

WHEN CHINA BECOMES NUMBER ONE

Kishore Mahbubani

THERE is no denying that China will become the number one power in the near future. In terms of purchasing power parity (PPP), it already is.

The International Monetary Fund (IMF) has calculated that in 1980 the U.S. share of the global economy in PPP terms was 25 percent, while China's share was 2.2 percent. In 2014, the U.S. share of the global economy fell to 16.1 percent, while China's rose to 16.3 percent.

The question on everyone's minds is: what kind of number one will China be? The Western media has been overwhelmingly pessimistic in its assessment of China's role as number one. I am more optimistic. Chinese superpower behavior may very well be positive. However, China will take many of its cues from how America behaves now.

THREE SYMPTOMS

Unbeknownst to many Americans, some recent American actions set bad precedents for China to follow when it becomes number one. Let me cite three examples. The first is from the global financial crisis of 2008–2009. We know that the U.S. Federal Reserve launched a series of unorthodox monetary policy measures, most notably quantitative easing (QE), to avert a deep recession. What few have noticed was what the Fed's decision meant for Beijing.

Until the onset of the crisis, Chinese leaders were happy that the United States and China had settled into a comfortable pattern of mutual dependence. China relied on American markets to generate exports and jobs. The United States relied on China to buy U.S. Treasury bills to fund its deficit spending. Thomas Friedman, in his

usual brilliant way, captured this interdependence with a simple metaphor. He said, "We are Siamese twins, but most unlikely ones—joined at the hip, but not identical."

This Chinese belief that the American government depended on China was further reinforced when President Bush sent an envoy to Beijing in late 2008 to ask Beijing not to stop buying U.S. Treasury bills, in order to avoid rattling the markets further. The Chinese leaders readily agreed and likely reacted smugly to this confirmation of American dependence on China.

This smugness was shattered when the Fed announced the first round of QE measures in November 2008.

The Fed's actions demonstrated that the United States did not have to rely on China to buy U.S. Treasury bills. The Fed could create its own money to do so. This decision had profound implications for the world. Axel Merk, president of investment advisory firm Merk Investments, said that "the U.S. is no longer focusing on the quality of its Treasuries. In the past, Washington sought to promote a strong dollar through sound fiscal management. Today, however, policymakers are simply printing greenbacks." Merk went on to underscore that by relying on the

Federal Reserve's printing press, America had effectively told other nations that "it's our dollar—it's your problem."

It was clearly a mistake for Chinese leaders to believe they had created a relationship of mutual dependence. When China decided to buy almost a trillion dollars of U.S. Treasury bills, it had to do so with export revenues earned from the toil and sweat of Chinese workers. However, if the United States wanted to repay this trillion dollars, all the Fed had to do was to increase the size of its

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balance sheet. In short, the QE measures completely destroyed the relationship of mutual interdependence that Beijing had developed to protect itself from any potential American pressures on China.

The second series of American actions that could influence China is the American decision to engage in extra-territorial applications of its domestic laws. It is well known that the United States has prosecuted several foreign banks in recent years, including HSBC, RBS, UBS, Credit Suisse, and Standard Chartered. For example, Standard Chartered Bank was fined \$340 million for making payments to Iran. Most Americans reacted with equanimity to the fine paid by Standard Chartered, believing the fine was simply

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a penalty for having dealt with the “evil” Iranian regime. However, few Americans noticed that Standard Chartered Bank, domiciled in the UK, had broken no British laws. Nor had the bank violated any mandatory sanctions imposed by the United Nations Security Council. However, since almost all international payments have to go through a United States’ payment mechanism, Standard Chartered was fined for violating American laws.

To put it simply, what Washington was doing in this case was to say that American laws applied to non-American citizens and non-American corporations operating outside America. This precedent of extra-territorial application of domestic laws could one day be used by China also.

The third significant development was the American threat to deny countries access to the Society for Worldwide Interbank Financial Telecommunications (SWIFT) system. Since virtually all international payments have to go through the SWIFT system, any country denied access is thrown into a black hole—unable to access any kind of international trade and investment. In a recent column, Fareed Zakaria described well the Russian reaction to the possibility of being denied

access to the SWIFT system. In Western media commentaries, Putin is often portrayed as the ‘bad guy,’ while Medvedev (who is both Putin’s predecessor and successor) is portrayed as the ‘good guy.’ Yet it was the ‘good guy’ who went ballistic when he was told of this threat; Medvedev said that the “Russian response—economically and otherwise—will know no limits.” By resorting to financial tools to punish other countries,

America is engaging in what Ian Bremmer has called “the weaponization of finance.” By doing so, could America be encouraging China to contemplate similar measures?

I fear that Americans are not psychologically prepared for the day when America will become number two.

THE BIGGEST QUESTION

This is why I begin this essay with these three stories. Events such as these will have a deep impact on the answer to the biggest question of our time: what happens when China becomes world number one? Clearly, the answer to this question will significantly determine the course of the twenty-first century. Hence, we should study this question carefully. It is always better to prepare for the inevitable than to pretend that it will not happen.

So far, on balance, America has reacted wisely to China’s rise. However, it is always easier to be wise when a power assumes that it will be number one for-

ever. When the reality sinks in that the number one power is about to become the number two power, it is conceivable that fear may replace wisdom as the dominant driving force in American policy towards China.

It would be perfectly normal for this to happen. The purpose of this article is to try to persuade my American friends to continue to react wisely to China’s rise.

In order to do so, let me address the first key question: What are the goals and ambitions of China’s leaders as China emerges as number one? Since China is still run by the Chinese Communist Party (CCP), it is conceivable that the goal of China’s leaders could be the same as the leaders of the Soviet Communist Party (like Lenin, Stalin, and Khrushchev): to prove the superiority of the Soviet Communist System. As Khrushchev famously said on November 18th, 1956, “Whether you like it or not, history is on our side. We will bury you.”

One of the biggest sources of misunderstanding between America and China arises from China’s decision to retain the term “Communist” in the name

of its party. This may clearly signify a commitment to Communist ideology. Yet, even a brief survey of China’s deeds, rather than China’s words, will show that China has effectively walked away from Communist ideology.

Deng Xiaoping encapsulated this shift with his famous remark, “It doesn’t matter whether a cat is black and white.

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If it catches mice, it is a good cat.” In other words, Deng was saying: ‘It doesn’t matter if the ideology is communism or capitalism. If it helps us, we will use it.’ Effectively, China now behaves more like a capitalist country than a Communist one, but for complicated internal political reasons it cannot abandon the term “Communist.”

So if the Chinese leaders are not defending or promoting Communist ideology, what are they trying to achieve? The answer is simple and direct: they would like to revive Chinese civilization.

If there is one thing that motivates China’s leaders, it is their memory of the many humiliations that China has suffered over the past 150 years. If there is a credo that drives them, it is a simple

one: 'no more humiliation.' This is why they want to make China a great and powerful nation again.

Xi Jinping explained this goal well in his address to UNESCO on March 27th, 2014, saying:

the Chinese people are striving to fulfil the Chinese dream of the great renewal of the Chinese nation. The Chinese dream is about prosperity of the country, rejuvenation of the nation, and happiness of the people. It reflects both the ideal of the Chinese people today and our time-honored tradition to seek constant progress. The Chinese dream will be realized through balanced development and mutual reinforcement of material and cultural progress. Without the continuation and development of civilization or the promotion and prosperity of culture, the Chinese dream will not come true.

The revival of the great Chinese civilization is something we should welcome. If the CCP could change its name to "Chinese Civilization Party," it would do a lot to assuage Western concerns. It has already transformed itself into a meritocratic talent-seeking mechanism that is constantly searching for the best leaders to rule China. Despite the many ups and downs in the history of the CCP, this is what the CCP has become. If the Chinese have finally succeeded in find-

ing the right mechanism to revive Chinese civilization, we should, in theory, welcome this development.

In practice, the West will not rest easy until China transforms itself into a liberal democracy. The *Economist*, a leading Western magazine, reflects these views. The *Economist* said in its issue of September 20–26th, 2014, that Xi "has become the most powerful Chinese ruler certainly since Deng, and possibly since Mao." It then calls on Xi to use this enormous power for the greater good and to change the system.

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The *Economist* assumes, as most Westerners do, that if China's system is changed and a Western-style democracy emerges in China, this will be an

unmitigated positive. This is a dangerous assumption to make. A more democratic China is likely to be a more nationalist China. A more nationalist China could well be a more assertive and aggressive China. Such a China could launch a "popular" war against Japan and act in a far more belligerent fashion over territorial disputes, such as those in the South China Sea.

In this sense, the CCP is delivering a major global public good by restraining nationalist forces and voices in China. From time to time, it has to allow some

of these forces to be expressed; it has to allow its people to vent nationalist sentiments. However, the CCP also knows when to draw back from volatile situations, as it did with Japan, India, the Philippines, and Vietnam in recent years. The West should be careful about wishing for early democracy in China. Such a dream could become a nightmare.

I believe the West must recognize and respect that China is different; that it is not going to become "Western." Therefore, the wisest course for the West to adopt would be to allow the present system to continue and to allow it to evolve and change at its own pace.

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A LEGACY OF WISDOM

This brings me to the second part of my argument. As I have already noted, wise American policies have allowed China to emerge peacefully. Some of this wisdom arose out of historical necessity. At the height of the Cold War, when America genuinely feared Soviet expansionism, it reached out to China to balance the Soviet Union. Indeed, America reached out to China when China had just emerged from one of its most brutal phases. Human rights did not factor into American policy towards China then. This

paved the way for Deng Xiaoping to use America as an example to persuade the Chinese people to switch from central planning to a free market economy.

In the 1990s, official U.S.-China relations went through a series of ups and downs. Despite the efforts of President George H.W. Bush to keep the relationship on an even keel, the Tiananmen Square episode on June 4th, 1989, assaulted American sensibilities and constrained his ability to improve relations. Tiananmen could have derailed U.S.-China relations. When President Bill Clinton took office in January 1993, after having described the leaders of China as the "butchers

of Beijing," one could easily have predicted a far bumpier road. Fortunately, Bill Clinton reacted wisely.

I was present at the first Asia-Pacific Economic Cooperation (APEC) leaders' meeting at Blake Island in November 1993 and saw with my own eyes how Bill Clinton and Jiang Zemin made an enormous effort to reach out to each other. By the end of the day, their mutual wariness was replaced by a significant degree of personal bonhomie. This episode demonstrated that the United States had been wise in

welcoming China into APEC in 1991. Such a move not only garnered American diplomatic goodwill, but also ensured that China became a member of yet another international forum whose rules and regulations it agreed to abide by. Later, the United States also worked with China in the framework of the East Asia Summit. In addition, America and China collaborate daily in the UN Security Council to manage the “hot issues” of the day.

The tragedy of 9/11 further solidified U.S.-China cooperation. Apprehensions about the rise of China were replaced by a focus on the War on Terror. East Asia stopped being a priority for the United States for several years. This allowed China to rise peacefully and helped the two countries avoid the “Thucydides trap.”

Washington made several wise decisions during this time. Firstly, America proceeded to admit China into the World Trade Organization (WTO) in 2001. Although the admission was made on the basis of stiff conditions, these conditions ironically benefited China and forced it to open up to world trade—leading to its current pre-eminent position as the largest economy in the world in PPP terms.

Another judicious call was to pay attention to China’s sensitivities on Taiwan. Beijing had always regarded Washington’s policy towards Taiwan with suspicion, as it feared that the United States could use the Taiwan issue as a means to destabilize China. Instead, America reacted wisely when, in late 2003, Taiwanese President Chen Shui-bian suggested that a referendum be held to assess the views of the Taiwanese people on independence. In response, President George W. Bush made it clear that the United States

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did not approve of this move. He said: “The comments and actions made by the leader of Taiwan indicate that he may be willing to make decisions unilaterally to change the status quo, which we oppose.” This was wise statesmanship, even if it was partly the result of Washington’s dependence on Beijing’s support on more pressing issues, such as Iraq and North Korea.

Some of these wise policies emerged out of America’s selfish interests, especially during the Cold War. However, it is possible that few Americans are actually aware how wise America has been. And, in my view, even fewer Americans understand that it is in America’s national interest to continue these wise policies towards China.

For example, since Deng opened China up in 1978, American universities have educated hundreds of thousands of Chinese students. Between 2005 and 2012 alone, 788,882 Chinese students studied in American universities. This number has risen steadily—in the 2013–2014 academic year, 275,000 Chinese students were enrolled at American universities. This is an enormous gift from America to China. Future historians will be puzzled by this massive act of generosity, as many of these students then return to China to build up the Chinese economy and create innovations in many different spheres of science and technology that propel China forward—in areas ranging from space exploration to defense.

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China has also contributed to the maintenance of friendly relations between the two countries. Firstly, China has ‘swallowed bitter humiliation’ time and again and has reacted prudently to America’s mistakes. These mistakes included the bombing of the Chinese embassy in Belgrade in 1999. Almost all Americans to whom I have spoken about the bombing believe that it was obviously an accident, but every one of the Chinese I have spoken to is convinced that it was deliberate. Despite this conviction, the Chinese swallowed their

humiliation in order to preserve their relationship with the United States. Another notable incident was the downing of an American spy plane over Hainan Island in China in April 2001. The tact and restraint demonstrated by China in both situations averted military action between the two countries.

PERPETUATING A GEOPOLITICAL MIRACLE

I have described these events in some detail, as they help explain a contemporary geopolitical miracle.

Normally, when the world’s largest emerging power is about to overtake the world’s greatest power, we should be seeing a rising level of tension between the two (with the historical exception of one Anglo-Saxon power, the United States, replacing another Anglo-Saxon power, the

United Kingdom). It would, therefore, be perfectly normal to see rising tension between America and China today. Instead, we see the exact opposite: perfectly normal and calm relations between the United States and China. This is a miracle.

However, miracles are by definition historical aberrations. They don’t last. Soon, we will revert to the historical norm and competition and tension

could rise between America and China. To prevent this from happening, both sides will have to make a special effort to continue on their extraordinarily wise courses.

On the part of China, this means that it will have to learn lessons from the mistakes it has made in recent years in dealing with its neighbors—especially Japan and those in Southeast Asia. For example, it completely mishandled an episode in which a Chinese fishing boat collided with Japanese Coast Guard patrols near the disputed Senkaku Islands on September 7th, 2010. China unwisely demanded an apology from Japan after having publicly humiliated Japan into releasing the fishing boat. Similarly, China also mishandled the Korean crisis of 2010 by not condemning North Korea's shelling of the South Korean island of Yeongpyeong. China also made aggressive statements and adopted more aggressive positions on the South China Sea in 2010 and 2011. When China submitted to the UN Commission on the Limits of the Continental Shelf a map including the nine-dotted-line territorial claim in the South China Sea on May 7th, 2009, the Philippines lodged a diplomatic protest against China. Vietnam and Malaysia followed suit. Indonesia also

registered a protest, although it had no claims on the South China Sea. In the face of this opposition, Chinese officials refused to back down.

China has also made mistakes *vis-à-vis* its relations with ASEAN as a whole. The lowest point in China-ASEAN relations occurred in July 2012 at the ASEAN Foreign Ministers' Meeting. Until then, for every year since August 1967, ASEAN had always succeeded in issuing an agreed joint communiqué after each Foreign Ministers' meeting.

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However, in July 2012, for the first time in 45 years, ASEAN failed to do so. They failed because they could not agree on the paragraph referring to the South China Sea. Nine of the ten countries agreed that ASEAN should reiterate

the previously-agreed paragraph on this issue. However, the host country, Cambodia, refused to do so. It later emerged that Cambodia had come under heavy pressure from Chinese officials not to agree to these previously-agreed paragraphs on the South China Sea. Clearly, China's rise had made some of its officials arrogant.

While China should learn from the mistakes it has made, America should study its own recent deeds through a simple lens: would

it like China to replicate these deeds when China becomes number one? The reason for using this lens is that when China clearly becomes number one, it is likely to replicate abroad America's deeds, not its words.

Bill Clinton saw this coming long before any other American did. In a significant speech at Yale University in 2003, he said the following:

If you believe that maintaining power and control and absolute freedom of movement and sovereignty is important to your country's future, there's nothing inconsistent in that [the U.S. continuing to behaving unilaterally]. [The U.S. is] the biggest, most powerful country in the world now. We've got the juice and we're going to use it [...]. But if you believe that we should be trying to create a world with rules and partnerships and habits of behavior that we would like to live in when we're no longer the military political economic superpower in the world, then you wouldn't do that. It just depends on what you believe.

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Actually, as I document in my book *The Great Convergence* (2014), Bill Clinton wanted to prepare his fellow Americans for the day when the United States becomes number two and China becomes number one while he was President. However, all his advisers firmly told him it would be political suicide for any sitting

American President to talk of the United States becoming number two. Hence, he could only speak about it after he left office. Sadly, he has not said more on this issue after raising it at Yale. Hence, I fear that Americans are not psychologically prepared for the day when America will become number two.

All this brings me back to the three stories that opened this essay. America was both able and willing to threaten to act unilaterally in all three cases I put forth because it was, and still is, the reigning emperor of the global financial system. Indeed, like many strong ruling monarchs, it enjoys absolute sovereignty in these areas and is not subject to any checks and balances.

It unilaterally controls the global reserve currency—the U.S. dollar. In theory, the U.S. dollar is a global public good, but in practice it is an instrument of American domestic and foreign policies. As former Treasury Secretary John Connally said in 1971, "It's our currency, but your problem." Clearly, global interests are not taken into consideration when America manages the U.S. dollar. This is why many countries besides China were troubled by the QE measures.

Similarly, America acted unilaterally when it applied its domestic laws to foreign banks in an extra-territorial fashion. Its threat to use SWIFT—another global public good—to unilaterally punish Russia could have had even more devastating consequences for the global order.

RESPONSIBLE STAKEHOLDERS?

One reason why the world has been remarkably stable and peaceful over the past few decades is that the rest of the world—especially Asians, who have been passive for almost two centuries—agreed to accept and work with the Western-created family of global institutions, including the UN, IMF, and the World Bank. They agreed to do so because they believed that these institutions were serving global interests, not merely Western interests.

This is, therefore, the big danger of America using global public goods—like the U.S. dollar, international banking transactions, and the SWIFT system—for unilateral purposes and ends. It will encourage the world, especially China, to work towards creating an alternative global order. If that happens,

the world will become a far messier place. That is why it is more important than ever to consider the role of the United States as a global hegemon.

We stand at one of the most important forks in human history. I hope America will continue its wise policies of strengthening a global order that serves global interests, not just American interests. If America does this, China will do the same. If this happens, nothing will change fundamentally when China becomes number one. We will continue to live in a safe and predictable world.

Therefore the final question I need to answer is, “will China emerge as a responsible stakeholder?”—to use the famous words of Robert Zoellick, former World Bank President and U.S. Deputy Secretary of State. My simple answer is this: China could emerge as a stakeholder that is as responsible as the United States. Since America is still the number one power in the world, the big question that America should ask itself is a simple one: would it feel comfortable living in a world where China behaves just as America did when it was the sole superpower? ●



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