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Lonely Power, Staying Power: The Rise of China and the Resilience of US Pre-eminence

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In August 2010, China officially surpassed Japan to become the world's second largest economy. As the Lowy Institute's *Power and Choice* observes, economic size matters. China's rise and subsequent influence is built on the back of an economy that has been doubling in size every decade for the past thirty years. As a result, the capacity of the People's Liberation Army (PLA) 'for sophisticated, high-intensity operations along China's maritime periphery has improved dramatically in recent years', while China's 'interests, actions and intentions are assuming prominence in the calculations of other regional powers – not only major ones like the United States, Japan and India.'¹

The common and generally correct assumption is that lasting strategic influence is built on the back of economic power. Today, however, Beijing is confronted with the uncomfortable reality that it has been unable fundamentally to shift the strategic alignment of even one major Asian capital. While China has emerged as the largest trading partner for countries such as Japan, South Korea, India and Australia, all these countries have begun 'hedging' against China's rise, with varying degrees of intensity, by deepening strategic relations with America and each other. A similar dynamic is at work among the countries of Southeast Asia, despite the landmark China-ASEAN Free Trade Agreement coming into force in January, 2010.

By contrast, China's only true allies in the region are weak or failing states – North Korea, Burma and Pakistan. This makes China one of the 'loneliest rising powers in world history'.² The reality of China's relative strategic isolation suggests two related conclusions. First, America will remain the preferred security partner and pre-eminent strategic actor in the region for a number of reasons that will be difficult to alter. And second, China's capacity for translating economic size into strategic leverage is problematic now and likely to face sharp limits into the future.

THE RESILIENCE OF AMERICAN STRATEGIC PRE-EMINENCE IN ASIA

Does the rise of China necessarily entail the decline of US leadership and strategic influence? While Australia's 2009 *Defence White Paper* was vague about specifics, its authors clearly expect the security environment in Asia to become a more multi-polar one, even if the United States remains the most powerful actor for some time.³

This view is not confined to government. Based on an assumption that China's economic rise will continue unabated, some analysts have argued that America's relative economic decline warrants a greater strategic role for China in the region.⁴ To that end, others suggest that Washington should gradually surrender primacy, treat China as an equal, and 'share' power with China in Asia.⁵ These arguments reflect an assumption that the region is heading irresistibly toward a state of multi-polarity, with China gradually emerging as the dominant player in Asia.

The beginning of the end of America's strategic primacy in Asia is, in other words, increasingly taken for granted. The arguments that underpin that conclusion, however, remain inattentive to a range of critical factors that militate against such a profound transformation.

First, the logic of comparing the absolute size of a country's GDP to another's to predict the future strategic environment is itself inadequate. To offer one historical lesson, Britain's share of global GDP during the 'imperial century' from 1815-1915 was significantly less than either China's or India's. In 1820, Britain's share was 5.2% compared to China's and India's, which were 32.9% and 16% respectively. In 1870, the British share was 9% while China's and India's were larger at 17.1% and 12.1% respectively.⁶ Evidently, relative distribution of hard-

power resources is not the only determinant of strategic, political and diplomatic influence. We should therefore be careful about putting too much focus on the size of China's GDP in the coming decades as the defining and decisive factor.

Second, and more important, there are unique elements in today's strategic environment that work heavily in America's geopolitical favour – and against China. In particular, a relative decline in US economic size (vis-à-vis China) is unlikely to result in a proportionate decline in strategic, political or diplomatic influence. Indeed, even if the United States is entering a period of relative decline, the existing US-led hierarchy is a better and more accurate model than multi-polarity for understanding both the pre-existing informal security system in the region and the likely structure of Asia's future security order. This is because key regional states will more likely seek to preserve American primacy than acquiesce to China's efforts to dilute it.

A common but mistaken assumption in contemporary debates about the future of Asia is that America is a traditional hegemon – one that depends almost exclusively on a preponderance of hard-power resources to remain on top. This has led some to overplay the consequences of relative decline in US hard-power resources. Despite the fact that America spends more on defence than the next ten powers combined,⁷ it has never been a normal regional hegemon. Instead, America relies on the approval and cooperation of other states in Asia to remain dominant.

Consider, for example the role of US Pacific Command, which has an area of responsibility that stretches from the west coast of the United States to Antarctica to the western border of India.

The US military posture in Asia depends on bases in other sovereign states – mainly Japan and South Korea – hence 'basing' and other access rights are always subject to the acquiescence of democratic host countries. In this sense, the United States is kept on a relatively tight leash in Asia. Its maritime and naval operations are structurally bound to enforce the region's public goods. The same could not be said for any one of Asia's indigenous navies, were it to take the lead. In particular, a dominant Chinese Navy would not require, or be granted, the same levels of regional acquiescence for it to maintain similarly extensive military footholds.

During peacetime, then, the US military presence in Asia is expected to impartially guarantee the safe and orderly passage of sea-based economic activity as well as dissuade and deter any threats. In war, the United States is expected to cooperate with other partner states to defeat threats – both in littoral zones and open seas. The American presence also serves to prevent any Asian state from dominating another or regional rivalries from getting out of hand. It is unlikely that any other Asian power –

particularly China – is able or willing to play these roles. The fact that the US Navy has historically done so and is structurally more likely to do so in the future means that key Asian states are much more likely meaningfully to enhance their hosting and support for American military infrastructure and other facilities in the face of China's continuing rise.

More broadly, America needs other key states and regional groupings such as ASEAN to acquiesce to its security relationships. There is broad-based regional approval of American alliances with Japan, South Korea and Australia, and for pre-existing and emerging security partnerships with the Philippines, Thailand, Singapore, Malaysia, India and Vietnam. Outside Beijing, Pyongyang and Yangon, these bilateral security relationships are perceived to be stabilising factors and in the region's interest rather than as instruments to foster division, strategic competition, and tension, as some in Beijing would have it.

It is telling that American security relationships with other great powers such as Japan have not led other states to balance against those American allies and partners. Emerging American security relationships with India and Vietnam are generally welcome rather than condemned. By contrast, China's alliances with North Korea and Burma and burgeoning relationships with countries such as Cambodia create widespread suspicion and some alarm. Moreover, unlike China, America does not have outstanding land or maritime disputes with other Asian countries. This means that there is little reason for regional states to 'balance' against America now or in the foreseeable future.

CAN CHINA TRANSLATE ECONOMIC SIZE INTO STRATEGIC LEVERAGE?

Even if there is little regional appetite for Chinese strategic leadership, others might make the point that Asian states could soon have little choice. After all, China is now the second-largest economy in the world with the second-largest military budget of US\$114,300 billion in 2010, according to SIPRI estimates.⁸ Even though China's defence spending is one sixth that of America's, the United States is a global power with global military responsibilities while Chinese force projection is focused almost entirely in the region. Moreover, as senior American officials such as then Secretary of Defense Robert Gates have recently admitted, Chinese military modernisation and advancements in capabilities have consistently surprised Washington.⁹

There is no doubt that a rapidly growing economy offers Beijing formidable resources to enhance its military capabilities. These capabilities are creating increased wariness and even alarm in the region. But the continued American presence, combined with the efforts of Japan, South Korea and India, means that Beijing will not be sufficiently dominant to compel key regional states to

'jump ship' and bandwagon with it – certainly not on account of Chinese military capabilities alone.

But the defining story of China's re-emergence so far has been primarily about its economic rather than military rise. Therefore, a common assumption is that China's growing economic size and clout will inexorably allow Beijing to exercise considerable and perhaps proportionate strategic leverage over other regional capitals. As strategists such as Hugh White argue, 'China's political and strategic weight in the world will depend on its overall, rather than per-capita, GDP'.¹⁰ Put simply, the larger China's absolute GDP, the more likely Beijing will acquire considerable and even decisive strategic leverage over other regional states.

The contemporary record suggests otherwise. Despite having the second-largest economy in the world and the largest in Asia, no major Asian state is moving closer to China's strategic orbit and further away from America's. This apparent paradox shows that strategic leverage is not always a direct function of raw economic size. The paradox is largely explained by the nature of the Chinese political economy and the way China achieves such rapid economic growth.

There is widespread overestimation of the strategic implications of China's emerging as the leading trading country in Asia. Intuitively, China appears to have a powerful economic weapon with which to maximise strategic and diplomatic leverage. China is now the most important trading partner for major East Asian economies, including Japan and South Korea.

Yet Chinese leverage is limited by the reality that at least half, and perhaps as much as two-thirds, of its trade with East and Southeast Asia is 'processing trade'. About 75% of intermediate goods imported to China come from the rest of Asia and about 60% of the finished products go to non-Asian OECD countries. Reflecting this reality, most of the terms in the dozens of regional Free Trade Agreements tend to be about streamlining processing trade.

China could try to strong-arm other governments by imposing selective trading bans on major firms or even individual countries. But if it did, production chains would be disrupted at great cost to all parties, including China. Asian firms would eventually find other manufacturing avenues such as in Vietnam, even if it were costly and time-consuming to do so. Besides, China needs the technology transfer that comes with processing trade with advanced economies such as Japan. Politically, it cannot afford to do significant damage to its export manufacturing sector, which employs 150-200 million workers.

What about the prospect of China arm-twisting foreign governments by denying foreign firms greater access to the Chinese consumer?

The Chinese economy accounts for a large and growing proportion of global economic production, but it is significantly less important as a driver of global economic growth than this might suggest. This is because 50-60% of China's economic growth is driven by domestically-funded fixed investment (basically building things), rising to 80-85% in 2009-2010 before falling to about 60% currently. The government's dominance over the banking sector, together with capital controls, means that it has almost perfect savings capture – people have no choice but to deposit their savings into state-owned-banks. This allows its banks a deep reservoir of domestic capital. As a comparison, foreign direct investment into China is about US\$105 billion while total bank domestic bank loans were worth US\$1.4 trillion in 2009 and US\$1.2 trillion in 2010. Total domestically-funded fixed investment is about US\$2.5 trillion each year.

China's political economy is such that state-owned-enterprises (SOEs) are in a dominant position to benefit from economic growth. For example, three quarters of all formal finance (i.e., bank loans) go to the country's 130,000 SOEs while the most lucrative and important sectors of the domestic economy are reserved for SOEs.

The point is that market access rather than pure economic size creates genuine leverage. Since actual access to the most lucrative and important Chinese markets is denied to foreign firms, China cannot significantly use the carrot and stick of access as a significant leverage point. Where China needs advanced technology, engineering or know-how, it will insist on a joint venture with that firm. Granting selective access to various markets is designed to hasten technology transfer and import foreign know-how into the Chinese economy. But there is widespread consensus within the Chinese Communist Party (CCP) that SOEs be allowed to continue their domination of the most important sectors of the economy. This will remain a political imperative because ensuring the state sector remains the nation's primary and dominant dispenser of business, and patronage is one critical pillar of the CCP's strategy to remain in power.

Moreover, the Chinese consumer market is roughly the size of France's – significant but not dominant in regional, much less global, terms. Until China becomes the epicentre of global consumption, Chinese GDP growth will not be a primary driver of global GDP growth even if the CCP were to change its policies and allow greater foreign access to the Chinese consumer. But China's state-led, fixed-investment model of

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rapid growth intentionally benefits the state corporate sector at the expense of the Chinese private sector and the hundreds of millions of individual households – meaning that its current political-economic growth model actually suppresses domestic consumption. Changing the model makes good long-term economic sense but would imperil the CCP's dominant role in Chinese economy and society.

CONCLUSION

China's size makes it Asia's most formidable power, although not the region's dominant one given America's enduring presence and weight and the balancing activities of other key Asian states. For this reason, Beijing's capacity to seduce or compel key Asian states to realign their strategic orientation closer to China (and away from America) appears limited in the foreseeable future.

There is now sensible agreement that China is too large, important and integrated to 'contain' in the Cold War sense of the term – and America has not tried to do so. It is rising as a legitimate great power in Asia. Still, Beijing's capacity to translate its economic footprint into political and diplomatic leverage remains highly inefficient, and as a result it tends to seek to get its way through pure muscle and size – alienating regional opinion in the process.

Looking ahead, it could be that managing Beijing's ensuing sense of national frustration and strategic isolation could be a more dangerous challenge into the future. Unnecessarily provoking such an animal is rarely useful. But ceding American primacy is neither necessary nor desired.

ABOUT THE AUTHOR

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ABOUT THE PROJECT

The Lowy Institute's MacArthur Asia Security Project explores evolving strategic relations among Asia's major powers. Based on a realistic understanding of the region's competitive dynamics in a range of key domains, the Project aims to develop a practical agenda for security cooperation across Asia and a suite of measures to ensure that competition does not lead to miscalculation or conflict.

NOTES

1. Malcolm Cook, Raoul Heinrichs, Rory Medcalf and Andrew Shearer, *Power and Choice: Asian Security Futures*, Sydney, Lowy Institute, 2010, p 31.
2. See John Lee, PM may trump Rudd in managing China, *The Australian*, April 21, 2011: <http://www.theaustralian.com.au/national-affairs/commentary/pm-may-trump-rudd-in-managing-china/story-e6frgd0x-1226042443693>; Little Chance for Canberra to Cleave to Beijing, *Global Times*, April 27, 2011: <http://opinion.globaltimes.cn/editorial/2011-05/652133.html>. This phrase, which I used previously, was explicitly endorsed by an editorial in the Chinese state-run *Global Times* newspaper. See China's loneliness could go the distance, *Global Times*, May 6, 2011: <http://opinion.globaltimes.cn/editorial/2011-05/652133.html>.
3. *Defending Australia in the Asia-Pacific Century: Force 2030*. Canberra, Department of Defence, May 2009.
4. Henry Kissinger, *On China*. New York, Penguin Press, 2011.
5. See Hugh White, Power Shift: Australia's Future between Washington and Beijing, *Quarterly Essay*, 39, 2010.
6. Angus Maddison, *Contours of the World Economy 1-2030AD*. Oxford, Oxford University Press, 2007; *The World Economy: Historical Statistics*. Paris, OECD Development Center, 2001; World Bank Statistics, 1 July 2009.
7. World Wide Military Expenditures, www.GlobalSecurity.org.
8. SIPRI figures: <http://milexdata.sipri.org/result.php4>.
9. See John Pomfret, Defence Secretary Robert Gates: US underestimated part of China's military modernization, *Washington Post*, January 9, 2011.
10. Hugh White, p 19.