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How China is changing

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Yao Yang China's bold new Five Year Plan

Jude Blanchette Party the vehicle for Xi's nation-building agenda

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Isabel Hilton Questions remain over 'eco-civilisation' ambitions ... **and more**

ASIAN REVIEW – Champa Patel: How COVID-19 infected human rights

From the Editors' desk

For many Chinese, the Spring Festival of 2020 is one they will never forget. The holiday began as normal, with hundreds of millions travelling back to their hometowns to celebrate the lunar new year. But the country came to a standstill on 23 January, when the Chinese government locked down the city of Wuhan, the epicentre of a novel coronavirus outbreak.

Since then COVID-19 has spotlighted, like no other event, the importance of an ascendant China in global affairs. The response of China's health system in the early days of the pandemic had international repercussions. China's nationwide lockdown proved effective at containing the disease, in marked contrast with many Western democracies. China's energetic 'mask diplomacy' created geopolitical waves only likely to grow in coming months as leading countries pursue 'vaccine diplomacy' in the developing world. China and the United States sparred over global governance at the World Health Organization.

Inherent to the debates that sprang from these developments is the notion that China is experiencing a period of significant 'change'. Leader Xi Jinping hails a 'new era' that will see China 'become powerful' and achieve 'national rejuvenation'. Xi's agenda has delivered progress, but has corresponded with a significant change in how many countries view China's rise. Beijing can no longer assume a global environment that's so conducive to its continuing rise, and China's success appears to depend increasingly on the realisation of Xi's domestic agenda.

This issue of East Asia Forum Quarterly examines how China is changing and why the changes are important. On the economy, it includes analysis of the plans and the challenges in China's attempt to become a high-income country with a growth model ordered around consumption, innovation and sustainability. It includes assessments of how the political, military, technological, environmental and strategic dimensions of China's rise have evolved under President Xi.

The Asian Review section offers insights into the future of Kashmir, human rights in Southeast Asia, and global governance reform.

Neil Thomas and Jiao Wang

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COVER: A primary school student tries out a virtual reality (VR) headset at a classroom in Xiangxi, Hunan. China is pursuing its high-tech vision under the policies of President Xi Jinping. Picture: Reuters.



Workers laying track at an overpass bridge at Emali, Kenya, on the Mombasa-Nairobi standard gauge railway. Africa is a focus of BRI activities.

China takes a page from the US Cold War playbook

WILLIAM H. OVERHOLT

THE Belt and Road Initiative (BRI) is a branding exercise for China and its leader and a make-work project for state enterprises. It is also a national security strategy that adapts US Cold War policy to China's present circumstance.

In America's Cold War victory there was no grand military battle. The United States created a Washington-centred development network that nurtured America and its allies. At

its core were the institutions of the Bretton Woods system—a World Bank that funded infrastructure together with the International Monetary Fund (IMF) and General Agreement on Tariffs and Trade (GATT)/World Trade Organization (WTO), which facilitated trade and investment by creating common standards and providing emergency support.

The Bretton Woods system was supported by key domestic institutions: the State Department, USAID, US Information Service (USIS)

and a US dollar that provided global liquidity and a common standard of value. This economic strategy was underwritten by military strength, which was necessary but not the key to success.

By contrast, the USSR chose a relatively autarkic economy, predatory relations with allies and overwhelming military priorities. The US system flourished and the USSR bankrupted itself—a US economic victory.

Postwar US allies and adversaries have similarly risen to power through

an emphasis on domestic and international economic priorities—notably Germany, Japan, South Korea, Singapore and Indonesia. Deng Xiaoping cut China's military budget from 16 per cent of GDP to 3 per cent to prioritise economic growth and join the open global system.

After its Cold War victory, a complacent United States allowed the instruments of success to atrophy. Congress repeatedly delayed capital increases for the Bretton Woods institutions. Motivated by dislike for China and other emerging powers, it refused to update governance to reflect the modern global economy. The State Department budget steadily deteriorated. USIS was abolished. USAID dwindled. Democrats and Republicans alike responded to the decline of manufacturing jobs by deflecting the blame to globalisation and China, which were responsible only for about one seventh of the displacement.

The resulting social crisis undermined public support for America's successful strategy and worsened tensions with China. Budgets became driven not by strategy but by campaign contributions to Congress. Defence companies and contractors made particularly large donations, which meant that the military prospered while other domestic institutions atrophied.

The role of the Bretton Woods institutions declined. That created a vacuum, for instance of US\$12 trillion in needed infrastructure investment in emerging economies. Overuse of US dollar sanctions created a reaction against dollar hegemony.

China has moved in to fill the gap. Its first institutional initiative, the Asia Infrastructure Investment Bank (AIIB), was tailored for consistency with Bretton Woods. Its leader,

Jin Liqun, a veteran of the World Bank and Asian Development Bank (ADB), was driven by determination to create a high-quality institution without the World Bank's sclerosis. Washington responded with an evidence-free theory that the AIIB would institutionalise low lending standards unless blocked. Nevertheless, 102 countries joined and many others collaborate informally. AIIB's subsequent collaboration with the Bretton Woods institutions has justified their decision.

The US decision to inhibit a role for China in the Bretton Woods institutions and elsewhere proportionate to its economy has consistently enhanced China's global role and weakened that of the United States.

The BRI, now the big global game, emulates the Bretton Woods system. It includes development banks to fund infrastructure and systematic efforts to create common standards in railroads, customs clearance procedures, IT standards and much else. It also contains a push for the renminbi to become a global currency, a currency swap system (originally a Japan–

Like Japan in the 1980s, China's success made its developing-country protectionism and technological predation an unacceptable threat to Western businesses

ASEAN initiative) to supplement or replace IMF emergency loans, and institutions to liberalise trade and investment. China is now a leader in trade expansion, green energy and environmental alleviation.

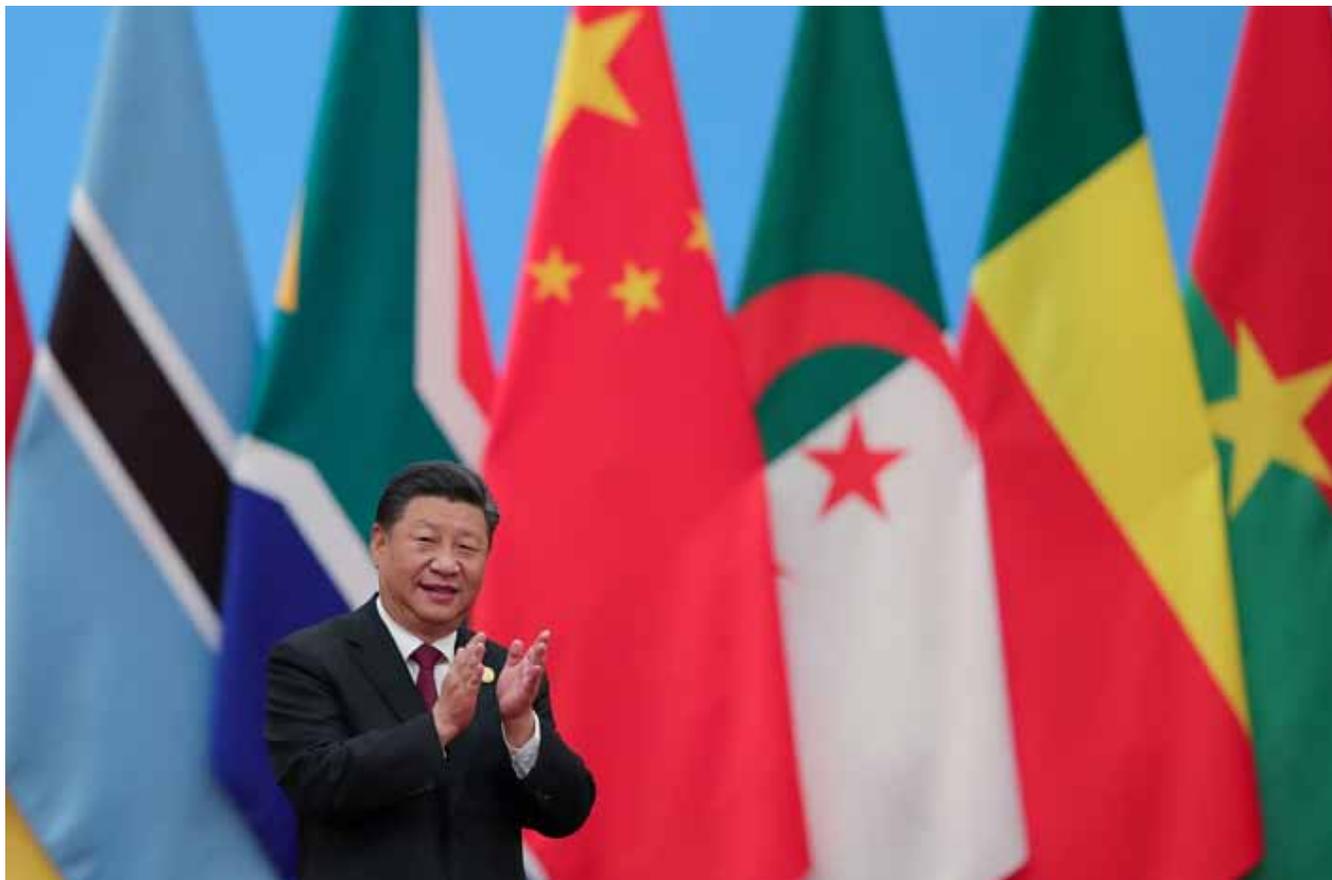
But the BRI has diverged from Chinese leaders' earlier priority for compatibility with Bretton Woods. The global financial crisis convinced Chinese leaders that the Western economic model is prone to catastrophic collapse. Trump and Brexit convinced them that the Western political model is prone to economic mismanagement.

Like Japan in the 1980s, China's success made its developing-country protectionism and technological predation an unacceptable threat to Western businesses. Trump mismanaged the US riposte. Xi Jinping's China has yet, unlike Japan, to abandon developing-country mercantilism while incongruously asserting global leadership.

The BRI is nonetheless an inspiring vision. In Africa, China convenes four dozen heads of state to make development plans, then delivers funding and roads. In contrast, Washington's development program centres on defence. It provides special forces teams to fight terrorism plus an offshore military presence. If that is the game of competition for influence, China wins. The greatest recent source of US influence in Africa was President George W. Bush's HIV initiative. Even on terrorism, the United States wins tactical battles, but BRI successes provide strategic anti-terrorism victories.

The United States has three potential responses to the BRI.

First, it can compete. This is a US game. But Washington's contribution has been a pittance, not the product of a strategy. The United States should



Chinese President Xi Jinping applauds delegates to the 2018 Beijing Summit of the Forum on China-Africa Cooperation Round Table Conference at the Great Hall of the People in Beijing on 4 September, 2018. China has moved to fill the gap as the role of Bretton Woods institutions has declined.

look to countries such as Japan if it wishes to compete successfully. China negotiates a power deal in Indonesia, offering second-rate technology and high prices and demanding a government guarantee. Japan counteroffers with first-rate technology, reasonable prices, demonstrated reliability and feasibility studies that obviate the need for a government guarantee. Japan wins. Indonesia wins.

Second, the United States can compete and co-opt, as it did when it faced economic rivalry with Japan in the 1980s. Japan was competing unfairly in the same ways that China is today: bribes, tied aid, subsidies and cheap interest. By negotiating some common standards, the United

States and Japan both won. Above all, countries like Indonesia won. This is still possible with China, because China faces the same problems of competitiveness, sustainability and creditworthiness that Japan did.

Third, the United States can stand on the sidelines and whine. So far, this has been Washington's main response. For instance, it repeats a discredited assertion that the BRI deliberately seeks to create debt traps for emerging economies.

Often the United States wins even when the BRI succeeds. When successful, systems like Bretton Woods or the BRI stabilise countries, reducing the risk of war or terrorism. In the 1960s, Indonesia had the world's third largest communist

party and a significant Islamist movement. With competitive Japan-US help, Indonesian economic growth gave almost everyone a stake in society; the Islamist movement was domesticated into a secular polity and the communist party lacked the social base to revive after the military crushed it. Had Washington instead deployed the military, it would still be fighting and losing.

Likewise, in the 1970s it appeared that Bangladesh was going to be a failed state, probably becoming something like Somalia is today. Instead, the textile industry spilt over from China, employing millions and stabilising the country. While the factories moved from China, the largest ownership of those factories

was American. Bangladesh's relative stability is a joint China–US national security success.

Not long ago, Ethiopia had six violently contending Leninist parties and a great famine. Until the recent eruption of ethnic strife, it had been the world's fastest-growing country and its politics had become more liberal. The largest foreign contributor to this success is Chinese advice, railroads and factories.

As a rough rule of thumb, each of these successes saves the United States US\$1 trillion in anti-terrorism efforts. Washington needs to compete and collaborate with China to spread such successes. The BRI mostly services the parts of the world least affected by Bretton Woods successes: Central Asia, the Middle East, Africa. Just denouncing it discredits the United States and enhances China's standing.

The outcome of the BRI is unclear. What it means and how it works changes frequently.

In Africa, it is on balance quite successful—globally, 138 countries have formally joined and many others collaborate. But China is discovering

that it has finite financial resources. Inattention to creditworthiness has created massive bad debts for China's banks. Most lending has eschewed the AIIB's standards. China's drive for a global currency is running backwards. China's predatory technology policies and protectionism have elicited a growing pushback. The BRI's aspiration to a 'community of common interests' clashes with China's predatory relations with maritime neighbours.

That said, just as Bretton Woods rode and accelerated the wave of western European and eastern Asian recovery from World War II, the BRI is riding and accelerating this century's great trends—the integration of Eurasia and the emergence of Africa. The BRI's globally networked strategy is far more sophisticated than Bretton Woods' mostly bilateral vision. Recipients are gratified that the BRI builds roads immediately while World Bank bureaucracy often takes eight years to make a decision.

China is playing the right game. The United States is not.

Why is the United States failing to

play the right game when its Cold War strategy delivered the most successful geopolitical outcome in world history?

Part of the problem is that scholars have failed to articulate the postwar geoeconomic game. They preoccupy themselves with pre-World War II military conflicts—Athens and Sparta, Germany and Britain—without acknowledging that post-World War II leadership depends on a rebalancing toward economic priorities and a non-zero-sum mentality. But above all, peacetime resources are allocated by congressional lobbying—not by strategy.

While the BRI has profound flaws and contradictions, as long as China has the only modern national strategy of any major power it will continue to make gains at the United States' expense. **EAFO**

William H. Overholt is Senior Research Fellow at Harvard's Kennedy School and author of The Rise of China, China's Crisis of Success and America and Asia: The Transformation of Geopolitics (Cambridge University Press, 2008).



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