always been better at strategy than tactics. Their concept of “one belt, one road” exemplifies that tradition.

“One belt, one road” is a grand vision and broad strategic framework that advances multiple Chinese objectives. It affirms, rationalizes, and builds upon pre-existing road, rail, pipeline, telecommunications, port, airport, and other infrastructure projects. It creates new markets abroad for China’s bloated steel, aluminum, cement, and construction industries. It guides and enables the productive investment of surplus savings accumulated by China in its three-decade-long export boom. It ties together the disparate societies of East Africa, Europe, and West, South, Central, and East Asia, while linking them all to China. It provides a framework for a Chinese role in the peaceful enrichment of populations that, in the aggregate, constitute three-fourths of humanity. And it connects Xi Jinping’s dream of the great domestic renewal of China with the possibility that, over the course of this century, the Chinese economy can achieve preeminence on the Eurasian landmass and hence on the planet.

China’s ambitions are grandiose. "One belt, one road" is a proposal to use connectivity rather than military power or political coercion to guide the development of Eurasian infrastructure, industry, agriculture, and trade over the course of more than three decades. Chinese institutions have publicly committed as much as \$1.4 trillion to finance “belt and road” projects through 2049. (By comparison, in current dollars, the Marshall Plan cost about \$120 billion.)

The plan involves about 50,000 miles of largely high-speed railway construction, connecting the Atlantic to the Pacific coast and the Pacific to the Indian Ocean littoral. Within a decade or two, train travel between Beijing and Istanbul, Karachi, Kolkata, London, Madrid, Moscow, Riyadh, Singapore, or Tehran is to take only a couple of days. Paralleling the railways are planned superhighways, pipelines, and industrial estates. The system is conceived as intermodal, facilitating maximum logistical flexibility in the choice between air, land, and sea transport. Ports are to connect to highways, railways, pipelines, and airports, and all are to connect to industrial estates, with all routes leading to China's ancient capital of Xi'an and onward to Beijing. Overland fiber optic connections across Asia will speed global telecommunications while reducing reliance on undersea cables or the need for transmissions to transit the United States. The scale of what is projected is unprecedented in human history.

The "belt and road" plan will not solve China's current conundrums, though it can mitigate some of them. Creating demand for steel, aluminum, cement, and construction services through projects in China's West and the lands and seas between China and Europe will reduce the amount of overcapacity in these industries to be eliminated in China's East. "Belt and road" projects provide an excuse for countercyclical spending by Beijing to curb recession and boost economic growth. But the concept is more than a framework for softening the transition to a more services and consumption-dominated economy in China.

The plan aims at breaking down barriers to trade, investment, and the transit of goods across the vast space it encompasses. China proposes to conclude as many as 65 bilateral free-trade agreements modeled on its recent FTA with South Korea. "Belt and road" projects are being underwritten by new international financial institutions. These include various Silk Road funds and banks, the Asian Infrastructure Investment Bank, and the New Development Bank, with more yet to come. The new institutions will support the further internationalization of the Chinese Renminbi yuan. Much of the project finance will involve the issuance of Renminbi bonds by local partners. Co-financing with the World Bank, the Asian Development Bank, and other international lenders will leverage Chinese capital, speed the development of Chinese-sponsored financial institutions, and promote partnerships between Chinese and foreign banks and companies.

Over the past three-and-a-half decades, China has quite unexpectedly bootstrapped itself into a position at the heart of the global capitalist economy. “One belt, one road” promises to place China at the center of Eurasia, the world’s geopolitical and geo-economic heartland. If China realizes its vision, it will fully deserve the name by which it calls itself – Zhongguo [中国] – the country at the center of the world’s affairs. China's dream of resuming its status as the preeminent society on the planet will have been achieved and U.S. policies directed at limiting the regional effects of its rise will look like transitory and irrelevant distractions. But, the future, including this quite plausible future, remains a matter of speculation. Nothing is certain -- except that China will continue to surprise the world as well as its own people, and not always in ways either find congenial.