

Towards a less-restrained China

The recent 19th National Congress of the Chinese Communist Party concluded with an apotheosis of President Xi Jinping. He now occupies a position in the party's pantheon next only to Mao Zedong. In a bid to burnish his credentials for such an elevated position, Xi spoke for no fewer than three-and-a-half hours—outlining his doctrine of “Socialism with Chinese Characteristics for a New Era”. There was nothing particularly revealing in the speech: the centrality of the Communist Party, “law based governance”, furthering of economic reforms, and the drive towards a “moderately prosperous society”. Xi's calls for a “new type of international relations” were also continuous with his approach to foreign policy and his desire to gain recognition for China as a great power in the same league as the US.

The overall message underlined by most commentators is that China is now poised for a period of strong authoritarian leadership at home and assertive and aggressive behaviour abroad. US secretary of state Rex Tillerson's recent call for greater engagement between democratic powers of the Indo-Pacific was frankly aimed at countering China's economic initiatives such as Belt and Road as well as the security challenges posed by its quest for global influence. Much of the geopolitical analysis in this vein tends to overlook other ways in which China's domestic preoccupations might impinge upon its external behaviour.

In an interesting paper published (goo.gl/xyqJ8b) some months ago, William J. Norris considers the geostrategic implications of what he calls China's “twin economic challenges”. By 2021, the Chinese Communist Party hopes to have accomplished the building of a “moderately well-off society”, defined as doubling of GDP (gross domestic product) per capita from the 2010 figure of around \$4,400. This objective, reiterated by Xi in his recent speech, hinges on China's ability to structurally transition its economy from an investment and export oriented model to one based on larger role for consumption and market forces. Simultaneously, China also has to cope with the inevitable slowing down of its economic growth and the attendant consequences. Norris argues that as China's economy reorients domestically and becomes less dependent on international ties, its foreign policy will be less restrained.

This argument fits the trajectory of China's foreign policy over the past three decades. Deng Xiaoping engineered a remarkable turn in China's external orientation from Mao's obsessive focus on external threats. Instead, he placed economic development at the centre of China's strategic vision. For Deng and his successors, the key lay in securing China's integration with the global economic order. In consequence, they were willing to place China's security concerns and regional ambitions on the back-burner. Until the financial crisis of 2008, China's foreign policy was driven by the clear imperative of export-led growth in a globalizing world economy. This model paid handsome dividends by way of double-digit growth for nearly three decades. As Norris observes, this was predicated on China's steady access to a relatively stable international environment. And Beijing was keen to ensure this by advertising a policy of “peaceful rise”.

In particular, the nature of China's economic relationship with the US acted as a significant check on its strategic behaviour. Although US-China relations since the 1990s were marked by considerable tension over trade deficits, exchange rate policy and accusations of unfair competition, there was an important complementarity between their economies. Chinese households tended to save too much even as Americans tended to consume too much. China exported and ran trade surpluses while the US imported and ran trade deficits. China's mammoth accumulation of dollar assets was seen as the financial version of “mutually assured destruction”.

Proponents of the “Chimerica” argument tended to overstate their case; nevertheless, its geopolitical implications were difficult to deny. Since 2010, however, there has been a clear and

steadily increasing assertiveness in China's quest for security and influence. This has coincided with a sharp fall in China's dependence on exports. The ratio of China's exports to GDP has dropped about 40% in the period before the financial crisis to nearly 20% in the following years. Indeed, China's trade surplus now stems mainly from its relatively low level of manufacturing imports. To be sure, China's surplus in manufacturing goods as a share of its GDP has not changed much from the pre-crisis level. In other words, China remains a large manufacturing economy—one that currently needs initiative like the Belt and Road to offload its excess engineering and construction capacity as well as liquidity. Still, the geopolitical consequences of the twin economic shifts are likely to be significant.

Hitherto, China has been heavily reliant on the import of raw materials and semi-finished goods for re-export. A consumption-driven China, Norris argues, will import luxury goods, consumer products, international brands and services. The disruption of these imports may at best be an inconvenience to China rather than a constraint on its rise. China's heavy dependence on imports of oil will perhaps be the only exception. What is more, the aggregate demand from a consumption-driven economy may enable China to partly displace the US as the dominant export market for the Asia-Pacific region. This, in turn, will give the Chinese greater leverage in their dealings with the region. While traditional American allies with treaty commitments such as South Korea, Japan and Australia will have greater freedom of manoeuvre, other countries in the region may find it difficult to avoid becoming more solicitous of Chinese strategic interests.

Although the Trump administration has made some noises about countering China's growing economic clout, it is not clear that it has any tangible instruments to put to work. Having pulled out of the Trans-Pacific Partnership, the US stands incapable of taking the lead in forging a new economic order in Asia-Pacific. Whether countries like Japan, Australia and India can do anything significant remains to be seen.

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