



Does China Have a Strategy? Modern China or Dystopia: Alternate Futures? by Robert A. Manning and Banning Garrett

Robert A. Manning (rmanning@acus.org) and Banning Garrett (bgarrett@acus.org) are Senior Fellows at the Atlantic Council Brent Scowcroft Center on International Security and its Strategic Foresight Initiative, which published a longer version of this article.

As Xi Jinping and China's new leaders begin their tenure, Beijing's behavior strongly suggests that although they may have strategic goals, China has no strategy for achieving them. Beijing continues to follow a development model it has outgrown and pursues an assertive, zero-sum foreign policy that is counter to its long-term interests.

The poisonous smog choking Beijing and other major cities is an apt metaphor for the challenges facing China's new leadership: an unsustainable status quo in a state-centric economic model that has exceeded the limits of utility; a steep environmental price being paid for 34 years of breakneck development; and a political elite whose legitimacy is increasingly weakened by endemic corruption, a lack of transparency, and little accountability. Beijing's assertive behavior in Asia is mobilizing its neighbors against it at a moment when it needs a peaceful external environment more than ever to meet greater internal challenges.

Chinese leaders are well aware of the great challenges they face, but it seems they have neither a strategy nor the political will to adequately address them. Beijing's behavior appears a far cry from Western imagery of a far-sighted China guided by Sun Tzu and a long-term strategic calculus.

Xi: A Reform Agenda?

The legitimacy of China's ruling Communist Party has been based on performance: more than three decades of double-digit economic growth has been the foundation for the success of this *de facto* social contract. But the development model that has delivered this success needs change. China's state-centered, investment-driven, export growth model is delivering diminishing returns. This was the premise of *China 2030*, a report last year co-sponsored by the World Bank and the Chinese State Development and Reform Commission (SDRC), a leading policy body. *China 2030*, asserted that "realizing China's vision for 2030 will demand a new development strategy." The report outlined the sweeping reforms necessary if Beijing is to realize its goal of becoming, "a modern, harmonious, creative, and high income society." The proposed development strategy requires strengthening the rule of law, a greater role for private markets and "increased competition in the economy." Importantly, the strategy argues that "reforms of state enterprises and banks would help align their corporate governance arrangements with the

requirements of and permit competition with the private sector on a level playing field."

Thus far there are few signs that a sea change in China's approach to development is in the offing. The Chinese political elite is part of a wide network of vested interests encompassing those at the top of its state banks and state-owned enterprises and PLA-affiliated interests.

This points up the dilemma of China's new leadership. It knows that it needs to pursue far-reaching reforms that will have no small impact on the corruption and the benefits enjoyed by China's upper echelon. But faced with entrenched vested interests, the leadership appears somewhat perplexed as to how to implement specific new policies.

Moreover, the peaceful international environment that China needs now is being undermined by China's assertive activities in the East and South China Seas and its reflexive strategic competition with the US. It seems that in the aftermath of the 2008 financial crisis, many Chinese hardliners concluded that China had emerged relatively stronger than the United States, which was viewed as on an accelerating trajectory of inevitable decline. The resulting Chinese behavior, from India to Vietnam, has led China's neighbors to question its intentions and seek a counterbalancing network of actors led by the US. In effect, China has sparked the exact opposite result of what it intended, a sort of self-containment.

What strategic logic led some in China to think this is the moment to abandon Deng Xiaopeng's dictum: "Hide your strength, bide your time"? At an historic juncture when China faces overwhelming domestic challenges, do some Chinese decision-makers nevertheless see this as the right time for an assertive China to confront the United States and its allies? It is difficult to discern a coherent Chinese strategy in all this.

What Futures?

China appears to be lacking coherent and sensible domestic and international strategies that serve its self-proclaimed interests in peace and development. Nevertheless, there are many people in Beijing who understand that China needs a cooperative relationship with the US not only to ensure a peaceful environment for its development during a difficult period ahead but also to confront the global challenges that neither China nor, nor any other country can manage unilaterally. They – and many of their counterparts in the US – recognize that a cooperative US-China relationship is essential for the future of both countries and a stable global future.

The 18th Chinese Party Congress Report called for "a new type of power relationship." While vaguely defined, the report contains a section called "Continuing to Promote the Noble Cause of Peace and Development of Mankind" with

interesting, but again, platitudes about global challenges and common interests. This may be empty rhetoric, but it merits testing by the Obama administration and other G20 nations.

Persistent strategic mistrust clouds US-China relations, posing a major obstacle to far-reaching US-China cooperation. Each country sometimes portrays the other's intentions as a strategic challenge inherently hostile to its interests. Many Chinese strategists argue that US strategy is containment to keep China weak and divided and claim the US "pivot" to Asia strategy is proof of this intention. American strategists see China bent on dominating Asia and sharply curtailing US presence while bullying US allies and friends in the region.

Rethinking the US-China Relationship

The strategic logic for building a US-China partnership is as compelling as the obstacles to it are difficult. The ability of Xi and Obama to rebalance the relationship so that it becomes predominantly cooperative rather than competitive is highly uncertain, buffeted by contending interest groups, factions, and political forces pulling in contradictory directions.

In addition to the long-term global challenges, there are a host of compelling near-term issues, progress on which could put the US-China relationship on a more cooperative path. On the issues below there is, at least in theory, ample common ground to find a balance of interests both the US and China can live with:

- *Afghanistan/Central Asia:* As the US phases down its military presence in Afghanistan, China, which has substantial economic investments and has been free-riding on the US security presence, needs to rethink its approach. Overlapping US and Chinese interests in Afghan stability, counter-terrorism, and support for economic integration in Central Asia shape a potential agenda for new regional dialogue and cooperation;
- *Cyber-Security:* Cyber-attacks are proliferating and a realm where agreement on global rules and norms are desperately needed. Both the US and China have a mutual vulnerability, and at the strategic level could benefit from moving from obfuscation on the issue to a serious dialogue aimed at establishing codes of conduct and accepted norms;
- *Greater Middle East:* The ongoing turmoil and transformation in the Middle East and North Africa should be an area of overlapping interests in stability and accountable governments that are not hostage to extremist forces. Syria is the most pressing test case for Sino-American cooperation;
- *East Asia:* There is an urgent need to create a new modus vivendi and rules of the road on what sort of US military footprint in the region China can live with, and vice-versa.

Alternative Futures for China

How the US deals with China – and how China manages its internal transformation – will have major if not decisive impact on what future China evolves toward. Below are three futures for China – not predictions, but heuristic tools to think

about outcomes of current strategic and policy choices: "Harmonious World," Muddle Through, and Middle Income Trap.

- **Harmonious World:** This is the best case scenario. China's new leadership begins over the next 5-6 years to strengthen rule of law, move its financial system to a more market-based allocation of resources, allows the RMB to become convertible and ascend as a global currency. Consumer-driven growth sustains a 6-7 percent annual growth rate as China decreases its reliance on exports and increases social stability through political and judicial reform to open up the political system and enhance rule of law, transparency and accountability. Internationally, as China and other G20 nations push for a larger voice in rule-making, they cooperate with Western countries to revise the international rules-based order. China also finds a new, more stable and cooperative modus vivendi in East Asia.

- **Muddle Through:** This future is a crisis-reaction rather than strategy-driven China in which the leadership responds with limited effectiveness to environmental crises, bursting of the residential real estate bubble, corruption, and increasing inequality and social discontent. China engages in reform by default more than by design. Over a decade-long journey over a bumpy road, China, slowly takes steps to enhance rule of law, increase accountability, and gradually reforms the economic and financial system to enhance competitiveness, reduce the monopoly power of the SOEs, and take other steps, reluctantly and belatedly, to restructure the economy and slow the trend of increasing inequality. This future is characterized by a reactive foreign policy that is a mix of nationalism, caution, and both cooperation and competition with the US.

- **Middle Income Trap:** Pressures to sustain 7-8 percent growth result in more excessive and politically motivated, unsound lending by state banks to keep the economy appear to be growing while increasing the debt load and engaging in unproductive investments. This proves counter-productive and hits a wall as the residential real estate bubble deflates, middle-class investors who put their savings into buying apartments are hit hard, and social unrest grows. China falls into the middle income trap as it fails to move up the value chain in production to compete with advanced countries and yet its higher wages render it unable to compete with other developing countries. As China focuses increasingly on internal challenges, including social unrest and political instability, it tends to view the outside world as a source of its problems and a strategic threat, thus stoking nationalism.

PacNet commentaries and responses represent the views of the respective authors. Alternative viewpoints are always welcomed.