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International Order in Transition?: Examining the Politico-Strategic Aspects of China's Major Foreign Economic Initiatives

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"Potential tensions between an established power and a rising power are not new. Inevitably, the rising power impinges on some spheres heretofore treated as the exclusive preserve of the established power."
—Henry Kissinger¹

Introduction

The recent initiatives of China— such as the “One Belt, One Road” (OBOR) project, the New Development Bank (NDB) of the Brazil, Russia, India, China, and South Africa (BRICS), and, most especially, the Asian Infrastructure Investment Bank (AIIB)—have gained much international attention. In response, United States (US) President Barack Obama said that “*China wants to write the rules for the world’s fastest-growing region. That would put our workers and our businesses at a disadvantage... We should write those rules.*”² In light of these developments, the aim of this paper is to provide an exploratory study of the politico-strategic aspects of China’s major foreign economic initiatives. In particular, this article seeks: (1) to discuss the objectives of the economic initiatives; (2) to examine the major Chinese projects vis-à-vis the current economic architecture; and (3) to discuss how other countries responded to the PRC initiatives.

To analyze these issues, this paper shall use the Power Transition Theory, which assumes that world politics is organized hierarchically, i.e. there is a dominant nation which maintains international order.³ Below the dominant nation are the following types of states: great powers, middle powers, small powers, and colonies. The theory emphasizes that there are two determinants of peace and conflict: (1) power; and (2) the degree of satisfaction of other states with which the dominant nation provides goods in the international order. Thus, there is stability when the dominant nation, which has the greatest power advantage in the system, satisfies the other actors—especially the great powers—with respect to the distribution of benefits. The rise of a challenger, which is a great power dissatisfied with the current order, signals instability. Coupled with the closing gap between the hegemon and the challenger, instability and uncertainty are heightened when the former fears that the latter will: “(1) surpass the dominant country; (2)

become increasingly unwilling to accept a subordinate position in the international order; and (3) *challenge the leadership and rules of the international order.*”⁴ The effective displacement of the status quo power from the apex of the international hierarchy by the challenger represents the transition from one order to another. From this theoretical perspective, this paper argues that China, with its rapid growth and development and its increasing dissatisfaction with the current order, is attempting to challenge the US-led international architecture through, among others, its major foreign economic initiatives. In response, the US and some of its allies have introduced measures in an attempt to maintain their pre-eminence in the system.

China’s Economic Initiatives

As noted earlier, China has three major foreign economic initiatives. The first is OBOR, which is largely a trade and investment project. In particular, it aims to enhance cooperation in various areas including agriculture, forestry, as well as marine and energy resources. OBOR has two components: (1) the “Silk Road Economic Belt” (SREB), which aims to link China, Central Asia, Russia, and the Baltic states of Europe via land; and (2) the “21st Century Maritime Silk Road” (MSR), which seeks to connect PRC with Southeast Asia, South Asia, Middle East, Africa, and Europe through sea routes. China seeks to pursue the OBOR project through bilateral and multilateral channels. In addition, PRC pledged forty (40) billion US dollars to operationalize the initiative.⁵

Second is the NDB BRICS which is a multinational development bank (MDB) with the goal of promoting infrastructural development among its members. The bank has an initial capital of fifty (50) million US dollars, equally provided by the five original members, i.e. the BRICS countries. The bank also created a one hundred (100) billion US dollar-Contingency Reserve Arrangement (CRA) that is meant to provide liquidity protection to member-states during balance-of-payment crises.⁶ China has the largest CRA contribution

and is the location of the NDB BRICS headquarters.

Third is the AIIB which is an MDB that has identified infrastructure projects as its sole priority and the Asia and Oceania regions as its principal areas of focus. However, AIIB will not make concessional loans or long-term loans based on below-market rates.⁷ AIIB has an initial capital of one hundred (100) billion US dollars, unevenly contributed by its members; thus, unequal voting shares among them.⁸ Like the NDB BRICS, the AIIB main office is located in China.

Challenging the Current Order?

The wide scope and depth of the said Chinese initiatives, and the pace at which the PRC government is pursuing them, have led to strong perceptions that Beijing is attempting to supplant the economic order established by the US and its allies.⁹ **It must be noted that the US, which emerged as the most powerful nation in the victorious coalition after the Second World War, led the establishment of an open and rules-based international system, underpinned by American military and economic strength.** Through the abovementioned international economic initiative, China seems to be challenging US primacy in two fronts: (1) finance and development; and (2) trade and investment.

For finance and development, the US has led the creation of the Bretton Woods System, which is mainly driven by two institutions: (1) the International Monetary Fund (IMF), which is mandated to ensure the stability of “system of exchange rates and international payments;”¹⁰ and (2) the World Bank (WB), which provides loans to countries in the pursuit of development programs. **Against this backdrop, Beijing claims that the China led-institutions are meant to complement existing international structures. Yet at the same time, PRC argues that its initiatives are poised to become rivals to the US-led architecture.** Indeed, the NDB BRICS introduced itself as “*alternative to the existing US-dominated [Bretton Woods institutions].*”¹¹

Notwithstanding the assertion of Beijing that its economic statecraft does not rival the US-led architecture, a juxtaposition of the existing and emerging institutions will reveal that the emerging institutions are, in essence, challenging the existing ones. Indeed, the functions of the NDB BRICS and the AIIB are largely similar to those of the IMF and WB. The NDB BRICS and the IMF are both partially aimed at managing the international monetary system, while the NDB BRICS, AIIB, and WB are all geared toward the provision of loans vis-à-vis funding development programs.¹² Evidently, the Beijing-led and the Washington-led insitutions are bound to compete with each other.

It is interesting to note that China, like other countries, rose to political and economic prominence within the framework of the current international system. In fact, PRC, within the span of a little more than one generation, rapidly progressed from being a poor and backward country to become the second largest economy in the world.¹³ At the onset, it may seem unlikely that China would challenge the very order which partially accounts for its prosperity. The Power Transition Theory, however, may explain the imperatives for the courses of action taken by the People’s Republic. As noted earlier, a great power that has amassed significant wealth and military strength may challenge the status quo order underpinned by a dominant nation. Thus, the challenger will then initiate efforts to change the rules of the international system to accommodate its new power. From this perspective, China seeks to alter the structures in order to bolster its position in the international arena.

A close examination of the Bretton Woods system will reveal that China, and other great and middle powers, have little influence over the policies of the said institutions despite the growth of their economic power.¹⁴ Table 1 shows the voting shares of states in three multilateral institutions—AIIB, WB, and IMF—vis-à-vis their economic strength, as measured by gross domestic product (GDP) and population.

Table 1. Voting Shares in Multilateral Institutions¹⁵

States	GDP (in USD, 2014 est.)	Pop. (2015 est.)	AIIB Voting Shares	WB Voting Shares	IMF Voting Shares
Belgium	534.7 B	11.3 M	--	1.64%	1.86%
Brazil	2.4 T	204.3 M	3.02%	1.92%	1.72%
China	10.38 T	1.3 B	26.1%	4.82%	3.81%
France	2.8 T	66.5 M	3.2%	3.92%	4.29%
Germany	3.9 T	80.9 T	4.1%	4.37%	5.81%
India	2.1 T	1.2 B	7.5%	3.04%	2.34%
Japan	4.6 T	126.9 M	--	7.47%	6.23%
Luxembourg	62.4 B	0.6 M	0.3%	0.10%	0.20%
Netherlands	866.4 B	16. 9 M	1.2%	1.90%	2.08%
Russia	1.9 T	142.4 M	5.9%	2.82%	2.39%
Spain	1.4 T	48.1 M	1.8%	2.02%	1.63%
South Africa	350 B	54 M	0.8%	0.80%	0.77%
United Kingdom	2.9 T	64.1 M	2.9%	3.92%	4.29%
United States	17.4 T	321 M	--	16.12%	16.74%

The NDB is no longer included in the table since the bank members—only the BRICS countries thus far—have an equal voting share of twenty percent (20%). As shown in Table 1, China, which has the largest economy in the world after the US, only has 4.8% and 3.81% voting shares in the WB and IMF, respectively. By contrast, the BENELUX (Belgium, Netherlands, and Luxembourg) countries have combined voting shares of 3.64% in the WB and 4.14% in the IMF.¹⁶ While such shares are relatively on a par with each other, the same do not represent the economic and demographic profiles of these countries. Whereas the BENELUX nations have a combined GDP of 1.5 trillion, China’s economy is roughly seven times larger. In addition, the former have a combined population of 28.8 million, while the latter has a population 45 times greater. A similar observation can

be made with respect to Japan. Although the third largest in the world, the Japanese economy is only half of the Sino GDP. This, however, is inversely proportional to the Japanese and Chinese voting rights in the IMF and WB. **With the establishment of AIIB, China, with the largest voting shares in the bank, can play a pivotal role in shaping international economic policy that reflects the sheer size of its economy and population.**

It must be noted that aside from voting shares, the PRC-led institutions also differ from that of the Bretton Woods in terms of loan requirements. Whereas the latter provides aid and loan with conditionalities, typically domestic reforms geared toward democratization and free market economy, the former eschews such terms in its operations. In fact, AIIB is very clear on this point: “The Bank...shall *not interfere in the political affairs of any member...Only economic considerations shall be relevant to [its] decisions.*”¹⁷ Interestingly, such conditionalities demanded by Bretton Woods institutions were heavily criticized by some countries during the height of the Asian financial crisis during the late 1990s.¹⁸

As for trade and investment, China challenges US primacy through its OBOR initiatives. In order to achieve its grand goal, China has weaved both historical experiences and current geopolitical imperatives. As a component of OBOR, the Silk Road Economic Belt (SREB) is an attempt to revive the ancient Silk Road that connected China to other major civilizations in Asia, Europe, and Africa.¹⁹ The 21st Century Maritime Silk Road (MSR), on the other hand, appears to complement Beijing’s goal of becoming a maritime power. In particular, China seeks to enhance trade relations with countries in the Indo-Pacific area. Like the US trade and investment ties with other countries, the OBOR initiative is largely anchored more on bilateral agreements and less on multilateral platforms. Indeed, Beijing has yet to announce if it intends to create an overarching multilateral body that will oversee the implementation of the OBOR project. Nevertheless, the boldness of the Chinese initiative is likely intended to expand Beijing’s influence as it seeks to occupy a more pre-eminent role in the system befitting its prosperity.

Responses to China’s Efforts

The economic initiatives of China received varied responses from the different actors in the international arena. For the US, which has been the undisputed dominant nation since the collapse of the Soviet Union, the reaction is quite predictable. The Obama administration, as the Power Transition Theory postulates, tried to dissuade other countries, especially its allies, from joining the China-led institutions, the AIIB in particular. More importantly, the American government viewed the efforts of China as an attempt to change the

rules of international system which, as argued earlier, was established through its leadership. In an official statement, Nathan Sheets, US Treasury Undersecretary for International Affairs, said: “[the Chinese-led institutions must] share the international community’s strong commitment to complementing the *existing institutions and maintaining time-tested, and ever-improving, principles and standards.*”²⁰

The efforts of Washington, however, ended with a diplomatic defeat: the United Kingdom, France, Germany, Italy, South Korea, Australia, and Israel—great and middle powers which are considered as US allies—joined the AIIB.²¹ As a result, the US now appears to have changed its course by emphasizing that it welcomes instead such institutions that will help address the development gap in the Asia-Pacific. For its part, Japan, which is a key US ally in the region, has yet to decide whether to join the AIIB or otherwise. It is noteworthy that Tokyo, which has a geopolitical dispute with Beijing over the East China Sea (ECS), announced that it will provide 100 billion US dollars in developing infrastructure—a move which is viewed by some as an attempt to counter China’s AIIB initiative.²²

As these developments had been unfolding, the US and eleven other nations concluded, in October 2015, a major breakthrough—the signing of the Trans-Pacific Partnership (TPP), an agreement which aims to promote free trade in the region. Although the trade pact negotiations began before Beijing announced its OBOR project, the TPP noticeably excludes China. The TPP, it must be noted, introduces a set of guidelines in the conduct of trade. In this regard, parties to the agreement, like the US, have urged PRC to follow the standards set forth by the trade pact. As such, Barack Obama underscored that the US “[cannot] let countries like China write the rules of the global economy.”²³

Some Policy Considerations

Based on the foregoing discussions, it can be said that China appears to be challenging the US-led economic architecture by establishing rival institutions through which Beijing can tailor the rules to suit its own vision of world order. The changing dynamics of international politics calls for pragmatic politico-strategic approaches in order to maintain stability that serves as the foundation of long-term prosperity. Inevitably, countries—great, middle, and small powers alike—must recognize the emergence of powerful nations. The US, which is the dominant nation thus far, and great and middle powers, must reform the existing international institutions in order to accommodate the rise of other nations like China. More importantly, however, the US and its allies must constantly enhance relations with the emerging powers because, given their immense resources, they likewise

command a strong voice in the international arena.

For their part, small powers need to enhance and strengthen bilateral ties with nations with which they have similar strategic and/or compatible interests, as well as those which can complement their efforts on economic development and national security. Given their meager resources, small powers should focus their attention on these two vital concerns and not excessively engage in other areas. Their primordial task is economic development which—although requires external assistance—is the paramount duty of the domestic polity. Small powers, having less geopolitical weight vis-à-vis other countries, command little influence in altering the behavior of other countries, especially those which have the power and resources to shape the international environment. **Hence, it is in the interest of small powers to develop a foreign policy characterized by pragmatism, whereby the nation chooses the course of action that yields the most benefit—especially in the realm of economics, which small powers must urgently develop—from an array of options, with due consideration of long-term repercussions.** As such, small powers must always be cognizant of emerging trends in international order, which constitute the context within which they formulate foreign policies.

Conclusion

This article discussed the politico-strategic aspects of China's major foreign economic initiatives. After providing an overview of the said projects, the paper compared the same with the existing economic order. Thereafter, it examined the various responses to the efforts of Beijing. **Using the Power Transition Theory, it can therefore be concluded that international order is indeed in transition, with China and like-minded countries attempting to alter the status established by the US and its allies.**

Inevitably, as China acquires more influence through the economic institutions that it created, Beijing will enhance its power to influence the foreign policies of other states in various issue areas. Economics, it must be noted, is one of the instruments of national power.²⁴ **With other instruments also strengthened, Beijing can use its economic power in a more calibrated fashion to achieve national objectives and shape the international environment—a strategy which the US, as the dominant nation, has pursued.** For example, during the Cold War, the US not only isolated Communist China diplomatically, but also economically, partially through the Bretton Woods institutions.²⁵ It was only when Washington and Beijing established formal relations in 1979, which was largely an attempt to counter Moscow, that China began to reap the benefits of its membership in the US-led institutions.

It must be stressed, however, that the outcome of this transition is still largely uncertain. Whether China will occupy the apex of the international hierarchy or the US will remain as the hegemon, or multi-polarity will become the long-term feature of global affairs, or a great-power war will erupt—are possibilities that, as of this writing, remain unclear.

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Notes

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- ¹⁵ CIA World CIA Factbook, AIIB, WB, IMF. The WB voting shares pertain to that of the International Bank for Reconstruction and Development (IBRD), which is one of the five institutions under the WB Group. Abbreviations: M=million; B=billion; and T=trillion.
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