

Development, Sovereignty, Ideology and the New Great Power Competition¹

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It's an honor to speak to this conference of the University of Malaya. I used to travel frequently to Malaysia to attend conferences but unfortunately I have not had that opportunity for several years. I hope my old friend Noordin Sopiee has not been forgotten; he was one of the smartest strategists I have ever met.

Malaysia is one of the world's success stories. Like all developing countries it has had, and continues to have, many struggles, but the lives of its people have continually improved. It has strengthened national unity in the face of a very diverse society. It has accomplished these things without terrible violence. It has governed itself with a system that, for all its many problems, treats its people with dignity and regularly holds its leaders accountable to its people. That is success.

You have asked me to speak about the implications of China's rise. When I lived in Iloilo, in the Philippines, the fundamental social rule was, never say anything that will offend anyone. Always speak about delicate subjects in euphemisms. Today we are in a university, albeit virtually, and scholarship only moves forward if we speak clearly. In a complicated world that means offending everyone. If I do my job today I will have offended everyone, including the leaders of my country and including the sponsors of this conference. I hope to do so in a way that is helpful.

Different understandings of China's rise

In the 1980s I gave many speeches to audiences like this, saying that China's economic reforms would make it the next superpower. Most Americans thought I was completely wrong to think China would succeed. Those speeches culminated in a 1993 book called **The Rise of China: How Economic Reform is Creating a New Superpower**. I thought this was a good thing, especially for the Chinese people. From 1985 to 2001 I lived in Hong Kong, and I was inspired to watch a tired, often hungry, poorly educated, poorly clothed population transform into the confident, healthy, better educated people of today.

Our understanding of China's rise has evolved gradually. In the 1990s Prime Minister Mahathir frequently expressed concern that China's success would drain trade and investment away from ASEAN. I published articles showing that, to the contrary, as China grew ASEAN's trade and investment accelerated. China's economic rise has in fact benefited the whole world. It has increased demand for goods from other countries, provided high quality and low priced goods

¹ This talk was the sole keynote address for the conference on "Regional Order and Global Transformations: Asia and China in the Changing Geopolitical Economy," Institute of China Studies, University of Malaya, Kuala Lumpur, Malaysia, December 9, 2021. The substance diverged from my assigned title, and the spoken version was a few sentences different from the written version. Every sentence eventually appeared in either the spoken version or the answers to questions.

to other countries, stimulated efficient supply chains throughout Asia, and provided large scale investments. Although the Belt and Road Initiative has many problems, on balance it has benefited many countries and has now stimulated competition from Japan, the U.S. and Europe that will also benefit many countries.

Given the benefit of China's rise to both China and the world, why has China's rise recently turned so contentious between China, the U.S. and to a lesser degree many others?

Some political scientists attribute the contention to the Thucydides Trap, the argument that rising powers and established powers usually go to war. Certainly there are rivalries, but the evidence for the Thucydides Trap ignores non-Western history, ignores economics, and ignores post-World War II history. Since World War II, rivalries have been decided mainly by economic competition, not by war. Germany and Japan became big powers through economic performance, with minimal militaries. South Korea was initially inferior in all kinds of power to North Korea, but now South Korea's economy is over 50 times larger than North Korea's; it's clear who won. Likewise, Indonesia, which was the sick man of Asia when it was emphasizing ideology and territorial claims to most of Southeast Asia, became Southeast Asia's leading country after it shifted under Suharto away from ideological and territorial priorities to a priority for economics.

The Cold War was decided by economic competition. The Soviet Union put all of its emphasis on the military and went bankrupt.

Likewise, China became a big power based on its economic growth before its current military buildup started. In the modern world, economic performance is what counts. Economic competition is different from pure military competition. In economic competition, everyone can win, whereas in military competition any win for one party is a loss for the other.

[The emergence of serious conflict](#)

For a long time it seemed as if the U.S. and China were headed toward a workable, mutually acceptable big power relationship. I don't mean that China was converging politically on a Western model; contrary to some current nonsense in Washington, no U.S. administration ever expected that. Nor do I mean complete economic convergence. That was never expected or necessary. But we could have had a manageable, respectful competition without complete convergence. What happened?

Part of the problem was on the U.S. side. While Washington welcomed China to join the system, it was unwilling to treat China as a completely equal partner. In governance of the World Bank and IMF, there was tremendous resistance to treating China as a partner proportionate to its global economic role. The U.S. military always treated China as an adversary, sometimes in a very provocative way. The ultimate test of the U.S. welcome to China as an equal member was the AIIB. China designed the AIIB to be fully compatible with the Bretton Woods institutions, and AIIB's subsequent behavior has validated China's sincerity. However, Washington made excuses to deny that reality.

China's planning of the AIIB occurred at the pinnacle of Chinese fascination with Western economic models and with some aspects of Western political models. The Global Financial

Crisis ended China's acceptance of Western economic models as the ultimate aspiration, and the rise of Trump and Boris Johnson ended any prestige that Western political models had. (It's easy to forget that there once was such prestige. Through the early years of this century, the Central Party School was among those analyzing alternative models for democratization. There was even talk of a model where the Guomindang might be allowed to win an election in Fujian Province.)

Even more important, both the U.S. and China have been undergoing social changes that create vital challenges for their political systems. President Biden has said that U.S. democracy is at stake. That has happened because the U.S. system has worsened rather than moderated a trend toward severe social inequality and because both major political parties, for different reasons, have refused to ease the inexorable transition from a manufacturing workforce to a services workforce. Instead of helping the workforce evolve, as China has, they have blamed the shift on China.

America's problems are very serious and I'm happy to elaborate on them. But this conference is about China, so I'll say more about China.

China's economic success has brought it to a new phase of development that poses major challenges for its economy, its politics and its international posture.

China's future economy

The future will see a slower Chinese economy. The engines of fast growth have been infrastructure, property and urbanization. The Chinese government is wisely deflating the property bubble and urbanization is decelerating fast. By 2030 those drivers will be obsolete. +In addition, China has a growing burden of supporting an aging society with an ever declining workforce. China will seek to offset these trends by increasing innovation, but governance developments will limit innovation.

China will still be the first or second largest world economy. It will be a military superpower and a world political leader. But it will not be the driver of growth and structural change that it is today.

The transitions China faces

China's success derived from emulation of the South Korean, Taiwan, Singapore and Japanese models. In those models for early industrial transition, fast growth is achieved by a strong, tough central government that manages the economy in detail, relies heavily on large state-supported industries, builds infrastructure, and strongly supports well-chosen sectors while liberalizing its internal market. It becomes efficient through extreme domestic competition and a focus on successful competition in foreign markets. China's success mirrors that of its predecessors.

Transition to economic complexity

Success creates a revolution of complexity and scale. Starting from a relatively simple economy of farmers, road builders and cheap clothing manufacturers, in only a few decades the economies of these super successful countries become enormously complex. Suddenly, to take

just one sector, there are thousands of computer hardware and software manufacturers, evolving at a disorienting pace. In the face of this complexity, the old detailed central management of the economy no longer works well. In the face of the complexity revolution, South Korea's centralized management of a dozen chaebol, Taiwan's centralized management of 40 Guomintang conglomerates, and Singapore's highly managed economy gave way to much more market-driven systems. The private sector became dominant. Similarly, the private sector in China now supplies virtually all new growth and net new jobs.

Transition to social complexity

Society mirrors this economic complexity. Each sector and subsector becomes large, educated, organized, and self-financed, with leadership and self-consciousness about its interests. Each sector asserts interests that conflict with other sectors and with some government goals. Large firms threaten to capture the state.

Likewise the challenge of social complexity created crises and stresses that led the governments of Park Chung-Hee, Chiang Kaishek and Lee Kwan Yew to evolve toward more market-driven polities. This model adapts to complexity by shifting much power from government ministers to automatic adjustment mechanisms in economics and politics alike.

China recently has chosen instead to fight the tide of complexity. Instead of acceding to it, China seeks ever more comprehensive control: more emphasis on state enterprises, powerful Party secretaries in every business, internet controls, data controls, separation from international flows of information, ever tighter controls on professors, lawyers, women's groups, Christians, Muslims. The more the economy succeeds, the more society becomes complex, and therefore in this model even more controls must be imposed. Controls are already very tight—on professors, lawyers, journalists, internet communications, Christians, and especially Muslims. Because economic success brings even more social complexity, even tighter controls will be required in the future.

These controls have economic consequences. The positive consequence is a period of stability. But Party secretaries and CEOs often have different agendas, and the differences detract from growth. Tough controls on Christians and Muslims have consequences too. When you tell a Xinjiang Muslim that he can be arrested for praying, going to the mosque too much, fasting for Ramadan, abstaining from alcohol, wearing a beard, or participating in Muslim weddings and funerals, there is an eventual price.

There will be two further drags on growth. Historically, many political leaders have believed that if the state owns the major businesses, the state's control of society will be greater. But history shows that giant companies invariably end up owning the politicians. Related to this, when one party or one coalition dominates a society for a long time, corruption always becomes severe. That is true for the Chinese dynasties, for postwar Japan, for a period in modern Malaysia, for the Soviet Union and Russia. Xi Jinping has fought valiantly and sincerely against corruption and I admire him for that, but he is fighting an inexorable tide.

It is impossible to estimate the size of these drags on growth, but they will be drags and it may become impossible for China to grow as quickly as the U.S. or EU. A slow-growing China will not

have today's bull market mentality at home. It will require brilliant management to avoid becoming a giant, sluggish Japan. It is easy to forget how quickly Japan went from the nuclear dynamo, taking over the world economy and becoming a superpower, to the slowest of the major industrial economies.

Transition to global economic scale

Just as economic growth inexorably breeds complexity, it brings scale. When Japan, South Korea, Taiwan and others were small developing economies, the world tolerated their industrial subsidies, protectionism, intellectual property theft, and other deviations from fair competition. The world wanted them to succeed at development. But success gave Toyota and Samsung a scale that threatened to devastate their competitors. The world's developed countries play by rules that only allow success through superior efficiency, not through vast subsidies and denial of fair opportunities to competitors. Particularly in Japan's case, there was quite a struggle over the transition to developed country rules. Washington briefly imposed quotas as well as 10 percent tariffs on all Japanese goods. But the result is that today Americans drive vast numbers of Toyotas, Honda, and Nissans and Americans are just happy to own such great cars.

China has reached that threshold of success where the developed world expects China to play by fair rules. Huawei is the Chinese analogue of Toyota, a great company that threatens to take over 5G for the whole world. But its success depends heavily on the exclusion of competitors from a major role in the Chinese market. Because Ericsson and Nokia don't have the rights to compete fully in the Chinese market, while Huawei formerly had the right to compete fully in every market, Huawei's research budget can be larger than all of its competitors combined. It would totally destroy its competitors. Getting special advantages as a developing country is different from demanding the right to destroy all competitors.

If China will play by fair rules, Huawei's success can be like Toyota's, perhaps even greater. But as long as China has an implicit rule that no Western company will ever be allowed to become more than a minor player in the Chinese market, there will be an endless series of trade wars.

Transition to global leadership

Finally, just as there is a scale threshold in economic competition, there is a scale threshold in geopolitics. Small developing countries naturally struggle for every advantage. The South China Sea has been an object of such struggle. Every country has played games in the South China Sea. But a country that desires to be a leader, a country that says it wants to create a community of common interests, has to seek a system of stability, not just maximum self-interest. A stable system must take into account everyone's interests, not just one's own. China has not accepted this. Its position is that only China's interests count. Malaysia's interests, or the Philippines', don't count. Compromise is rejected. Rules that apply to everyone, including China, are rejected.

The path to peace

In summary, we have two great problems in the world, the refusal of the U.S. to accept China as an equal and the insistence of China that it must be given all the special advantages of a

developing country while simultaneously asserting that it is a superpower that will reorganize world politics and economics according to its conception of a community of common interests.

There is only one path to peace:

The U.S. must accept China as an equal.

China must accept the responsibilities of a major economic and political power.

I'm afraid I might have kept my promise to say something that might offend everyone. Sometimes we honor colleagues by giving our most forthright thoughts. In the 1990s had many conversations with Zhu Rongji. I thought of him as one of the two greatest men of the 20th century and I always felt honored to be in the same room with him. He was tough. He was decisive. He always sought constructive criticism; his openmindedness to different views was one of the many reasons for his greatness.

A final thought from history: Chinggis Khan ran the greatest empire in world history and contributed more to economic development than any individual in world history. He was supremely tough and in control. Two of the key reasons for his success and his subsequent impact on the future of our world: The same rules applied to everyone in his empire, without regard for tribe or grouping. And he respected every religion of every group in his empire.