

Thoughts from the Chairman

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HOW TO PRAGMATICALLY RESPOND TO GREATER CHINESE ACTIVISM ON THE GLOBAL STAGE

SCOTT KENNEDY

Our Way or *Their* Way?

BY most accounts, President Obama’s State of the Union speech last month struck a highly partisan tone. The exception was on international trade, where he called on Congress to grant him trade promotion authority (TPA) and to support adoption of the Trans-Pacific Partnership (TPP). The 12-nation agreement is intended to set higher standards than the World Trade Organization (WTO) for protection of intellectual property rights, the environment, labor, and currency management. The president made his appeal with the warning that not taking action would result in a regional trade bloc centered around China and its preferred rules. As he said:

China wants to write the rules for the world’s fastest growing region. That would put our workers and businesses at a disadvantage. Why would we let that happen? We should write those rules. We should level the playing field. That’s why I’m asking both parties to give me trade promotion authority to protect American workers, with strong new trade deals from Asia to Europe that aren’t just free, but fair.

U.S. trade representative Michael Froman underscored and expanded on the point the next day in his speech before the U.S. Conference of Mayors, where he implied opponents of TPP are unwitting allies of the People’s Republic of China: “Some would have Americans continue the status quo—or worse, compete in a world where the rules of the road are defined by China, not the United States.”

Neither Obama nor Froman was explicit, but they most likely were referring to three recent initiatives. The first is the Regional Comprehensive Economic Partnership (RCEP), a trade and investment liberalization effort that involves the Association of Southeast Asian Nations (ASEAN) and the six countries with whom it already has free-trade agreements—China, India, Japan, South Korea, Australia, and New Zealand. RCEP is less ambitious than TPP, and the United States is not a party to the negotiations. The second is a trilateral free-trade agreement being negotiated by China, Japan, and South Korea. And the third is the Asia Infrastructure Investment Bank (AIIB), which China proposed last November and which some see

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as a challenger to the World Bank, Asian Development Bank (ADB), and International Monetary Fund (IMF).

The administration's emphasis on U.S.-China competition over rules for trade and aid taps into a deep-rooted concern that, as China becomes more powerful, it is slowly turning its back on the existing international order in favor of making new rules consistent with its own interests and subject to its domination. Hence, the worries about the New (BRICS) Development Bank, the Silk Road initiatives, and the internationalization of the Renminbi.

These efforts do mark a turning point in Chinese foreign policy in a more proactive direction, and not all of them deserve U.S. endorsement. But the recent framing of the issue exaggerates the inherent conflict between the current order, Chinese behavior to date, and China's recent proposals, and as a result, unnecessarily heightens regional tensions while forestalling opportunities for collaboration.

Chinese Integration

The dominant trend of the last three decades, which still holds true even today, is Chinese integration into existing international economic institutions. Since the 1980s, the Chinese have figuratively and literally gone to school on the international system. They have put the vast majority of their energies into understanding both the rules of the game across a wide range of areas, from trade remedies to technical standards, from intellectual property to public health. China has joined just about every international economic organization for which it is eligible for membership, and Chinese companies have become involved in a wide range of private, transnational governance organizations. The Chinese have been a third-party observer to almost every WTO case since they joined in order to better learn the nuts and bolts of the dispute settlement system. Chinese companies, state owned and private, have poached a huge coterie of lawyers, accountants, engineers, and other experts from Western firms to help them catch up more quickly.

The Chinese have moved up the learning curve across the board and have assumed leadership positions at the IMF, World Bank, WTO, World Health Organization, International Telecommunication Union (ITU), and other bodies. The large majority of Chinese actions and proposals are consistent with existing rules or involve modest, limited proposals for change. China played a significant role in brokering the Bali Package in late 2013 to salvage an interim success in the WTO's Doha Round, and China's joint announcement with the United States on carbon emissions targets in November 2014 has provided momentum to forge a consensus

In the News

"The tiger hunt is alive and well; [the investigation of Ling Jihua for corruption] marks a fundamental inflection point in the anti-graft campaign whereby the target set at the tiger level is shifting from retired—if very senior—officials to sitting high-level officials."

—Christopher Johnson in the *New York Times*, "Party Opens an Inquiry Into a Onetime Aide to China's Ex-Leader"

"China watchers all need to stop saying this is all for show or that he's turning left to turn right. This is a core part of the guy's personality. The leftists certainly feel he's their guy."

—Christopher Johnson in the *New York Times*, "Maoists in China, Given New Life, Attack Dissent"

"Beijing is not satisfied with the status quo in the South China Sea and it is amassing capabilities to gradually change the situation to its advantage. It is carefully avoiding the use of force and thereby hopes keep the US at bay."

—Bonnie Glaser in the *Lowy Interpreter*, "Beijing determined to advance sovereignty claims in South China Sea"

Jack Ma's visit to Taiwan "could be a new creative way of promoting cross-strait economic integration, backed by the Chinese Communist Party."

—Bonnie Glaser in *South China Morning Post*, "Jack Ma's money pledge alone may not be enough to lure Taiwan start-ups to mainland China"

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ahead of the meeting on global climate change to take place in Paris in November.

In 2005, then–Deputy Secretary of State Robert Zoellick called on China to become a more “responsible stakeholder.” His language is surprisingly similar to the current official goal, recently repeated by Xi Jinping at the Central Foreign Affairs Work Conference in November 2014, of China being a “responsible member of international society” that should “actively participate in global governance.” Though China has yet to complete this journey, it is broadly moving in the right direction.

Sources of Tensions

Such activism has not resulted in a “harmonious world.” The Chinese are desperate to have a greater voice (*huayuquan*) internationally, and more proactively pursuing their interests has generated tensions. But even though they can be bombastic and ornery at times, the Chinese are rarely flamethrowers launching direct assaults on the status quo. Most disagreements have taken place within the boundaries of the existing rules and are about how the pie is divided, not the pie’s recipe or the shape of the pan.

At the same time, the distinctive character of China’s domestic political economy has also magnified tensions. Industry is king in China, and most Chinese proposals are directed at promoting and protecting industry interests. And just as the Chinese Communist Party bucks no challenges to its domestic authority, the Chinese government strongly favors state-based institutions and agreements that preserve their sovereign authority. A pro-industry, sovereign-oriented approach merges on questions of economic governance, where China seeks to preserve its right to engage in industrial policy. It is not surprising that the 21 cases launched against China at the WTO involve constraining Chinese efforts to vigorously promote domestic companies and sectors in ways contrary to their WTO pledges.

But the tension between China and other members of the global economy is not only a result of its tilt toward state capitalism. The international system deserves its share of the blame as well, for two reasons. First, although the multilateral economic order is broadly liberal, it has its fair share of illiberal elements as well. The WTO and other institutions permit protection of domestic industry for reasons of national security, the environment, and public health. Trade remedy rules are heavily tilted toward domestic industry, making it relatively easy for domestic industry to prove foreign competitors engage in “unfair” trade and to slap on severe tariff penalties. Even when the rules are broadly liberal, states and other stakeholders do not approach their involvement as if in a constitutional court, but rather like athletes locked in fierce competition. The most successful participants are deft at using, bending, and twisting the rules to their advantage. To paraphrase Mao, global governance “is not a dinner party.”

Even if “rule of law” is foreign to the Chinese, they are entirely comfortable with gamesmanship. The Chinese now “lawyer up” as well as anyone and have become the fourth most active initiator of antidumping cases against foreign companies exporting to China. They are avid filers of patents, in the hope they can leverage these property rights when

Multimedia



WATCH Christopher Johnson speak with Bob Schieffer, Jon Huntsman, and Evan Osnos about China’s direction under President Xi Jinping.

WATCH Christopher Johnson discuss how governments and businesses should navigate growth prospects in Asia through the lenses of power, democracy, and economic development.

LISTEN to Bonnie Glaser discuss the current state of U.S.-China military to military relations and crisis management mechanisms.

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setting technical standards and licensing technology. China's procedures for review of mergers and acquisitions, borrowed from European and American antitrust and national security laws, give them great flexibility to put a legal fig leaf over protectionist decisions.

The second external source of tensions is that in many areas of international economic intercourse there are no definitive rules of the game that everyone has agreed to play by and no objective referee there to blow the whistle when a player commits a foul. For example, the International Competition Network (ICN) sets general, voluntary guidelines about competition policy, not definitive rules. Nor are there common standards on how to judge whether an investment endangers a country's national security. The result of these gaps in governance is that disagreements with China often quickly become politicized. Think of the dustups over the Renminbi's value or the infamous arrest of Rio Tinto employees in 2009 following the breakdown of negotiations over the price of iron ore. By contrast, where there are clear multilateral rules, such as with the WTO, disputes proceed routinely. When there are clear rules of the game that everyone accepts, conflicts with China are contained and addressed with little fanfare.

Embracing Change

We cannot outlaw self-interest, and so there will always be a mix of cooperation and competition between the United States and China. And the heavy hand of the government in many parts of China's economy puts it at odds with the United States on many issues. However, concerns expressed by the United States and others about China often fail to recognize that at least part of the problem is the result of rules that condone or even encourage protectionism under certain circumstances, the strategic way in which many participants try to game the system, and the existence of major gaps in governance that generate politicized conflicts.

Seen in this light, China's initiatives on regional trade and other areas take on a different cast. The first step we need to take is to recognize that the status quo is imperfect. We need to reform existing regimes and build new ones. And these changes are needed irrespective of the effect China has on the international system. But at the same time, China's greater activism and occasional desire for pursuing reform, even if its motives are self-interested, is something the United States can use to its own benefit. The more countries and stakeholders that stand on the side of responsible reform the better.

Recent Publications

"Bears in a China Shop: AmCham China's Latest Survey Shows Growing Worries"

by Scott Kennedy, February 10, 2015.

"In Confidence: Will We Know if U.S.-China CBMs Are Working?"

by Mira Rapp-Hooper and Bonnie Glaser, February 4, 2015.

"Foreign Investment Climate in China: Present Challenges and Potential for Reform"

by Scott Kennedy, Statement before the U.S.-China Economic and Security Review Commission, January 28, 2015.

"China's Maritime Actors: Coordinated and Directed from the Top"

by Bonnie Glaser, January 14, 2015.

"China: Building Confidence while Setting Expectations"

by Bonnie Glaser and Chris Johnson, January 5, 2015.

"U.S.-China Relations: Summit Provides Renewed Momentum for Better Ties"

by Bonnie Glaser and Jacqueline Vitello, January 2015.

"Danger at the Second Thomas Shoal,"

by Bonnie Glaser, December 23, 2014.

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If we return to the original cases raised by the president, there is no doubt that TPP would constitute a substantial move forward in regional economic intercourse, achieving progress on issues long ignored by the WTO and other institutions. At the same time, we know that China will not be ready to accept TPP disciplines until it further improves its domestic intellectual property rights regime, carries out reform of state-owned enterprises, and makes much greater progress on reducing pollution. Would we want China to sit still until then? I don't think so. Instead, the potential conclusion of RCEP and other regional free-trade agreements currently under negotiation would at least keep the bicycle of liberalization in China moving forward and make the eventual integration of China and others into TPP (or the full, global multilateralization of TPP-based rules) more feasible down the road.

Similarly, objective observers largely agree that the current multilateral aid system is in significant disrepair. Investments by the World Bank and ADB have often reduced the worst symptoms of poverty, but most of their "clients" have not successfully developed. The gap between rich and poor globally is growing. The Chinese may use the AIIB to raise their international standing and help Chinese businesses in overseas markets. But the Chinese are sitting on a lot of capital that could potentially reach communities in dire need of support that have not been able to attract aid from other sources. The most productive approach would be to take a welcoming posture toward the AIIB while simultaneously pushing it to adopt best practices regarding transparency, conflicts of interest, and accountability.

We need to remain vigilant against Chinese violations of their international commitments and oppose efforts to undermine the global norms and institutions that are serving the public good. At the same time, we should avoid simplistic and knee-jerk tendencies to paint all Chinese departures from the status quo as irresponsible and in conflict with our own interests. Despite our differing diplomatic approaches, when viewed from the perspective of considering what kind of rules of the game would be best, there is potentially more common ground between the United States and China than first meets the eye. ■

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