China’s Push for a New Global Order

The COVID-19 crisis has sharpened the debate between China and the United States over future leadership of the global order that has been dominated by the US since the end of the Second World War. Global Asia looks at China’s vision for a world order that could displace that of the US.

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US-China Tensions Will Be the ‘Defining Relationship’ of Our Time
By Eberhard Sandschneider

In the fog of war that characterizes the current struggle against Covid-19, the contours of a major contest between China and the United States to shape the future world order are visible. That contest existed before the pandemic but has been infused with new dimensions and greater intensity. As these two great powers emerge in coming months from the effects of the health crisis, stark choices and difficult balancing acts will be faced by the rest of the world, writes Eberhard Sandschneider.

THE MOTHER OF ALL black swans has finally landed. What for decades has only been seen as a hypothetical risk — or a perfect plot for Hollywood thrillers — is suddenly a global challenge. The Covid-19 pandemic is dramatically changing the world. While the coronavirus is shaking up states, economies, institutions and individuals in hitherto unknown ways, it may still be premature to try to assess the whole spectrum of its effects. But most probably, it is a safe bet that most global trends visible before the outbreak will continue to unfold. And these trends send warning signs to all those who believe the world will come back to business as usual after the health challenge is under control. It won’t — because the pandemic will dramatically accelerate and intensify developments that would otherwise have taken much longer. As our time for adaptation is shrinking, the risks of change are rising.

While the spectrum of consequences will be extremely broad, I will concentrate on the most obvious current effects, summarized in five hypothetical statements: 1) the coronavirus will accelerate and intensify the crisis of multilateralism; 2) it will have a detrimental effect on great power relations; 3) it will intensify the conflict between China and the US; 4) China’s rise will nevertheless continue; and, 5) it will accelerate processes of economic decoupling and deglobalization.

IT WILL ACCELERATE AND INTENSIFY THE CRISIS OF MULTILATERALISM
One would assume that a global crisis of the scope of the current pandemic should strengthen the need and willingness of states and institutions to combine forces in order to meet the threat. But since the beginning of 2020, the exact opposite has become visible: The United Nations Security Council finds it impossible to overcome tensions between the US and China in even agreeing on a general resolution. The US insists on calling the virus “Chinese,” while China is decisively trying to counter this characterization. Stalemate is the result.

The same applies to the level of influence exerted by the World Health Organization (WHO), which together with China ranks high in the US president’s attempt to find scapegoats for his own mistakes in dealing with the outbreak inside the US. His predecessor Barack Obama — in one of his rare critical statements on his successor’s policies — publicly describes Trump’s policy on the outbreak as a “chaotic catastrophe.” Among global commentators, there seems to be agreement that co-operation needs leadership — and that the US under Trump has given up on this role and ambition. Consequently, neither the G7 nor the G20 are playing a significant role. Multilateralism is the most prominent political victim of the pandemic while re-nationalization turns out to be the most important consequence of the crisis.

Instead of pooling capacities to fight the pandemic, nation states are implementing “national solutions” with limited international co-ordination.

IT WILL HAVE A DETRIMENTAL EFFECT ON GREAT-POWER RELATIONS
Despite, and in addition to, the coronavirus, the challenges for Western democracies that we have seen on the rise over the last two decades will continue to gain importance.

Domestically, digital manipulation of news (“fake news”) undermines one of the most fundamental pillars of democratic politics and the loss of power by politicians and parliaments that may be democratically elected but helpless to solve problems that need global and not national solutions. At the same time, the ascendance of simplistic solutions (nationalistic, ethnic, ideological or openly racist) is further undermining a value system that has been a normative prerequisite of Western politics over decades. To these challenges, the coronavirus adds the risks and dangerous temptations to resort to conspiracy theories.

Internationally, developments such as the “rise of China,” continued irritations from Russian politics and the disruptions of Trump’s policies form one major set of elements challenging the traditional liberal world order (already before the pandemic), while technological disruption continues to add to the growing uncertainties and uneasiness of Western countries. Big Data changes everything. Cybersecurity, trade and currency wars and the race for access to resources dominated the global landscape of risks even before the current pandemic. References to Western values, democratic procedures and a rules-based global order do not reflect the challenges posed by these accelerating trends.

The pandemic’s effects will thus deteriorate trust in transatlantic relations, endanger cohesion between member states of the European Union, intensify tensions between the US and China and raise concerns about China’s growing influence both on the global level and toward Europe. Great power relations will be different, but certainly not less conflictual after the coronavirus.

IT WILL INTENSIFY THE CONFLICT BETWEEN CHINA AND THE US
Blaming China for covering up the pandemic in its early stages, reacting too late and therefore being responsible for the global outbreak has become a favorite argument of Trump. Looking for someone to blame for his own deficiencies will most probably remain a characteristic of his ongoing re-election campaign.
But the deeper structures of bilateral conflicts have also not disappeared. Although the US government had already been critical of China’s industrial policies before Trump took office in 2017, under the current administration, the criticism has increased dramatically, resulting in US demands to roll back Beijing’s “Made in China 2025” policies and a trade war with the introduction of massive tariffs on a broad range of Chinese goods. The US considers Made in China 2025 a risk to its national security. Washington keeps arguing that the strategy relies on discriminating against foreign investment, forced technology transfers, intellectual property theft and cyber espionage.

Additionally, the Pentagon warned already in 2017 about the dangers of state-led Chinese investment in US companies that work on facial recognition software, 3D printing, virtual reality and autonomous vehicles because such products have blurred the lines between military and civilian technologies. In April 2018, US intelligence agencies argued that targeted acquisitions of US firms by Chinese companies were an “unprecedented threat” to the US industrial sector.

More broadly, policymakers in the US are worried that China’s state-led model and its goal of controlling entire supply chains through its Belt and Road Initiative — for instance, the cobalt industry, which powers most modern electronics — means that whole industries could come under the control of its main geopolitical rival.

As part of its counterstrategy, the US government has targeted Chinese technology companies over national security concerns. Already in 2012, long before the announcement of “Made in China 2025,” a report by the US House Intelligence Committee declared Huawei and ZTE threats to national security due to the potential for Beijing to use their networks for spying or sabotage, and the US Commerce Department restricted their ability to sell their products, enter into contracts with government agencies and otherwise operate in the US. Meanwhile, it has become clear that this spectrum of confrontations will be additionally burdened by the debate about China being the country where the coronavirus originated.

Rising tensions between the US and China have also put the EU in a difficult position as it faces demands from West and East. The US expects allegiance from its security partners and fellow democracies; China expects “fair treatment” and opportunities to enter European markets and acquire European technologies. Of course, Europe is more than a passive object of the superpowers’ desire. It has its own values and ambitions and has chosen co-operation partners on a case-by-case basis. But the ability to pick and choose could well be over soon, forcing European companies and governments to make unpleasant choices.

As the largest economy in Europe, Germany plays an especially important role in the relationship with China. Germany has a strong interest in equipping its own firms to face Chinese competition and opening up the Chinese market. The pandemic now threatens to at least slow down the ambitions of the German government for the next EU-China summit, scheduled to be held during the incoming German presidency of the EU on Sept. 7 in the city of Leipzig.

The impressive spectrum of contentious issues leaves us with a simple further conclusion — which is likely difficult to accept for those still adhering to the dream of a values-based transatlantic alliance. While that dream is turning more and more into a nightmare under Trump, Western actors will have to accept that China’s rise is a normal process from a historical perspective and will lead the country to reach a power position matching that of the US — and certainly overtaking the EU’s remaining ambitions.
economy. China is a major economic power, but average per capita income is still just US$8,000 compared to US$56,000 in the US. To maintain economic growth, standards of living and the growing demands of an increasingly educated workforce, the Chinese government is determined to improve the country’s economic and technological competitiveness.

The coronavirus and its effects will support China in its attempt to further increase its influence in international security, economy, trade and investment policy. The obvious goal is to comprehensively upgrade Chinese industry, making it more efficient and integrated so that it can occupy the highest levels of global production chains. The push for the “Made in China 2025” strategy came at a time when the Chinese government realized that despite its enormous GDP growth compared to Western industrialized countries, China faces several problems that could pose fundamental dangers to its political system, economy and society: higher wages, the growing costs of an aging population, a shrinking workforce, economic inequality, an insufficient welfare system and environmental destruction. Now, the necessity to build a resilient public health system will be added to these challenges.

Another clear objective is the continuing desire to see Chinese companies be more competitive in general and to have Chinese firms move up the value-added chain in production and innovation networks. In addition, the government calls for Chinese companies to increase their investment efforts abroad. Beijing is focusing on the countries that make up the Silk Road Initiative in Central Asia, Africa and Europe, but it is meant to apply worldwide. These efforts are supported by government measures and market incentives, creating a direct challenge to high-tech manufacturing in the US and Europe.

In general terms, China aims to move away from being a manufacturer of low-quality goods (“the world’s factory”) and toward becoming the world leader in high-quality manufacturing in key industries. China is thus turning from being a potential market into a formidable competitor for Western companies — which is one of the deciding reasons for increasingly critical and even hostile American reactions. Reasonable concerns among Western policymakers that China could use its lead in tackling the pandemic in order to pursue these ambitions are already translating into critical assessments, especially of investment policies.

**IT WILL ACCELERATE PROCESSES OF DECOUPLING AND DEGLOBALIZATION**

The grand scheme of geopolitical developments does not allow for much choice. Politicians and business leaders in Europe are becoming increasingly dependent on data and information. At the same time, the environment that governs these markets is changing rapidly into a bipolar system in which the US and Chinese markets are decoupling, and tech companies will be under strong political influence. In this world, European companies that have ties to areas such as artificial intelligence (AI), autonomous driving, or any other Big Data driven field, will have to choose whether to operate in a US- or Chinese-controlled environment or if they want to try to be active in both.

Businesses, investors and politicians are waking up to the risks posed by Sino-American geopolitical competition. Some estimate the risk of a military conflict between the two superpowers in the South China Sea at 50 percent in the next 10 years. The potential closure of the Straits of Malacca requires European firms to ensure they have alternate trade routes and suppliers available. Firms should make sure they are not too dependent on natural resources from non-market economies and authoritarian states, as the German Business Association (BDI) recommended last year.1

The two giants are also putting institutions under pressure: the World Trade Organization (WTO) is running out of appellate body judges and thus is unable to function properly; and as part of its Belt and Road Initiative, China is building up production capacity in countries that have previously exported relatively little to the EU or the US. The EU is demanding a “more reciprocal” economic relationship, but China has the ability to strike back if it feels the European demands are out of line — it could deny permits to foreign firms, look the other way on IP theft, encourage “patriotic” boycotts with its “social credit” system or simply increase support for Chinese “national champions” that can beat out European competition. European companies need to keep an eye on their dependencies on the Chinese market, and expect disruptions stemming from political turmoil coming from all angles. Criticizing China for supporting its state-owned enterprises may also end up in a difficult situation since European governments might be forced to nationalize important companies in order to save them from going bankrupt.

The dangers of a world economy falling into two conflicting zones of interest — one American, the other Chinese — are obvious and turning more and more into one of the greatest concerns for European companies.

**CONCLUSION**

There is no way to deny that today’s geopolitical landscape is undergoing fundamental changes. The coming years will be characterized by an all-embracing conflict between the US and China over ultimate global predominance. While present debates seem to concentrate on signals of softening or hardening in trade disputes, the conflict spectrum itself is much broader and might easily lead to a thorough shake-up of the global order. Policymakers and business representatives face the challenge of being forced to position themselves in a conflict constellation that will easily dominate the next two to three decades. As we have seen, the effects of the pandemic do not necessarily create new challenges, but they definitely accelerate and intensify existing ones.

In conclusion, Sino-US relations will be the defining bilateral relationship of the first half of the 21st century, affecting all aspects of global politics and economics. The two economic and political giants face tremendous problems in getting along with each other in a peaceful and cooperative manner. The way they organize their relationship will have a decisive impact on the rest of the world, business and politics alike.

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