

Foreign policy of an anxious adolescent superpower

EAF eastasiaforum.org/2023/03/17/foreign-policy-of-an-anxious-adolescent-superpower/

March 16, 2023

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China's incredibly successful economic development brings two predicaments, one domestic and one foreign. Domestically, rapid development quickly makes the economy and society more complex. An agricultural economy with basic industries suddenly has thousands of interconnected industries, a complicated technology sector and a highly differentiated services sector. A complex economy brings with it a complex society. People who were satisfied by having enough to eat now want different things. This complex economy is much more difficult to manage centrally and hierarchically.



Among all the Asian miracle economies, this emergence of social complexity leads inevitably to a crisis of success. Big government-supported companies get into financial difficulties. Government experiences a financial squeeze. Demonstrations of people affected by change rise. Businesses challenge government policies. Such crises happened in South Korea, Taiwan and Japan in the 1980s. All three responded by accommodating complexity through more market-oriented economics and politics. They achieved stability, high incomes and high technology.

Elsewhere, established economic and political institutions frequently become so entrenched that they resist further reform. This 'middle-income trap' often halts rapid development. The Asian miracle economies avoided this trap by insisting that state-supported firms — the South Korean chaebol, the Taiwanese Kuomintang infrastructure conglomerates and the Singaporean government-linked companies — accept market disciplines. This often means government-affiliated firms are surpassed by those without government affiliations but the strategy worked.

The alternative to accommodating complexity is fighting it — apparently China's current path. This requires further centralisation of the economy and more hierarchical politics. Because further economic success brings further complexity, this strategy requires ever tighter controls on political, economic, security and social institutions. Contrary to what one would expect after decades of broad economic improvement, China's development success brings with it heightened security fears.

While official policy prioritises economic development, the reality is a proliferation of security impositions that reduce growth. They weaken private sector credit and investment, impose political controls on the private sector, suppress innovation, increase discontent among various elites, frighten bureaucracies into inaction and limit global connections. As a result, total factor productivity growth has declined by about two-thirds. Hence mainland China may never catch up with the United States, the European Union, Japan, South Korea, Taiwan and Singapore. Although China is stronger than ever, its leaders fear that — like the Soviet Union — its system might collapse due to a lack of political will. But the Soviet Union collapsed due to bankruptcy. Decades of labour, capital and goods shortages, falling productivity and the economic cost of the Soviet empire finally led to collapse. In contrast, China has a sustainable, competitive and diverse economy.

Russia shares the same weaknesses as the old Soviet Union. Its structurally unsound economy is largely a raw materials quarry for China and Germany and is structured to benefit a small group of oligarchs and the military, not to provide broad social benefits like China's economy. The flawed sense that Russia and China face the same risks leads China to align with Russia. But Russia is a risky partner because it associates China with a dangerous, potentially nuclear militarism.

China also expresses fears of foreign manipulation. But the United States failed to manipulate China's politics even when China was poor and weak. And a change of political structure in Uzbekistan is no more consequential for China than an election in Malaysia. Yet China's leaders blame foreigners for the dilemmas of social complexity and have become gratuitously fearful of foreign influences.

Equally important, successful development like China's leads to a crucial international transition. When countries are poor and weak, they receive special forbearance to encourage development. All successful developing countries, including the United States, stole intellectual property, denied foreign access to their markets and subsidised their companies. Rich countries reluctantly tolerate this and celebrate successful growth.

But success builds scale that increasingly distorts and damages global markets. Japan's subsidised and protected cars and consumer electronics threatened to destroy competitors through unfair competition. The United States and the European Union reacted strongly with tariffs, quotas and other measures. After a difficult decade, Japan mostly accepted rules of

fair competition. Subsequently Toyota has led the motor industry, but US and European consumers welcome Toyota because its success results from making better cars, not because of intellectual property theft and subsidies.

China has reached that transition point. When Chinese fishermen were small and poor, subsidies were acceptable. Now coastal communities in North Korea, Latin America, Africa and South Asia are impoverished by China's huge, government-supported fishing fleet.

Likewise, when China was poor, copying US CDs caused a noisy but minimal response. Now, intellectual property theft costs to the United States are estimated at hundreds of billions of dollars annually and even small venture capital firms report over 100,000 daily computer intrusions from China.

When China was weak and had been invaded by imperialist Westerners, no one could reasonably object to China building a stronger navy. But now China asserts 'historical rights' over its maritime neighbours. A great power seeking stability would pursue other stabilising alternatives: acknowledging the historical rights of others and compromising, as China did with most of its land borders; accepting United Nations Convention on the Law of the Sea (UNCLOS) rules; negotiating alternative rules; or negotiating a collective solution. Instead, China seeks to divide and conquer, rarely compromises and imposes its will by force when it can.

The clash with the Philippines over Scarborough Shoal exemplifies the problem. The Philippines undisputedly claimed the shoal in 1938. But in 2012 Philippine patrols caught Chinese fishermen harvesting protected species there. China forcibly quashed Philippine intervention and has largely controlled Scarborough Shoal ever since. Many Filipino families have lost their livelihoods. In China's view, its historical claim — an unsubstantiated event in the 18th century — nullifies the Philippines' historical claims, UNCLOS and humanitarian rights.

China now has sovereignty disputes with North Korea, South Korea, Japan, the Philippines, Brunei, Malaysia, Indonesia and India. Even Bhutan is affected. China has evolved from a victim to a bully. This is how a small power behaves, not a great power trying to create a stable system.

Smaller countries want China's money and fear China's power, but their sense of injured sovereignty persists. This could become a problem for China if, as is likely, from 2030 to 2050 its maritime neighbours grow twice as fast. A China growing at 2 or 3 per cent annually will still be a great power, but its economic magnetism will be comparable to that of the United States and the European Union. Smaller countries may then grow confident and unite.

Suppressed but widespread elite resentments at home add to the rising opposition of cowed but proud neighbours and their powerful supporters abroad. Knowing this, China's anxious leaders have doubled down on repression and assertiveness. They demand all the privileges of a weak, impoverished country while asserting China as an imminent global leader reshaping the world into a Chinese-style community of common interest. This contradiction is unsustainable. There are formidable risks for an anxious adolescent superpower that is unwilling to mature.

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