
China and the World

Dealing With a Reluctant Power

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In 2013, China [launched](#) an initiative to establish a new multilateral development institution, the [Asian Infrastructure Investment Bank](#). The AIIB, Beijing argued, could help fill a multitrillion-dollar gap in financing for railways, roads, power plants, and other infrastructure in the world's fastest-growing region. But the United States treated China's proposal as a challenge to the existing regional and global development institutions that it had helped establish in the decades after [World War II](#). Washington not only refused to join the bank itself but also launched a quiet diplomatic campaign to dissuade its allies from doing so either.

Washington contended that the new institution could [undermine](#) the existing system by offering investment without imposing the anticorruption and environmental standards used by existing groups. And some in Washington also implied that Beijing had a deeper purpose: to construct an alternative set of China-oriented international institutions free from both U.S. dominance and the liberal values espoused by the United States and other industrialized democracies. Many believed that Washington's stated uneasiness about standards actually masked a geopolitical concern that the bank was the first step in an effort by Beijing to construct a Sinocentric world order.

The U.S. attempt to halt or marginalize the AIIB failed miserably. The bank was launched in 2015, and by the middle of the next year, a host of close U.S. allies, including Australia, Canada, France, Germany, Israel, South Korea, and the United Kingdom (although with the notable exception of Japan), had defied Washington and signed up.

How could Washington have misread the intentions of so many of its allies and ended up isolating itself rather than Beijing? Could it have handled China's initiative differently? And what does Washington's failure say about the United States' chances of further integrating Beijing into the existing order?

The answers have little to do with the details of the new bank or Asian infrastructure spending. Instead, they require a balanced understanding of the role China has begun to play in contemporary international relations and the serious challenge Beijing poses.

Most important, China is a disruptive power but not a revolutionary one. Its size, wealth, and assertive foreign policy lead it to demand significant changes to existing institutions, but it does not seek to overturn the current international order wholesale. Just half a century ago, Mao

Zedong's China did indeed offer a distinctly revolutionary vision of world politics and China's role in it. Today, in contrast, Beijing doggedly pursues its national interests and territorial claims yet lacks a coherent alternative to the prevailing system and is actually a member of nearly every one of the existing major institutions. Yet China is a reluctant stakeholder—inside the tent, but still ambivalent and often dissatisfied.

China's extraordinary rise in recent decades has earned it the leverage to demand a greater say in international affairs. It has acquired growing military power, trillions of dollars in foreign exchange reserves that can be recycled into direct investments, and new influence in developing countries from Africa to Central Asia. These facts mean that Beijing can now either support or undermine regional and global governance. Dealing with China's rise and revisionism will require greater creativity and strategic coherence than the West has displayed to date.

REFORM AND OPENING UP

As recently as the 1960s and 1970s, a very different China sought to overturn much of the international system. Mao isolated the country's economy and society from most outside influences, opposed nearly every major global institution, and offered a revolutionary vision of an anticapitalist global order. This went beyond fiery rhetoric: China promoted internal, often violent revolution against governments in several countries, from Bolivia to Borneo.

Today, Beijing is as determined as ever to advance its interests in a variety of ways and forums, but even when it advocates alternatives or works outside the system, it often apes and adapts practices from existing institutions, as it is doing with the AIIB.

Washington's response has been to both welcome China's new role and try to manage it. Even when they were working to bring China into the system, many in the United States understood that Beijing might disrupt international governance and established practices. As a result, around a decade ago, Washington began to change its approach. The United States sought more aggressively to channel China's energies and preempt a potential challenge from Beijing to existing institutions.

In 2005, Robert Zoellick, the U.S. deputy secretary of state, gave a speech that laid out this new strategy. Zoellick sought to shift the focus of Washington's China policy away from the question of whether Beijing was in or out of major institutions to the broader issue of its conduct and choices. He noted that China, having joined the World Trade Organization four years earlier, had nearly completed the process of integrating itself into the established world order. It had joined most of the major institutions that it had once opposed and, on paper at least, subscribed to major treaties and protocols on issues as diverse as ozone depletion and chemical weapons. U.S. policy, Zoellick argued, needed to change dramatically as a result. "It is time to take our policy beyond

opening doors to China's membership into the international system," he said. "We need to urge China to become a responsible stakeholder in that system."

Part of the motivation behind Zoellick's speech was to address Beijing's tendency to free-ride on the security and stability provided by the United States in both Asia and the rest of the world. In Afghanistan, for example, China derived considerable benefits from the U.S.-led war against al Qaeda and the Taliban, including the elimination of a terrorist threat across its western border and the creation of a more stable government in Kabul. But China contributed little to the effort, relative to its economic size. And in the decade since then, China's power and global role have only grown. At the 2009 G-20 meeting in Pittsburgh, for example, it sought larger voting shares in the World Bank and the International Monetary Fund (IMF). In 1999, it ceased to be eligible for loans from the International Development Association, and in the middle of this decade, it instead became a contributor to it. And it has joined, and even begun to co-finance projects with, most of the major regional development banks, including the Inter-American Development Bank and the European Bank for Reconstruction and Development. Yet although China has become a stakeholder in these and other institutions, it is still often skeptical of them and dissatisfied with their workings.

Three specific aspects of China's emergence are making U.S. efforts to defend the existing architecture more difficult. First, China does not subscribe to the liberal norms of the countries that established the world's international institutions—and sought to inject their values into them—after World War II. This resistance stems not just from China's own illiberal, Leninist political system but also from historical circumstances, most notably its claim to Taiwan, that have given it a traditional and distinctly noninterventionist worldview. In the 1990s, for example, when the United States used military force in Panama, Haiti, and the Balkans, China's concern with its own territorial disputes bolstered its opposition to intervention by Western powers. That position soon hardened into broad resistance to the use of established institutions to carry out liberal interventions when, in 1999, the United States intervened in the Balkans again but this time bypassed the UN Security Council, where China could have wielded its veto, and instead relied on NATO to legitimize the mission. This divergence between Chinese and Western views has hindered U.S.-Chinese cooperation, notably in Iraq and Syria.

Second, although China has joined, and become an increasingly active member of, existing groups and pacts, it has also tried to diversify the system by supporting competitors to them: it has endorsed a handful of parallel structures, such as the BRICS group of major emerging economies (Brazil, Russia, India, China, and South Africa), which launched annual summits in 2009 and has formed a development bank and a contingency reserve fund.

The AIIB exemplifies this dual approach. The bank's formation was a clear statement of Beijing's discontent with what it saw as the failure of the current system to reform and embrace a

larger Chinese role fast enough, as well as a warning that China has the capacity and will to work outside it. And yet China did not abandon the old institutions: it remains the third-largest funder of the AIIB's closest competitor, the Asian Development Bank, and is increasingly active in the World Bank. Moreover, China focused its discontent on an area where these banks had proved to be inadequate. In 2016, the ADB predicted that funding for infrastructure in Asia would require nearly \$1 trillion a year until 2020, of which governments could supply only about 60 percent. So Beijing could argue persuasively that the AIIB complemented, rather than threatened, the current system.

This strategy is best described as portfolio diversification, whereby Beijing expands its institutional options in order to serve multiple goals. It seeks to hedge its commitment to Western-led groups lest they fail to accommodate China's interests or turn against China, gain leverage to demand faster and deeper reforms to existing structures, "democratize" international governance by establishing groups not led by the G-7 industrialized democracies, put Washington on notice that Beijing can and will seek alternatives if its calls for change are ignored, and get things done in areas, such as infrastructure funding, where efforts by the United States and existing groups have been inadequate.

The third challenge for Washington has been Beijing's expectation that its own increased role will naturally reduce the influence of smaller European democracies. China is the world's largest trader, manufacturer, and emitter of carbon and boasts its second-largest economy. Since global economic and environmental problems cannot be solved without its participation, the only way to make existing institutions functional, Beijing argues, is to make them more representative.

For Washington, however, rebalancing power in this way poses an uncomfortable tradeoff between liberalism and effectiveness. The more Western-dominated an institution, the more likely it is to have a liberal bias, but the less representative—and perhaps less functional—it will be. One example of this is the International Energy Agency, initially a group of the world's major oil consumers, whose membership and the voting shares of whose members have largely been frozen since the group's founding in 1974. As a result, it does not include China or India, the world's first- and third-largest energy consumers, respectively (although China has signed an association agreement with it, and the group has a program of cooperation with India), and it gives outsize weight to small European states that were major oil importers in the 1970s but no longer are. The result is a less functional institution on issues such as the coordination of stockpiles and technical standards.

A MORE INTEGRATED ASIA

But it is in Asia, not in global institutions, that the United States faces its toughest choices about how to respond to China's growing activism. Particularly since the Asian financial crisis of 1997–98, when the United States refused to bail out Thailand and the IMF's rescue conditions were viewed across the region as too harsh, several countries, not just China, have promoted regional structures in Asia that exclude the United States. Resisting these threats to U.S. influence will be tough for Washington because they have deeper roots than just rising Chinese ambition. In fact, the region has a long tradition of [pan-Asian ideas](#), negotiations, and pacts, even among countries that are U.S. allies and deeply suspicious of China.

Take Japan. Since Tokyo views the rise of Chinese power with deep distrust, some have argued that it and the United States should lead an effort to counter China's supposedly new pan-Asianism. But Japan itself has promoted pan-Asian ideas in the past. It was Japanese officials who, in 1997, suggested the establishment of an Asian monetary fund to fight future financial crises, a proposal that helped give rise to today's Chiang Mai Initiative, a system of bilateral currency swaps among Southeast and Northeast Asian countries intended to serve a similar purpose.

The main pan-Asian alternative to U.S.-led trade initiatives, the Regional Comprehensive Economic Partnership, is also not a Chinese idea. Ever since RCEP has become the principal competitor to Washington's preferred trade pact, the Trans-Pacific Partnership (TPP), U.S. officials, including President Barack Obama, have portrayed it as a Chinese vehicle—an example of Beijing's attempts to “write the rules” of the region in opposition to the United States. But the story is not nearly so simple. RCEP was largely a Southeast Asian initiative and includes countries—Australia, India, Japan, and Vietnam—that are among the most skeptical of Beijing's motives in Asia. In fact, around half the countries that are involved in the TPP negotiations are also involved in RCEP. The most likely prospect, then, is that if the United States fails to ratify the TPP, these countries will jointly write new pan-Asian rules, not accept ones dictated by China.

It is also worth noting that China often succeeds at its efforts to reform global institutions and build pan-Asian groups because its demands mesh with those of India, an increasingly close U.S. partner. For example, India helped found the AIIB and now ranks as its second-largest shareholder. Despite their suspicion of Chinese power, officials in New Delhi tend to agree that new forums act as a needed counterweight to unrepresentative global institutions. Like China, India is not content to live in perpetuity in architecture largely built by the West.

China's pan-Asian initiatives also gain traction by borrowing and adapting ideas that have long been advocated by others, including the United States. A prominent example is China's ambitious Belt and Road infrastructure program. Since President Xi Jinping launched it in 2013,

this multibillion-dollar effort to connect Asia by building new roads, rails, ports, and power lines has been portrayed as an attempt to make the rest of the continent dependent on China's economy. But the notion of regional connection is no Chinese invention. Many countries, including India, Japan, Singapore, South Korea, and even the United States have helped build or finance such links across Asia. For example, it is Japan, not China, that is financing the Delhi Metro and the Delhi–Mumbai Industrial Corridor, a \$90 billion high-tech industrial zone and freight route connecting India's political and economic capitals. And it was not Beijing but U.S. Secretary of State Condoleezza Rice, the World Bank, and the ADB that pressed for the development of Central and South Asian roads and power lines in the middle of the first decade of this century.

What this means for Washington is that it need not view initiatives such as the AIIB or the Belt and Road as undermining U.S. efforts. But it does mean that Asian economies are increasingly looking to one another, rather than the West, for investment and economic cooperation. The likely result is that by the 2030s, Asia will more closely resemble the integrated continent that existed before the United States' arrival—more “Asia” than “Asia-Pacific”—than the one U.S. policymakers have grown accustomed to since the end of World War II.

THE BEST DEFENSE

Adjusting to this new reality ranks among the principal strategic challenges Washington faces in Asia. So far, however, it has adapted badly to China's global role and especially to its new pan-Asian initiatives. Washington can and must do better. For one thing, U.S. policymakers need to pick their fights more carefully. There will be many contests of wills in the years to come over regional and global order, and so Washington will have to exercise discretion. In the case of the AIIB, for instance, the United States contested a major Chinese initiative in an area where existing structures were clearly insufficient and Washington itself offered no alternative U.S.-centered model. In doing so, it turned China's multilateral proposal into a bilateral test of wills that it was almost certain to lose: it had no real leverage over Beijing and badly misread sentiment among its allies.

Another lesson is that the United States should not force its allies into a binary choice between Beijing and Washington on issues that are not vital to U.S. national security or to the national security of its allies. In the South China Sea, where China is challenging maritime law and customary practice, such pressure is necessary. But China's financing of a commercial railway or power line is not a comparable threat.

And ultimately, the United States needs to be clear-eyed about where its vital interests dictate that it get more skin in the game. Trade is the best example of an area where it should. With the election of Donald Trump, the United States seems almost certain to abandon the TPP. So Washington should expect Asian countries to fill the vacuum and write their own rules. To be

sure, U.S. business will remain crucial in Asia; U.S. companies have invested more than \$200 billion in Southeast Asian countries alone. But what is at stake is not business but rules, norms, and standards. Washington will lose influence over regulations governing investment, technology standards, labor, and environmental practices.

What the United States should be encouraging is a liberal, open, market-based economic order in the region. And the TPP by itself would not have been enough, in any case. Rather than abandoning the deal, Washington should be supplementing it, by negotiating bilateral investment treaties with China and India to open up their economies to U.S. firms and to support economic reformers in both countries; pursuing public-private partnerships to get U.S. businesses involved in infrastructure development across Asia; striking specific agreements to open up markets in the service and technology sectors, where the United States excels; and seeking new pacts in areas such as fishing and environmental standards for China's Belt and Road project. Doing so would mean that Washington was helping set the agenda, not merely reacting to Chinese proposals.

But the use of this form of U.S. economic statecraft now seems likely to wane. Thus, as its influence declines, the United States must find ways to rely more on its allies to act as a counterbalance to China where the United States cannot or will not do so itself. In Thailand, for example, Japan's sway has grown as Washington's has receded because of Tokyo's consistent pursuit of investment partnerships and political engagement with the military junta in Bangkok.

The final lesson is that the international system cannot function unless it incorporates the largest and fastest-growing countries. If it fails to adequately include China, India, and other emerging economies, they will simply turn elsewhere. That means formal European and, to a lesser extent, U.S. influence in most international institutions will have to shrink in the years ahead. So if the United States is to preserve the system's liberal tilt, it will need to rely more heavily on informal means. That will entail creating ad hoc groups of states to work on specific issues outside the system's formal architecture and extracting more from China in exchange for accommodating its growing stature. The recent decision to accede to Beijing's demand that the yuan be included in the IMF's Special Drawing Rights, a basket of major reserve currencies used by the fund, provides an example of how this could be done. If, instead of agreeing outright, Washington and the IMF had insisted on breaking the process up into successive steps, each pegged to specific reforms of China's capital markets, they could still have brought China into the system while also bolstering China's own economic reformers.

China will no doubt continue to propose initiatives similar to the AIIB that leverage the country's strengths. It makes no sense for U.S. officials to respond by wringing their hands. In addition to the advantages that its position at the geographic heart of Asia confers, China can deploy trillions in state-backed finance, something the United States cannot do. To reject every Chinese initiative outright, then, would require Washington to fight both geography and

economics. And doing so would cause it to miss opportunities to work with China—for example, in Central Asia, where U.S. interests align more closely with China's than with Russia's.

The bottom line is that Washington spends far too much time and energy reacting to China's moves. Instead, it should be active and exploit U.S. strengths, such as technology, innovation, and connections to global capital markets, as it works with a diverse array of Asian partners to help balance China's growing influence. The best way to adapt to China's new activism is to mount a stronger offense, not play perpetual defense.

Questions to consider:

- Since the end of communism in the Soviet Union a quarter century ago, the status of China relative to Russia has improved dramatically.
 - What policies have the Chinese followed to accomplish this improvement in position?
 - And how should this be reflected in our foreign policy?
- According to the paper, the U.S. "...should be encouraging ...a liberal, open, market-based economic order in the region."
 - Should China be included in such an initiative? (According to a recent article in the Wall Street Journal, they are moving in the opposite direction, shifting their investment emphasis to the state owned enterprises.)
 - What other countries are candidates (Indonesia, Thailand, Burma, Philippines, Vietnam,...)?
 - Would this be considered nation-building?
- There is discussion of the One Belt - One Road initiative in both the paper and the video. The paper sees it as signaling a shift in relationships among the Asian countries but not as a threat to U.S. interests. One panelist on the video argues that it cannot succeed without U.S. participation. A Chinese panelist says the initiative is open to the U.S.
 - Do Chinese actions suggest that the initiative is open?
 - Should the U.S. actively pursue participation?
- The discussion of the North Korean issue (as of seven months ago) in the video reveals quite different views held by the Chinese and Western panelists.
 - What does this say about the prospects for Chinese cooperation on the issue?
 - One of the Chinese panelists suggests reopening the Six Party Talks, which began in 2003 and ended in 2009 when North Korea pulled out. Is reopening the talks feasible? If it were, is it a good idea?
- The South China Sea situation has faded from the news lately, but it hasn't gone away. What should we do about it? What are the dangers (for example, of continuing the freedom navigation exercises or the overflights of the Spratley Islands)?