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China's Rise, Deglobalization and the Future of Indo-Pacific Governance

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ABSTRACT

The rise of great-power rivalry and a shift from a unipolar to a bipolar structure in international politics are happening alongside worldwide popular dissatisfaction with the negative side-effects of economic globalization. These forces are dismantling from above and below a world that was supposed to become borderless under global governance – a reversal unexpectedly aided by the Covid-19 pandemic, a black swan event perfectly timed to challenge the “flat world” envisioned after the advent of America’s post-Cold War “unipolar moment”.

This move back toward state-centric governance is aided by a re-emerging bipolar structure of international politics. Now locked in great-power competition, the liberal US and the Chinese party-state both seek to universalize mutually incompatible visions of world order. At best, this would bifurcate global and regional governance. At worst, it would render any kind of governance impossible. In either case, every other nation is left to decide for itself what best to do in a world becoming less secure and predictable.

Meanwhile, distressed masses of citizenry around the world turn to nationalism, populism, socialism and sectarianism as it suits them in desperate efforts to secure social protection and restore social cohesion threatened by an unfair distribution of globalization’s costs and benefits.

Thus, both globally and in the Indo-Pacific region we see increasingly dysfunctional multilateral governance and lessening interdependence that nevertheless, due to irrevocable changes wrought by globalization, may not replicate the old Cold-War division of the world into two monolithic ideological camps with walled-off regional geographies.

Keywords

Indo-Pacific, global governance; regional governance; China's rise; bipolarity; strategic competition; globalization; deglobalization; double movement; structural realism; power transition theory; Belt and Road Initiative (BRI); Chinese Dream; Community of Shared Human Fate; Free and Open Indo-Pacific (FOIP); Quadrilateral Strategic Dialogue; Quad; partnership networks; infrastructure connectivity; Association of Southeast Asian Nations (ASEAN); South China Sea.

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1. INTRODUCTION

The “flat-world” globalization that took root in the era of post-Cold War unipolarity appears to be faltering. Great-power trade warfare and rising nationalism – now reinforced by additional insecurity created by the global pandemic – make the borderless world increasingly difficult to sustain. If globalization is the reduction of national trade barriers to facilitate greater interdependence and integration in order to create a seamless global economy, then deglobalization is the reconstruction of national barriers to trade, investment and migration; the reshoring and shortening of supply chains; and movement toward exclusive regional trade blocs and great-power spheres of influence. Since the global financial crisis of 2008, signs of economic deglobalization have been visible: a declining trade/GDP ratio (Achuthan 2017); shortening value chains (Li, Meng, and Wang 2019); and an overall slowing down of international migration (Arslan et al. 2018). This paper focuses on how international and national politics combine to drive deglobalization and to disintegrate global and regional governance with special reference to the Indo-Pacific region.

Neo-liberal global governance was the defining feature of the unipolar US-sponsored post-Cold War order. This order reduced national trade barriers, brought national economic governance more in line with global norms, and quickly spread digital technologies that radically lowered the cost of information, transactions and other business operations.

But today with the rise of China and the accompanying shift to a bipolar structure of international politics, prospects for the continuation of an open global order governed by universally shared liberal norms are dimming. China’s rise to great-power status brings with it a challenge to US leadership and the liberal norms that guided post-Cold War globalization. The Communist Party of China (CPC), which rules China as a Leninist single-party dictatorship, is ideologically committed to “socialism with Chinese characteristics in a new era.”

The Chinese communist party-state sees itself engaged in a new stage of historical struggle against “Western” liberal notions of democracy, human rights and the rule of law. The Chinese party-state seeks to do this by accumulating power and enlisting developing countries in and around Eurasia using the party-state-guided Belt and Road Initiative (BRI) to form a “community of shared human fate” governed by the norms and interests of the Chinese party-state.

At the same time, slowing growth, chronic fiscal austerity and widening inequality are mobilizing popular political forces dissatisfied with the consequences of globalization. Members of the Organisation for Economic Co-operation and Development (OECD) have experienced increasing inequality (OECD 2017); decreasing social mobility (OECD 2018); and rising distress among the middle class. Households “feel left behind and have questioned the benefits of economic globalisation” (OECD 2019); and “child poverty has increased in more than half of OECD countries since the early 1990s, and now nearly one child in seven lives in poor households” (Thévenon et al. 2018).

The political consequences of popular discontent are most clear in the US and the UK – the very countries that led the move toward financially driven globalization in the era of Margaret Thatcher and Ronald Reagan. Today, Boris Johnson and Donald Trump respectively have undone post-Cold War commitments that built up global and regional governance institutions. Rising inequality; high levels of unemployment; deteriorating public services; social dislocations caused by off-shoring production and foreign in-migration; diminishing faith in social protection; and environmental degradation combine to create a popular mood in the world that challenges neoliberal attitudes toward trade, foreign investment, offshore tax havens, and refugee and migration control. These rising popular forces are using social media and adopting a variety of ideological perspectives to put the protection of livelihood, cultural identity, national security and the environment above the need for open and efficient markets.

This visceral reaction to the uneven distribution of the costs and benefits of globalization over the past four or five decades suggests why strong nationalist leaders such as Trump, Johnson, Russia's Vladimir Putin, Turkey's Recep Erdogan, China's Xi Jinping, Brazil's Jair Bolsonaro, and India's Narendra Modi have risen to power using promises to reassert national identity and defend national interests, which has led to the dismantling of globalization from below, as it were. One finds among these leaders an eclectic mix of ideologies, e.g., authoritarianism, Marxism-Leninism, populism, and sectarianism, but all lead away from neoliberal globalism.

The discussion to follow will first indicate how the re-emergence of a bipolar international structure and a shift in the popular mood regarding neoliberal economic governance have reversed the tide of globalization and challenge global governance. It then looks at regional efforts to maintain trade and GDP growth, but here too neoliberal norms are weakening, and protectionist moves are on the rise.

Turning to the Indo-Pacific region, China-US great-power rivalry complicates regional economic governance because the two powers harbor fundamentally incompatible conceptions of the role of the state and market in the economy. It also generates disagreement with respect to political and security governance norms that challenges maritime security and a continuing US regional security role. All this creates a genuine risk of war that nonetheless is rationally manageable.

Looking to the future, strategic rivalry and weakening global norms are expected to drive each power to organize friends and allies across the region into distinct partnership network governed in accordance with the values and institutions of the sponsoring great power. These networks will attract different memberships and will create in effect two competing governance regimes that would not replicate the old Cold-War order, but could manage peacefully to co-exist and interact in the Indo-Pacific.

2. DEGLOBALIZATION FROM ABOVE: THE END OF UNIPOLAR GLOBAL ORDER

An open global economy needs general peace and stability as well as universally acknowledged governance norms that facilitate the lowering of barriers to trade and investment at national borders. In a world of self-interested nation-states, such conditions do not create themselves. To persuade almost 200 national governments to give up the power to regulate trade and financial cross-border flows and instead obey the dictates of the International Monetary Fund (IMF), World Bank and World Trade Organization (WTO) is quite an extraordinary feat, historically speaking. The story of how US hegemonic power and leadership after World War II worked with allies to create these conditions is well known. So is the story of China's rapid ascent to great-power status. What concerns us here is the shift from a unipolar to a bipolar structure of international politics, and its portents.

US-Soviet bipolarity divided the world into blocs of countries separated by Cold-War barriers – making a single global order under “global governance” out of the question. Then the collapse of the Berlin Wall in 1989 allowed the socialist-bloc countries to *choose* to be “globalized” into the US-led liberal international order. But now with China's rise to great-power status we have returned to a bipolar international structure. Will this structure reproduce a bifurcated international order with two exclusive regional blocs under competing models of governance? We seem to be headed toward bifurcation, but a complete undoing of globalization to produce Cold War-type regional blocs should be avoidable, which would be desirable for the sake of continuing peace and development.

2.1 THE STRUCTURAL LOGIC OF BIPOLAR COMPETITION

The structural logic of bipolarity recommends that each side reduce its strategic dependence on the other in order to maintain its own strategic autonomy (Waltz 2010). And when there is a clash of vital interests bringing the potential for armed conflict, this structural incentive becomes compelling and produces zero-sum rivalry. In this situation, one side solicits cooperation only to improve its own position relative to that of the other. This explains China's eagerness to join the WTO and exploit liberal access to the US economy without giving reciprocal Chinese market access to the US. The US did not mind this asymmetry when China was a weak and unthreatening trade partner. But after China grew to become a strategic competitor with aims fundamentally at odds with US national interests, it became a different story. The US under the Trump administration responded to the asymmetrical market access issue with a trade war to compel China to cease certain predatory practices such as forced technology transfer and bring China into closer compliance with WTO norms – without much success. Thus, what remains of bilateral trust and cooperation today is spiraling downward, and talk of decoupling is rife. Moreover, third parties are being pressed to take sides, e.g., the US is urging allies to avoid the purchase of Huawei 5G digital infrastructure components; for its part, China is resorting to a variety of carrots and sticks to attract the uncommitted and divide the US from its G-7 and Indo-Pacific allies. The structural

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logic of bipolarity not only produces great-power disengagement but also leads to a bifurcated world order.

The emerging bipolar order has certain parallels with the Cold War, but it will not be a replay of that era. It is true that China is governed by a communist-party dictatorship as was the former Soviet Union, but the Chinese party-state has adapted to competing with the US from *inside* the US-sponsored liberal framework of international relations. China cannot simply be quarantined and cut off from the community of liberal states as was the Soviet Union and its allies. This state of affairs makes China a formidable counterbalance to the US in today's world.

2.2 A NEW TYPE OF COMMUNIST PARTY-STATE CAPITALISM

An unelected and secretive Marxist-Leninist single-party dictatorship controls all aspects of the People's Republic of China (PRC) with an iron grip. The hierarchically organized CPC uses its 90 million cadres and cutting-edge digital technologies to monitor closely and control all state, economic, cultural, social and military institutions. This gives the CPC party-state a unique ability to indoctrinate, track, reward and punish its citizens in order to manage their behavior, speech and thoughts. But this communist party-state is no longer dedicated to the revolutionary overthrow of capitalism. Its aim is to dominate the nation-state order by engaging with liberal capitalism – on its own terms.

Nevertheless, the CPC elicits values-based criticism from the liberal West for governance practices that are inherent in unelected communist-party dictatorships. This in turn prompts the CPC to regard liberalism and liberal Western states as threats to its existence. Fundamentally different perceptions of democracy, human rights and the rule of law, therefore, create an antagonistic relationship that precludes strategic trust and a Kantian democratic peace. To achieve lasting ontological security in a world in which liberal powers and liberal norms dominate, the CPC believes it must rise above the Western powers, reorder international relations, and redefine the rules of global governance to achieve lasting security.

Xi Jinping's elevation to leadership of the CPC in 2012 brought with it the so-called Chinese Dream of great national rejuvenation, which elevated the party's goal from the achievement of parity with the advanced West to superiority over the West. It set two centenary goals as guideposts for building socialism with Chinese characteristics in a new era (Xinhua 2017). By 2021, the centenary of the CPC's birth, China would achieve "a moderately prosperous society in all respects." By 2049, the centenary of the CPC's victory over the Kuomintang (KMT) in the Chinese civil war and the founding of the PRC, China would achieve a position of world primacy that China had claimed in ancient times.

The PRC's historical narrative sees China as being robbed of this birthright by the West during the century of humiliation that followed the Opium Wars. Xi Jinping's Chinese Dream of national rejuvenation promises to return China to its rightful position atop the world order

by 2049 when it would “become a global leader in terms of composite national strength and international influence” (Xi 2017, 26). Indeed, the ideological line is that this is an historical inevitability. As Foreign Minister Wang Yi has said, “any attempt to contain China is doomed to fail” because “the national rejuvenation of China is an inexorable trend of the times that nobody can stop” (FMPRC 2019). This Chinese-Dream agenda strongly suggests that US efforts to persuade China to join with it to safeguard the existing rules-based order have failed.

2.3 CHINA'S NEW TYPE OF CAPITALISM

To join the liberal economic order, China had to marketize its economy. But it retained a Leninist party-state approach to economic governance that prevents it from embracing and implementing free trade and market-economy institutions and rules. Now that it has become a dominant power, China uses its economic, political, and military leverage to force the rest of the world to accommodate and accept China’s hybrid model of political economy.

Take China’s status in the WTO, for example. After it pledged continuing economic reform, China was allowed to join the WTO in 2001 under a special arrangement even though it did not meet market-economy membership criteria. China signed a 15-year WTO accession protocol with commitments to move in line with WTO market-economy norms during this period (Atkinson and Ezell 2015; Economy 2019). In 2016, China twisted the intent of this agreement to argue that WTO members had to give it market-economy status because the 15-year period was ending. Such recognition would prevent other members from using WTO provisions that allow non-market economies to be sued for dumping using a shadow pricing formula to estimate the real cost of production of goods being dumped at unfair prices. Though the vast majority of WTO members bowed to China’s demand in order to preserve good trade relations with China, the US, Japan and Europe did not, arguing that China simply had not met the basic criteria of a market economy (Gaspers and Huotari 2016; US Trade Representative 2018).

Rather than making efforts to come closer to WTO norms, China doubled down on its party-state managed efforts to manage trade and investment relations strategically and use unconventional means to acquire advanced scientific and technological knowledge from the West. It aimed to devote massive state resources to develop a dominant position in advanced industrial production under the Made in China 2025 agenda (China Briefing 2018). It also required China’s high-tech enterprises to assist military R&D under the Civil-Military Fusion program (Laskai 2018). Both programs were launched as the WTO controversy simmered.

China’s party-state claims a sovereign right to manage its economy as it sees fit and will not compromise the principles of “socialism with Chinese characteristics” (Xinhua 2017c). But the simple truth is that the CPC party-state cannot comply with market economy norms and maintain itself in power. Meanwhile, the liberal trade order based on respect for universal rules and reciprocal market access cannot produce fair results if the world’s largest trading

economy ignores the rules at its convenience (McBride and Chatzsky 2019; US Trade Representative 2018).

China's hybrid political economy mates the market mechanism to a Leninist party-state that turns all institutions, including the market and business enterprise, into instruments to further its political agenda (Leutert 2018; Ringen 2016). This remains true even after reforms implemented under Deng Xiaoping and Jiang Zemin made the market mechanism the main allocator of resources – and kept it responsive to party-state dictates. The private ownership of business was allowed; enterprise management was put in the hands of MBA-holders; a system of commercial law was developed; and the economy opened to foreign trade and investment. But these trappings must not be mistaken for a liberal market economy (Naughton 2017; Y. Huang 2017).

Domestic and foreign-owned firms must accommodate a CPC party committee to which professional managers must report, and labor unions are allowed only under party-state supervision. The terms of foreign access to and egress from the Chinese economy are set down in vaguely worded laws that are arbitrarily interpreted by an opaque state administration to advance constantly shifting national, provincial and municipal political agendas. Under this hybrid system of capitalism, compliant owners and managers can earn handsome profits but property, contract and individual rights give way to the party-state's changing political dictates.

Party-state technocrats carefully manage foreign participation in China's economy to assist the success of Chinese firms that serve party-state agendas – of which many are state-owned. Elite state planners in the National Development and Reform Council (NDRC, the reformed former State Planning Council) devise five-year economic plans that set national development strategy by establishing sectoral goals. The state-controlled banking system channels national savings toward investment that fulfill these goals. Strategically important sectors are nurtured with infusions of capital and technology in a protected domestic market setting. They are helped with subsidies to “go out” and acquire strategic overseas assets and gain global market share. This strategic management of economic institutions happens at the core of the national economy, while economic activity of peripheral concern is left to normal commercial management and market disciplines (Zhang 2017).

Though perhaps not as inventive as liberal capitalism, party-state capitalism has been effective at promoting rapid, sustained industrial development and other political goals. It can deploy national savings to out-invest and outgrow liberal market economies and quickly absorb and commercialize foreign technological innovations. It can also help Chinese firms capture overseas market share while they enjoy a protected domestic market. Most importantly, China's party-state may force the rest of the world to accommodate its norms and ambitions.

In sum, given the aims and methods of CPC party-state governance, the transition from unipolarity to bipolarity implies divided leadership and increasing dysfunction inside global governance institutions.

2.4 A STRATEGIC CONUNDRUM FOR THE US

The US today lacks the advantages it enjoyed when it faced the Soviet Union. China is a different kind of communist party-state adversary, one that is ensconced inside – rather than outside – a liberal international order that it aims to dominate and change. China enjoys intimate economic, political, cultural and military relations with the US and its allies, and it occupies leading roles in United Nations (UN) organs and specialized agencies. It styles itself the leader of the Group of 77¹ and of the Global South and is using BRI to create China-centered leadership forums for developing regions of the world. Using its well-developed institutional capacities in propaganda as well as state-to-state and people-to-people relations, China skillfully uses a wide variety of schemes to recruit allies, reward support, and punish criticism in almost any setting. Capitalizing on its insider status, China challenges not just US economic primacy, but the liberal norms, institutions, and narratives that govern international trade, finance, legal, political, and cultural relations.

Meanwhile, bedeviled by slowing growth, mounting debt problems, and fiscal austerity, the US and its allies quarrel over trade, alliance burden-sharing, and diverging strategic perceptions. They cannot today agree on whether and to what degree China might be a threat (Fuchs 2020). Therefore, the US cannot simply gather its free world allies and contain China as it did with the Soviet Union. The US acting alone also cannot out-spend and out-produce China into economic collapse. In other words, to stave off China's challenge, the US cannot replay its Cold War strategy. How the US is meeting this challenge is discussed later in the Indo-Pacific context.

¹ The Group of 77 (G77) used to have 77 developing countries as founding members but has since grown to include 134 members. China is not a G77 member but provides financial and leadership support. Guyana is currently chair of the G77.

3. DEGLOBALIZATION FROM BELOW: THE SHIFTING MOOD OF NATIONAL POLITICS

Globalization is also shaken from below as the consensus among other nations that supports free trade and open borders disintegrates. Large segments of the citizenry in advanced and developing nations are unhappy with the unequal distribution of growth benefits; endless government austerity; eroding social protection, the disruption of traditional norms, values, and beliefs by imported influences; and national governance that is unresponsive to popular needs. Trust and optimism regarding the promise of globalization has soured into disillusionment and distrust of the elites and institutions that touted it. Prospects for further neoliberal globalization are dim as national societies turn inward to renew a sense of national identity, protect the economy, and create a more equitable and cohesive social order. But no ready answers are available as economic growth slows and creates distributional conflict both within and among nations. The timing of the Covid-19 pandemic has accelerated these centrifugal forces that are pulling apart global governance and intensifying distrust between the US and China (Schell 2020).

3.1 THE “DOUBLE MOVEMENT”

To understand why politics in many nations is undermining globalization, we may consider the "double movement," an overzealous pursuit of market efficiency that sacrifices essential social protections followed by the rise of turbulent political forces that demand governance that restores social welfare and cohesion. This dialectic was identified by Karl Polanyi in *The Great Transformation*, a book that analyzed the capitalist transformation of Europe between Britain's Corn Laws and the destruction of Europe in a concatenation of disasters: World War I, the Great Depression and the Second World War (Polanyi 2001). He called the ideology guiding this capitalist transformation "economic liberalism," by which he meant a laissez faire stance toward economic governance analogous to today's neoliberal orthodoxy.

Polanyi explained how European society in the 19th century shifted from agriculture and commerce to industry and finance, but in doing so governance shifted from the preservation of social protections and cohesion to a re-ordering of social relations meant to maximize the productivity of land and labor. Customary social protections disappeared as labor moved from countryside to cities and became solely dependent on wage employment in a financially driven market economy that oscillated between boom and bust, thereby causing recurring social insecurity and hardship. Meanwhile, industrial and financial elites in each nation reaped disproportionate wealth and advanced into overseas markets under state protection. The European powers harnessed scientific and technological progress and mobilized national resources to compete with each other for overseas colonies and world domination.

This dynamic worked to create a North-South division of labor in a new kind of global economy that increased trade, investment, and GDP exponentially. But it also culminated in

World War I, the Great Depression and World War II. Polanyi argued that this linked series of disasters was the result of competitive pressures and social distress generated by laissez faire capitalism. Social distress spawned mass political movements, divergent ideologies (e.g., fascism, communism, and social democracy), and distinctive state types (i.e., the fascist, communist, and welfare state), but all were meant to escape governance that maximized market efficiency, introduced unsustainable social inequality, and disregarded popular needs. Their common denominator was more hands-on political management of the economy to ensure social protection and cohesion, and this implied more regulation of the economy in accordance with national conditions. This dynamic is what Polanyi called the "double movement," a corrective movement back toward cohesive societal relations in the midst of a social crisis induced by laissez faire national governance.

Certain prodromal symptoms of the double movement are apparent today: politically mobilized masses in many nations are demanding social protection under various ideological auspices amidst slowing economic growth. As it did in the past, popular distress, rising nationalism, and trade protectionism—now joined by the exigencies of the Covid-19 pandemic—are accentuating national differences, resurrecting border barriers, re-regulating the economy, and dismantling an open global order.

4. IS REGIONAL GOVERNANCE THE ANSWER?

Regional governance seems to carry the world's hope for maintaining open trade today. The WTO has failed to conclude a single round of global trade liberalization since it was created 25 years ago. The 2008 global financial crisis marked the start of a downward trend in the global trade/GDP ratio. Since then, there have been major regional initiatives to advance trade such as the Trans-Pacific Partnership (TPP) and its Japan-sponsored successor, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (BBC News 2015; Torrey 2018); the China-sponsored BRI; the Regional Comprehensive Economic Partnership (RCEP) sponsored by members of the Association of Southeast Asian Nations (ASEAN); the Russia-sponsored Eurasian Economic Union (EAEU) (Dragneva 2012); and the US-sponsored US-Mexico-Canada Agreement (USMCA), a revision of the North American Free Trade Agreement (NAFTA). With the exception of RCEP, all were launched at the initiative of one or two core regional economies in an effort to sustain trade expansion and GDP growth on a regional basis.

The problem is that, slowing global trade and GDP growth increases the risk of regional protectionism driven by the defensive reactions of core economies to protect regional markets from rival economies. Perhaps unsurprisingly the US and China, core economies in their respective regions that have also become geopolitical rivals, are leading the way.

For example, the Trump administration backed out of the TPP trade agreement because it allegedly gave too many market access concessions in return for too few concessions given by Asian economies. It also demanded renegotiation of NAFTA to produce the USMCA that contains a "poison pill" provision to discourage Canada and Mexico from signing a free trade agreement with a non-market economy, i.e., China (Reuters 2018; US Trade Representative no date). The US strategy is to defend a US-dominated regional market and expand US trade access to European and Asian markets.

China's BRI is a unique approach to the construction and governance of an economic region that is a natural outgrowth of China's party-state model of economic governance. Unlike the EU or the USMCA, the BRI is not a multilateral treaty that uniformly lowers economic barriers among members to create an open space in which any member may freely buy and sell according to an objective set of rules. Instead, Chinese state-owned policy banks such as the China Development Bank and the Export-Import Bank of China typically provide BRI partner governments with official loans to pay Chinese prime contractors to design, build, equip and operate large capital-intensive BRI projects (Provaggi 2013). Political leaders negotiate these deals behind closed doors. China's idea is for BRI partners to connect to China; welcome Chinese industry, commerce, and finance; and then coordinate their national economic development policy with Chinese technocrats in Beijing. Notably, China must sponsor each BRI project in this China-centric scheme. BRI helps to explain how Chinese contractors captured one-quarter of global spending on infrastructure in 2018 (GCR Staff 2019). Advocates say there will be faster development for the BRI partner, but critics

point to the risk of burdensome debt and a colonized economy. (Chellaney 2017; Lagarde 2018). Worth noting is that BRI loans give an immediate political benefit to the BRI partner government, regardless of the long-term economic viability of the project, and this helps China to build a dominant position across the BRI footprint in and around Eurasia.

Given that the US and China both inhabit the Indo-Pacific economic, political and strategic space, how can China's party-state agenda to engineer regional economic relations into a China-centered order coexist with the market-oriented rules-based order safeguarded by the US? And what will become of governance in the Indo-Pacific?

5. THE INDO-PACIFIC REGION

In the past two decades, the trading economies on the rim of the Pacific Basin and the Indian Ocean rim that once had little to do with one another have been knit together by proliferating trade and investment ties to become a single mega-region that will power global growth through the mid-century and beyond. The idea of the Indo-Pacific took shape in the new millennium when India, Pakistan, Sri Lanka and Bangladesh joined the ASEAN-centered Asia-Pacific governance process during 2003-2007. The start of ASEAN-India Free Trade Area (FTA) talks in 2003; India's inclusion in the East Asia Summit (EAS) from 2005; and India's inclusion in the RCEP process from 2012 punctuate this process. The merging of what had been two separate regions was the natural result of growing trade, investment and logistical connections that called for shared governance and more investment in better infrastructure connectivity to sustain dynamic growth and regional integration in the emerging Indo-Pacific (Brooks 2008). An early step was taken in the late 1990s when Bangladesh, India, Myanmar, Sri Lanka and Thailand created the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) to promote South Asia-Southeast Asia cooperation to attract global and regional value chains that were driving growth and development in the Asia-Pacific.

A study by the Asian Development Bank (ADB) showed that South Asia-Southeast Asia trade grew almost 22-fold to US\$90 billion in 2013 from US\$4 billion in 1990 (ADB Institute 2015). This trade growth increased Southeast Asia's share of South Asia's trade to 10 percent from 6 percent, while South Asia's share of Southeast Asian trade doubled to 4 percent from 2 percent. Meanwhile, South Asia's continuing economic liberalization, proximity and cheap maritime connectivity with the Asia Pacific, rising disposable income, and young demographic profile all promised strong long-term growth, based on shared governance and logistical and digital integration with the Asia-Pacific (DHL Trend Research 2016).

Continuing Indo-Pacific economic integration requires improved infrastructure connectivity and better maritime security (e.g., anti-piracy efforts, navigational safety measures, emergency search and rescue, pollution control, and maritime rights protection). To accomplish these goals, leadership is needed to mobilize resources and create new initiatives.

In the area of maritime security, Japan made a modest but significant contribution in the area of anti-piracy cooperation. After several years of building bilateral cooperation with Indo-Pacific states Japan in 2006 sponsored the formation of the Regional Cooperation Agreement on Combating Piracy and Armed Robbery against Ships in Asia (ReCAAP). Its members included all ASEAN members except Indonesia and Malaysia, Bangladesh, India, Sri Lanka, Australia, South Korea, and China, as well as Japan, the US, the UK, Netherlands, Denmark and Norway.

The ADB began tracking Indo-Pacific trade, investment and logistical relations. It used this information to identify infrastructure bottlenecks, develop sub-regional and inter-regional connectivity plans, and indicate where public investment would be most useful (Asian Development Bank 2017; Brooks 2008; Morgan, Wignaraja, and Plummer 2015; Rahman et al. 2014). While Indo-Pacific states valued ADB advice and loans, the ADB is designed to provide technical and loan assistance rather than political leadership.

Leadership that promotes regional peace, stability and open trade is needed for the Indo-Pacific to realize its developmental potential. The problem is that the two leading economies, the US and China, have become economic rivals that entertain fundamentally different visions of regional governance. Already, acrimonious quarrels between the two have broken out in other areas of governance such as the internet (Gross and Murgia 2020; Kharpal 2019; Arsène 2016), intellectual property rights (Crabtree 2019), human rights (Chen 2019; Human Rights Watch 2019), WTO compliance (US Trade Representative 2018), and global health (Hasson 2020). The list is long. Disagreement over basic rules of conduct – when added to growing economic rivalry and strategic tension – make harmonious Sino-US regional leadership of the kind that France and Germany exhibit in the European Union (EU) unexpected and unlikely.

6. THE CHINESE DREAM: AN AGENDA FOR REGIONAL AND GLOBAL PRIMACY

Xi Jinping announced the Chinese Dream of great national rejuvenation with its two centenary goals when he assumed CPC leadership in November 2012. This Chinese Dream inspired patriotic mass support and offered to the world an historical justification for CPC ambitions. Concretely speaking, Xi Jinping's Chinese Dream is a strategic vision managed by the core leaders of the CPC that guides programmatic initiatives in all areas of party-state governance and is intended to raise China to primacy first in Asia and then the world

In January 2013, Xi gave a major speech circulated only among high-level CPC leaders that explained the CPC's mission. The speech remained secret until a year ago when it was published in *Qiushi*, the leading ideological journal of the CPC. In this speech, Xi explained that "socialism with Chinese characteristics in the new era" remains true to socialism and will never become a version of capitalism. He blamed loss of ideological direction for the demise of the Soviet Union. To avoid the same fate, Xi called for renewed dedication to Marxism-Leninism and unswerving faith in the correctness of the CPC's new path. In calling for ceaseless ideological and political struggle, he cautioned that "the eventual demise of capitalism and the ultimate victory of socialism must be a long historical process" (Newsweek 2019; South China Morning Post 2019).

Soon after the National People's Congress elected him as president in March 2013, Xi began to roll out new initiatives in every area of party-state governance. With regard to foreign relations, Xi first called for "a new type of great-power relations" to manage Sino-US relations. When Xi met then-US president Barack Obama at an informal summit in the summer of 2013, he pressed Obama to adopt the principles of equal status, mutual respect for each side's core interests, and peaceful "win-win" cooperation in managing the bilateral relationship in order to avoid the "Thucydides trap", i.e., a war that eventuates when a rising power begins to overtake a declining hegemonic power. Because China claimed an historic right to manage Asian affairs (where China had core interests and the US had none, as far as China was concerned), this formula would have entailed an "end Cold War thinking" (i.e., end Cold War-era alliances, bases and strategic doctrine in Asia); abandonment of "hegemonism" (e.g., US "meddling" in Asian affairs); and US inability to defend allies and interests in Asia. This new type of great-power relations formula essentially offered the US continuing peaceful relations in return for giving the CPC free rein to rise to Asian primacy and reorder regional governance (Chen, D 2014; Johnson et al. 2014; Xinhua 2014b). The Obama Administration did avoid the use of this terminology but continued to engage with China as a strategic partner.

A few months later, in September 2013, Xi visited Central Asia and unveiled his ambitious Silk Road Economic Belt program, which called for overland infrastructure corridors to connect China to major markets and ports in Western Europe, Southwest Asia, South Asia and Southeast Asia (Devonshire-Ellis 2013). In October 2013, he travelled to Southeast Asia

to unveil the 21st-Century Maritime Silk Road, a program to finance, construct, and operate seaports across the Indo-Pacific (Parameswaran 2013). The Maritime Silk Road would create strategically located intermodal port nodes that link with BRI land corridors to support China's networked access to markets and resources in and around Eurasia. These ports would also serve China's "maritime great-power" agenda (People's Daily 2013). Besides China's commercial shipping and logistics industries, these ports would also allow the People's Liberation Army (PLA) Navy to expand its strategic footprint and help China's fishing and ocean research fleets to harvest the ocean's "Blue Economy"² to support China's continuing rise (Bickford 2016; McDevitt 2016; World Bank 2017).

As explained earlier, BRI is building a China-centered hub-and-spoke regional economic community. An opaque and politically driven effort, it is implemented by Chinese party-state technocrats, state-owned banks, and state-owned or affiliated enterprises to penetrate smaller economies in and around Eurasia and bring them under Chinese leadership. A small core of top-level party-state leaders supported by economic planners in the NDRC lend it authority and provide resources and strategic guidance. The NDRC coordinates with ministries, agencies, banks, enterprises and provincial governments to push the sprawling BRI agenda forward (Chinese National Development and Reform Commission 2015; Swaine 2015).

After announcing the BRI, in late October 2013, Xi convened top leaders from all sectors of the party-state at the Central Work Forum on Diplomacy Toward the Periphery (Heath 2013). He explained that BRI would use China's rapid growth to attract surrounding countries with the promises of generous financing and faster growth and development in close association with China. BRI would create strong economic interdependence, he said, and would link these countries to the "high-speed train" of the Chinese economy to form a "community of common destiny" (Mardell 2017; Xinhua 2013b). Selling this vision would be the overarching task of Eurasian diplomacy going forward (FMPRC 2014).

To help finance BRI projects, Xi launched the Asian Infrastructure Investment Bank (AIIB), a China-led development bank that signified China's desire to move away from Western-led development-finance institutions to establish new regional priorities and governance norms (Arase 2015; Financial Times 2014; Perlez 2014). Later, the AIIB terms of reference were broadened marginally to include non-Asian countries and non-BRI infrastructure projects in order to attract much-needed Western development finance expertise and gain access to Western capital markets.

² Blue Economy is a term in economics referring to the exploitation and preservation of the marine environment. Different groups have different interpretations, but the World Bank defines Blue Economy as the sustainable use of ocean resources for economic growth, improved livelihoods and jobs, while preserving the health of the ocean ecosystem.

At the same time, Xi set down a new vision for regional peace and security governance. In July 2013 he included maritime power as part of the Chinese Dream (People's Daily 2013). In November 2014, China hosted the Conference on Interaction and Confidence-Building Measures in Asia (CICA) summit at which Xi unveiled the "New Asian Security Concept" (Xinhua 2014a). His words were interpreted to mean that Asian security was the sole concern of Asian countries; Asian conflicts concerned only the parties directly involved who had to settle their differences without outside interference; traditional security alliances had no role in Asia; and non-Asian states had to remove themselves from involvement in Asian security matters (Xi 2014; FMPRC, no date; McCaughrin 2017).

Xi continued this theme at the 2015 Beijing military parade where he stated that China's wartime victory over Japan in 1945 made China the sole legitimate guarantor of peace and security in Asia (Xinhua 2015a). Though some might argue that the US actually defeated Imperial Japan and supported postwar peace, security and prosperity in Asia, more to the point were the carrier-killer missiles that were put on display for the first time that day (Clover 2015). That same year, China also issued a defense white paper that emphasized building "a combined, multi-functional and efficient marine combat force structure" with war-winning capability to manage both "offshore waters defense" and "open seas protection" (Blasko 2015; State Council of the PRC 2015; Taylor 2015; USNI 2015).

6.1 A BRI-LED APPROACH TO REGIONAL GOVERNANCE

China is using its economic gravity, intensified by BRI connectivity, to draw surrounding countries into China's orbit to realize what the CPC calls a "community of common destiny" (FMPRC 2013). The asymmetry of economic power between China and surrounding countries – reinforced by their incorporation into BRI – gives China economic and political leverage to govern. It becomes the regional price-maker and smaller BRI partner economies inevitably become price-takers due to their dependence on Chinese trade, finance and technology.

BRI deals between China and partner countries also exhibit the political asymmetry of a traditional patron-client relationship (Eisenstadt and Roniger 1980). China is the patron bestowing resources, status and protection to a needy smaller government. In the relationship thus formed, the recipient becomes a client that owes a debt of loyalty and obedience to the patron and will be rewarded and punished accordingly. BRI client governments therefore are ripe for recruitment into a hierarchically ordered community that remains obedient to the demands and wishes emanating from the CPC party-state in return for continuing patronage. This is a natural extension of the political culture inside the CPC, and other things being equal, it would feel comfortable governing in this fashion.

Thus, rather than relying on military might and ideological appeal as did the Soviet Union, China relies on economic and political patronage to attract a diverse collection of developing countries that are ready to answer China's requests for support and cooperation. But such a group is interest-based rather than values-based. Because Xi's Chinese Dream and

“socialism with Chinese characteristics in a new era” have limited appeal outside mainland China, a community of common destiny will last only as long as China has the power and wealth to reward and punish client regimes. Worth noting in this connection is that BRI financing peaked in 2016 and has since trended downward. The Covid-19 pandemic has worsened the BRI outlook as client governments cannot repay BRI debt and are now in need of debt relief. At the same time, China has a diminished capacity to finance overseas ventures as it struggles with the negative domestic economic consequences of the pandemic, not to mention the additional difficulty of the ongoing US-China trade war.

7. COUNTERING CHINA'S VISION: FREE AND OPEN INDO-PACIFIC STRATEGIES

The party-state vision of regional governance on display in the South China Sea and in BRI worries Indo-Pacific nations that value their independence and their sovereign rights enshrined in the rules-based order. Among them, Japan was the first to articulate a regional leadership initiative to counter China's rising ambitions. In 2007, Shinzo Abe in his first turn as prime minister articulated the Indo-Pacific regional concept and called on the region's major democracies (Japan, India, Australia and the US) to consult on Indo-Pacific economic, political and security governance matters (Abe 2007). But China lodged objections; Australia withdrew from quadrilateral consultations; and the idea of regional cooperation to defend the liberal rules-based order in the Indo-Pacific went away.

But as the threat to regional order became more apparent, Abe in 2016 launched his Free and Open Indo-Pacific (FOIP) initiative (Abe 2016). He pledged to assist Indo-Pacific developing countries from the coast of East Africa to the Pacific Islands in three areas: 1) maintaining the rule of law, freedom of navigation, and free trade; 2) achieving better regional connectivity via the provision of quality infrastructure, cultural exchange, and trade agreements; and 3) strengthening non-traditional security cooperation in maritime security, humanitarian and disaster assistance, non-proliferation, and peacekeeping (Japan Ministry of Foreign Affairs no date; Japan Ministry of Foreign Affairs 2019). The same year, Abe met Indian Prime Minister Narendra Modi and formulated the Asia-Africa Growth Corridor initiative (Japan Ministry of Foreign Affairs 2016). This was a joint undertaking to build Indo-Pacific connectivity with Africa to compete with China's BRI (The Economic Times 2017; Economic Research Institute for ASEAN and East Asia 2017).

India for its part put forward a number of regional initiatives such as Neighborhood Diplomacy, Act East, and Project Mausam (Pillalamarri 2014), as well as the International North-South Transport Corridor (Economic Times 2017) and an upgraded BIMSTEC (Ramachandran 2019).

Meanwhile, Australia introduced the term Indo-Pacific in its defense and foreign-policy white papers (Government of Australia 2016, 2017), with special reference to maintaining economic and strategic connectivity through the South China Sea and Oceania in view of China's potential to use BRI to isolate Australia from its trade and security partners.

Then in November 2017, Donald Trump announced a US version of the FOIP strategy at the Asia-Pacific Economic Cooperation (APEC) summit in Da Nang, Vietnam. This was followed a month later by the administration's National Security Strategy (NSS) report that identified China as the main strategic threat to the US and named the Indo-Pacific as the primary regional focus for US strategic planning into the future. The Trump administration concluded that China's rapidly developing military posture and actions in the South China Sea combined with its uncompromising approach to trade relations threatened US security,

prosperity and overseas interests in a way that required a complete reshuffling of long-term strategic priorities.

The US will work with its partners in the Quadrilateral Security Dialogue, also referred to as the Quad, to share information, cooperate in joint projects, and deal with regional contingencies (Wilkins 2019). The US and its Quad partners – Japan, India and Australia – aim to create a network of developing-country partners across the region that wish to enhance their own security and prosperity, thereby building regional resilience and prosperity (Carter 2016; US Department of State 2019).

Indo-Pacific developing countries require assistance to meet their need for development and security from a variety of threats. The offer of assistance and connectivity with advanced economies under the familiar rules-based order would be attractive to them. One example of this is the Blue Dot Network, which adds to Japan's effort to provide "quality infrastructure" (Keidanren 2015) and creates an infrastructure-assistance program designed to bring US, Japanese, Australian and other Western donors together with private sector partners to offer developing countries an alternative to BRI (Lyn 2020; Nikkei 2019; Rundle 2017).

In 2018, the combined GDP of the Quad powers and South Korea (which has pledged FOIP support) was 2.3 times that of China. In 2016, OECD countries, the EU, World Bank and ADB devoted US\$144.4 billion of investment and official development assistance just to developing Asia. By comparison, China committed a lesser amount, \$105.8 billion, to BRI countries scattered across Asia, Africa, the Middle East and Latin America. As the FOIP initiative gets organized and gathers momentum, Western aid and investment efforts are likely to become more focused and strategic.

If the FOIP network of advanced and developing countries can be sufficiently populated, connected, and functional in serving its members, the rules-based order will persist in the Indo-Pacific even as China promotes BRI. FOIP partnership does not create a rigid alliance system or Cold-War bloc to contain China; it merely aims to preserve a network of Indo-Pacific countries that govern their mutual relations according to the rules-based order in a diverse and pluralistic region (Arase 2019).

FOIP success might seem assured because the basic elements of this cooperative network already exist, Quad material capabilities are substantial, and the goal is relatively modest (i.e., continuation of the existing free-trade system for countries that want it). But much depends on whether Indo-Pacific states remain free to choose their trade partners and are able freely to navigate the seas in accordance with international law.

Freedom of navigation in the South China Sea has thus become a central issue in the struggle to maintain the rules-based order in the wider Indo-Pacific. The US Navy traditionally has ensured free and unhindered commercial traffic through this vitally important crossroads of Indo-Pacific trade. But China is now claiming an exclusive right to regulate air and sea traffic in the South China Sea. It has built artificial island bases there to support civilian and military patrol vessels that act coercively to enforce its sovereignty claim by

preventing, hindering and obstructing the lawful use of the sea by other states and their scientific and commercial enterprises. China's historically based claim of sovereignty over all South China Sea waters and land features inside its so-called nine-dash line was found to be without legal merit in 2016 by the Permanent Court of Arbitration. China has flatly rejected this judgment and its actions reveal a dark vision of party-state regional governance.

8. WHEN A RISING POWER CHALLENGES AN ESTABLISHED POWER

On the one hand, some structural realist theorists suppose that when a rising power approaches parity with a power that has enjoyed hegemonic (i.e., absolute dominance over others) or preponderant (i.e., having a large but not absolute margin of superiority over other powers in the world) status, a world-shaking war is inevitable (Gilpin 1981; Mearsheimer 2014; Modelski 1978). On the other hand, defensive realists such as Kenneth Waltz argue that bipolarity is an arrangement with the best prospects for systemic stability (Waltz 2010).

Power-transition theorists for their part analyze historical data and maintain that war is infrequent in regional and global settings when there is an unequal distribution of power among leading actors. That is, war has been rare when the most powerful actor has at least a 20-percent margin of superiority over the next-ranking state as measured by quantifiable power indices such as GDP. But when that margin is breached, the frequency of war jumps and does not step down until the power differential between the top two powers again exceeds 20 percent. This period of strategic parity and heightened war risk is called power transition. Thus, power transition is marked by a dynamic change from unipolarity to bipolarity that raises the risk of world war significantly (Organski and Kugler 1980).

However, not all power transitions produce war (e.g., the US vs the UK in the late 19th century). So structural factors alone do not determine outcomes. War is most strongly correlated with power transition when the rising power behaves with dissatisfaction and hostility toward the status quo, e.g., it demonstrates arms racing and confrontational posturing (Kugler and Lemke 1996; Lemke and Werner 1996; Tammen and Kugler 2006). In other words, the critical factor may be the subjective characteristics of the rising power.

This suggests that an up-and-coming power may be either a challenger or a peaceful riser. A challenger cannot tolerate the existing international order and demands changes that are politically impossible for a preponderant power to accept. A peaceful riser, on the other hand, is more-or-less satisfied with the existing order and is able to negotiate a strategic compromise with the preponderant power. Looking at today's situation, China says it is a peaceful riser but acts like a challenger.

A challenged preponderant power can be assumed to have four options:

- 1) negotiate to achieve a peaceful *modus vivendi*,
- 2) show resolve and deter war,
- 3) embark on preventive or pre-emptive war, and
- 4) appease with unilateral concessions.

With a peaceful riser, options 1) and 4) may work to keep the peace. For example, as the US surpassed the UK in power capabilities, the UK supported the US's Open Door Notes of 1899 and 1900 telling other European powers and Japan not to practice trade discrimination

in their respective treaty ports and spheres of influence. The UK ended the Anglo-Japanese alliance (1902-1921) due to US hostility to it (Spinks 1937); and it acquiesced in the Roosevelt Corollary to the Monroe Doctrine, in which president Theodore Roosevelt declared in 1904 that the US, and only the US, would intervene militarily in Latin America to protect the interests of foreign traders and investors (Bailey 1998). The UK thus accommodated the ambitions and interests of the rising US at some cost to British prestige and interests, but it paid off when the US came to Britain's assistance in the First World War.

With a dissatisfied challenger, however, options 1 and 4 are likely to fail. Option 2 is a prudent and risk-averse response, and option 3 is a risky gamble with immediate high cost and uncertain benefit. Therefore, the preponderant power is most likely to go for option 2, leaving the challenger to decide whether and when using force is worthwhile.

A classic example of this scenario is the unsuccessful appeasement by the UK, France and Italy of Adolf Hitler with the 1938 Munich Accord. This allowed Hitler to take sovereign ownership of the Sudetenland, a German-speaking region of Czechoslovakia, in return for Hitler's renunciation of further territorial ambitions. A year later, Germany had invaded and annexed Poland in violation of the Munich Accord, an action that also violated the World War I peace settlement at Versailles. Germany ignored an Anglo-French ultimatum to reverse its action and World War II broke out.

Power-transition theorists have noted that dissatisfied challengers often begin wars from an objectively inferior position based on such indicators as GDP and allied supporters. This may explain why challengers more often lose than win power-transition wars. Why an objectively weaker power would attack a stronger power instead of waiting for more favorable circumstances seems perplexing. It could be that a dissatisfied rising power becomes impatient for change, and allows hubris and wishful thinking to cloud its judgment as, for example, in Japan's decision to attack the US at Pearl Harbor.

8.1 A LESSON FROM RECENT HISTORY — JAPAN

Reasoning about the present based on what has happened in the past is not meant to suggest that history repeats itself. But historical analogy can help us to identify and assess latent possibilities when current situations exhibit structural similarities to historical events.

Imperial Japan was a dissatisfied rising East Asian power that challenged an Open Door rules-based order in Asia sponsored by the US when it occupied Manchuria in 1931. This began Imperial Japan's campaign to introduce a new Asian order of Japanese design through a series of incremental forceful actions. How this led to World War II in the Pacific is worth reflecting upon today.

After the Spanish-American War of 1898, the US acquired the Philippines as a colony and circulated the Open Door Notes of 1899 and 1900. The US said it expected fair and equal trade access in China, and that all powers should respect the sovereignty and territorial integrity of China. No other power cared to disagree. The US had risen to become the

world's greatest industrial power and a formidable military power that removed Spanish colonies from both Asia and the Western Hemisphere in short order during the Spanish-American War.

After World War I, the US invited the European powers and Japan to the Washington Naval Conference (1921-22) to negotiate and sign several multilateral treaties to establish strategic stability and an open free-trade order in East Asia. The signatories agreed to respect the sovereignty and territorial integrity of China, conduct free and non-discriminatory trade, renounce any territorial ambitions, and limit their naval fleets in order to create a stable balance of power in Asia. This lasted until Japan occupied Manchuria in 1931.

The Great Depression that began in 1929 and led to the rise of protectionism threatened Japan's industrial growth and development. As a result, the Japanese army, anti-Western nationalist ideologues, and *zaibatsu* (privately held corporate conglomerates) interests instituted a fascist domestic order and allowed the Japanese army to invade Manchuria in a bid to ensure Japan's food supply and industrial development. After the rise of Nazi Germany distracted the European powers, Japan took another step forward in the Second Sino-Japanese War (1937-45) to occupy China and install a puppet government as part of an agenda to "liberate" Asia from Western imperialism.

The US sided with China but was unwilling to do more than impose economic sanctions on Japan, which was critically dependent on US oil and steel. To hedge against the risk of a US oil embargo, Japan looked to take over oilfields in the Dutch East Indies (now Indonesia). When Japan occupied southern French Indochina in 1941 as a prelude to seizing Dutch East Indies oil, the US embargoed oil and steel exports to Japan and demanded withdrawal from all illegally occupied areas of Asia.

For Japan, the dilemma was that, without oil, it would collapse. But compliance with the US ultimatum would end Japan's dream of organizing Asia into a Japanese-led Greater East Asia Co-Prosperity Sphere.

The Japanese army insisted on taking the Dutch oil fields. Thinking that this move would mobilize the US for war, Japan gambled on pre-emption. If US Pacific forces were dealt a crippling first blow, Japan hoped its navy could command the Western Pacific and prevent the US navy from re-entering Asia. This reasoning led to the attack on Pearl Harbor which aimed to sink the capital ships of the US Pacific fleet at home port.

The path that led to this disastrous decision began with the decision to invade Manchuria in 1931. Opting for war a decade later was an irrational choice when viewing Japan's relative weakness according to objective measures: Japan had only one-fifth the GDP of the US, one-seventh its steel production capacity, and no allies in the region. Moreover, while fighting the US in the Western Pacific, Japan would also be fighting China, the UK and the Soviet Union. Though irrational, Japan's decision was politically unavoidable, given the single-minded national commitment to achieving a new order in Asia that had developed in the preceding decade.

9. CHINA'S STRATEGY TO REVISE REGIONAL ORDER

The case of Imperial Japan decades ago and that of China today offer certain structural parallels. First, a rising Asian power feels justified in replacing a US-sponsored rules-based regional order with authoritarian regional governance. Second, the rising power is disadvantaged in terms of material capabilities and strength of allies but has certain geopolitical and operational advantages in East Asia. Third, it takes years for a revisionist agenda to mature into armed confrontation, by which time political pressures rather than rational calculation could come to guide decision making.

China's challenge to US primacy is another power-transition scenario in an East Asian geopolitical setting. China's words and deeds in the East China Sea and South China Sea in the past decade make it appear that China is a dissatisfied and revisionist challenger to the strategic and legal status quo (Beech and Suhartono 2020; Dotson 2020; Fanell and Gershaneck 2017; Koda 2016; Liu 2020; Wong 2015; Permanent Court of Arbitration 2016; Xinhua 2015b). Bilateral talks on improving access to the Chinese market agreed at the informal Mar-a-Lago summit in the US in April 2017 failed to produce results and convinced the newly installed Trump administration that China, the world's top-ranking trading nation, had no intention to match US compliance with WTO norms. Consequently, the National Security Strategy report issued by the White House at the end of 2017 labeled China the primary strategic threat to US security and prosperity and identified the Indo-Pacific as the region of foremost strategic concern (US White House 2017).

Confrontation could have happened in 2012, when China launched a successful maritime hybrid war (using coast guard vessels and paramilitary fishing fleets supported by propaganda, diplomacy and the PLA Navy) to seize possession of Scarborough Shoal/Huangyan Dao in the South China Sea from the Philippines. Shortly after, China made a similar but less successful attempt in the disputed Senkaku/Diaoyu Islands. In each case, China coveted land features administered, respectively, by the Philippines and Japan, both US treaty allies (Erickson and Liff 2014). Hoping to appease China and end tension, the US chose to look the other way. However, a similar Chinese attempt in the strategic climate of today could produce a very different US response.

Two big differences exist between Japan's challenger past and China's current aspirations. One is that nuclear weapons rule out a deliberate kinetic war-fighting strategy. The other is that, to achieve its revisionist objectives China's "peaceful rise" strategy has relied on civilian economic and political instruments with military force playing a secondary role as it works to encroach into disputed territories and waters, enforce new regional norms, demoralize resistance efforts, and fragment US alliances. It relies on accurate risk calculation and precise control of military and civilian forces for these purposes. China is thus a dissatisfied challenger but unlike the Japan of the past, today's China is deterred from choosing a war-fighting strategy due to the risk of nuclear destruction.

9.1 WHAT IS CHINA'S "PEACEFUL RISE" STRATEGY?

China aims to be Asia's preeminent power and to revise fundamentally the norms and institutions that govern actors entering and residing in the region. Behind its talk of peaceful rise, win-win cooperation, and a future harmonious world order, China uses a variety of threats and coercive actions to advance a three-pronged strategy, the success of which remains to be seen.

First, China uses BRI to form a regional economy and coalition of states that support its continuing economic rise. As BRI projects are consolidated into a China-centered connectivity network across and around Eurasia, a platform for China-centered economic, political and strategic governance in the Indo-Pacific region is consolidated.

Second, China sells its political leadership using the slogan "community of common destiny", which recently has been changed to "community of shared human fate" (Xinhua 2017a). China distributes patronage via BRI, which forms around China a community of client countries. In international forums intended to promote liberal values and norms, China seeks to "democratize" governance by leading these countries to reorient international agendas and decision-making in line with party-state sensibilities (Chen, Y 2019; Feng and He 2017; Hart and Johnson 2019). China's authoritarian and hierarchical vision of international order may be rooted in a Confucian "all under heaven" (*tianxia*) cosmology that ascribed to China an innate moral and civilizational superiority that mandated rule over the world (Callahan 2008; Fairbank and Teng 1941; Hui 2008; Liu 2015; Luttwak 2012; Wang 2015; Wang 2017; Yü 1987).

Third, China is rapidly acquiring what the Pentagon calls Anti-Access/Area Denial (A2/AD) military capabilities designed to make the Western Pacific a no-go zone for US aircraft carriers and to deter and defeat US military intervention defending US interests in East Asia. If the US Navy cannot operate safely in the Western Pacific, US allies and friends may lose confidence in US ability to defend them and their interests against China's aggression in areas such as the South China Sea. Such lack of confidence in the US would make China's neighbors susceptible to Chinese threats and inducements that are designed to convince them to end strategic ties with the US. The consequent inability of the US Navy to operate in Asia would also give the PLA Navy a free hand to control Indo-Pacific maritime security, coercively regulate trade flows, and enforce any desired rule changes. With this leverage in hand, the CPC party-state can simply brush aside international norms and coercively impose its vision of a China-centered community of shared human fate.

Importantly, if this indeed is China's thinking, it is betting that a US retreat from Asia may be accomplished with a judicious application of military threat and coercion without having to declare war. This makes sense in the overall scheme of China's rise. Unlike the military-first strategy of the Soviet Union, China has focused foremost on developing a world-class economy and global political influence within the US-sponsored liberal order. A technologically advanced economy has permitted China to field a modern military force that

on paper challenges the US military, but China's military remains untested and its reach lags behind the global scope of China's economic and political activities, not to mention the global scope of US military operations.

9.2 THE LIMITATIONS OF CHINA'S SOFT POWER

Having the first-mover's advantage, Chinese strategy has had initial successes but it is now encountering an unexpected obstacle – not US opposition but neighbors' growing fear and dislike of China. Though considered an attractive economic partner, China's domestic and regional governance efforts inspire neither admiration nor a desire for closer political association.

Southeast Asia countries, of which several share cultural and historical experiences with China and are heavily dependent on the Chinese economy, might be expected to want to gravitate toward China. Instead, China's behavior has made them mistrust its expressions of goodwill and friendly intentions. Compared with other relevant external powers, China was the least trusted and least liked by political elites in the ASEAN member states, although it may be noted that neither was the US much admired, according to a 2019 opinion survey conducted by the ISEAS-Yusof Ishak Institute (ISEAS 2019).

Neighbors have been alienated by China's unilateral and coercive use of military and civilian forces to occupy and develop South China Sea land features and Exclusive Economic Zone (EEZ) delimitations to which neighbors lay claim under rules of the UN Convention on the Law of the Sea (UNCLOS), which China has signed and ratified. China has justified its behavior by asserting an historical right to govern the South China Sea that predates modern international law. Under the authority of domestic law, China unilaterally sets territorial boundaries, makes up rules, and grants rights that are coercively enforced. Chinese governance efforts effectively defy the writ of the UNCLOS and customary international law, and unlawfully deny other South China Sea coastal states their sovereign rights and ownership of marine resources (PCA 2016).

9.3 CHINA DURING COVID-19

China's behavior during the Covid-19 pandemic has given further grounds for wariness by neighbors and the rest of the world. While everyone was distracted by the pandemic China moved opportunistically to make gains in ongoing sovereignty disputes with neighbors. China sank a Vietnamese fishing vessel on April 8 in Vietnam's claimed South China Sea EEZ, operated its ocean survey vessel Haiyang Dizhi 8 near a Malaysian survey vessel operating inside the Malaysian EEZ from mid-April to mid-May, declared two new domestic administrative districts in the disputed Paracel and Spratly Islands, and named about 80 contested land features in the Spratly Islands on April 18-19.

In May and June, Indian and Chinese soldiers engaged in physical combat on three separate occasions in Ladakh and in the last one 20 Indian troops lost their lives.

Meanwhile, in this same timeframe two Chinese coast guard ships entered Japanese-administered territorial waters of the Senkaku (Diaoyu) Islands and ordered a Japanese fishing vessel to leave the area (Panda 2020). In mid-May, China began a three-month naval military exercise that included a simulated takeover of the Taiwan-administered Pratas Islands on the northern edge of the South China Sea.

On June 30, China circumvented the Hong Kong legislature to decree a sweeping new National Security Law. Among other things, it limits freedom of speech and assembly, criminalizes political dissent, and allows Chinese domestic security agencies openly to police Hong Kong as needed.

China engaged in a war of words toward the West. It threatened to cut off exports of medicine and medical protective gear to the US after the Trump Administration insisted that the virus originated in China and not the US, as a Chinese foreign ministry spokesman had implied in March. Australia's call on April 22 for an independent investigation into the origins of Covid-19 in China elicited a Chinese ban on imports of Australian beef and barley. A week later, China threatened to stop medical supplies to the Netherlands after the latter renamed its mission in Taiwan the "Netherlands Office Taipei" from "The Netherlands Trade and Investment Office".

China's bullying behavior has not worked to its benefit. In early June, Australia and India signed a landmark agreement to permit mutual military logistics support. The Philippines notified the US that it would continue their Visiting Forces Agreement, which was in danger of being canceled as part of President Rodrigo Duterte's move to woo China. Indonesia notified the UN that China's South China Sea territorial claim endangered Indonesia's EEZ rights (Nikkei 2020). South Korea accepted Trump's invitation to an expanded G-7 meeting (South China Morning Post 2020). In June, Japan ceased efforts to reschedule a postponed state visit to Tokyo by Xi Jinping that was to have ushered in a new era of Sino-Japanese relations. During the virtual ASEAN Summit at the end of June, leaders discussed the South China Sea situation, with Vietnam issuing a chairman's statement that called for "maintaining and promoting peace, security, stability, safety and freedom of navigation in and over-flight above the South China Sea" and "reaffirmed the importance of upholding international law, including the 1982 UNCLOS" (ASEAN 2020).

9.4 THE ROOTS OF CHINA'S COERCIVE BEHAVIOR

At the root of CPC party-state behavior is the CPC approach to the task of governance. The secretive and hierarchically organized CPC gained control of the Chinese state through force and relies on it to remain in power. The CPC places itself above the rule of law because it cannot accept external limits on its political will. The use of coercive force to control and discipline others without regard to law or democratic procedure not only is ideologically correct and habitual – it has been successful.

Nevertheless, the CPC is fundamentally insecure because it rules without domestic democratic consent and must discourage any thinking or debate leading in this direction. In the outside world, liberal values such as democracy and human rights threaten the CPC's ontological security, and their advocacy by liberal states and non-governmental organizations threaten its domestic rule and undermine its global standing. This insecurity fosters a paranoia that is obsessed with monitoring the thought, speech and behavior of others, and occupies itself with the use of sticks, carrots and propaganda to silence opposition and to pull others toward agreement with the CPC view of the world.

It naturally follows that China's use of power is unconstrained by notions of rights, liberties or the rule of law when CPC interests are at stake. Chinese governance promises material benefits but it demands deference and obedience. Dissent constitutes a threat to the CPC's infallible authority that may have to be accommodated provisionally but only until the opportunity to neutralize is gained.

This approach to governance is why China's neighbors want a continuing US strategic and economic presence in the Indo-Pacific to check China's power and ambition. The manifest distrust of Chinese governance and the preference for balanced regional power relations under the existing rules-based order suggest that China's economic leverage and regional diplomacy alone are not sufficient for China's purposes. The Quad powers are working individually and collaboratively to capitalize on this weakness by forming partnerships with smaller like-minded countries that will do what they can to help the Quad maintain economic openness and strategically balanced regional relations under the liberal rules-based order.

9.5 A PEACEFUL STRATEGIC STANDOFF IS A DESIRABLE OUTCOME

China has two ways around this impasse. First, it could acknowledge neighbors' misgivings and henceforth deal with them in accordance with prevailing international norms. China's economic weight may then work to attract the regional following that it desires. China seems unlikely to make this choice, however.

Second, China could coerce neighbors into its "community of shared human fate". By denying the US and US allies the right to freely navigate their military vessels through the South China Sea, China is trying to remove a *sine qua non* of the rules-based order – freedom to navigate the high seas for all lawful purposes. Success would roadblock FOIP strategy and persuade China's neighbors that they are in no position to resist China because the US would be unable to shield them. US strategic credibility in the wider region would evaporate, and China's neighbors would have no choice but to bow to CPC party-state dictates.

The US response has been to patrol the South China Sea with local allies while augmenting military capabilities to deal with South China Sea contingencies (LaGrone 2019; McCleary 2020). The goal is to maintain a strategic presence and deter the use of force. The US can do this only with the support of local partners, who seem willing to assist despite China's

best efforts to discourage them. Unless China is willing to initiate a war with the US, which does not seem part of China's plan for a peaceful rise, a continuing US strategic presence is unlikely to be removed.

A strategic stalemate with neither the US nor China dominant in the South China Sea, therefore, could be the new normal. China enjoys local superiority in those waters, but any use of force there could quickly spread and enter alternative war domains where China lacks advantages. However, if China sticks to its peaceful-rise strategy that emphasizes the decisive role of economic and political means of struggle and avoids a direct attack on US military forces, a tense but stable stalemate is possible.

9.6 WHAT IF THE US NAVY IS PUSHED OUT OF THE SOUTH CHINA SEA?

If rationality prevails on both sides, a continuing US strategic presence in the South China Sea could maintain ongoing free and unhindered passage of trade under the rules-based order. But what if China were to act like a dissatisfied, risk-taking rising power and provoked a military confrontation with a risk-averse US that would retreat from the South China Sea?

For the US, a naval retreat from the South China Sea prompted by a military threat would be humiliating. If the US wanted to remain a global power, such a move would only be a tactical retreat. The need to retain strategic credibility and preserve a forward defense perimeter against a hostile enemy power (in this case, China) would compel the US to escalate the conflict both horizontally and vertically. Political rivalry would give way to a bare-knuckle fight using conventional force and hybrid war using all available means short of strategic nuclear weapons.

Though two parties may have a robust trade relationship, should war break out between them, they become enemies – and one does not trade with enemies. Absolute economic decoupling and all-out economic war between the US and China have been unthinkable. But as heightened tensions over responsibility for the Covid-19 pandemic outbreak demonstrate, economic decoupling is becoming conceivable even without US troop casualties in the South China Sea. Forcing the US Navy out of those waters, therefore, might not actually help China to sustain its rise.

10. THE INDO-PACIFIC FUTURE: COMPETING BUT CO-EXISTING PARTNERSHIP NETWORKS

Globalization has been criticized for failing to deliver on its promise of an equitable and just distribution of growth benefits, but it has created worldwide connectivity that has irrevocably transformed the world in countless ways. Two thirds of humanity now own cellphones and computers which they can use to access virtually any place in the world to gain knowledge, buy and sell things, be entertained, contact loved ones, do banking, or collaborate with others with ease and affordability. Few would want to dismantle the digital and logistical connectivity that delivers these benefits so widely. If anything, more is wanted. Of course, connectivity alone cannot produce a world of harmony and justice, but it would be difficult to achieve such a world without this connectivity. This is one key reason why, despite worsening bipolar conflict and rising protectionist sentiment, a division of the region into self-contained cold-war blocs of nations is unlikely.

Instead, what is more likely are two competing partnership networks operating in a connected region. One would be a hierarchical patron-client set of relationships governed strictly by China. Core members (i.e., those unlikely to leave China's orbit) would tend to be countries that, like China, host authoritarian regimes that govern cultures that have never known the rule of law. Examples are found among poorer countries (e.g., Cambodia, Laos, Myanmar, Pakistan) that need the economic and political resources that China would give them in return for valuable rights, assets, and political loyalty. Although some democracies might join China's network, participation would be transactional rather than values-based. Their participation would be provisional because if regular popular elections continue to choose government leaders, there is no guarantee that newly elected governments would continue BRI plans made by outgoing governments.

The other network would be sponsored by the Quad and would operate according to the familiar rules-based order. Besides the Quad, other core members might include Canada, South Korea, New Zealand, the UK, France, Taiwan (on a de facto basis) and perhaps Germany. Western development finance institutions such as the IMF, World Bank and Asian Development Bank would naturally support this network. Core members would share a normative commitment to the liberal rules-based order. As well, their vital material interests would make them to want to continue free and open trade with dynamically developing Indo-Pacific economies.

A diverse array of Indo-Pacific countries that want and need continuing trade and investment relations with innovative advanced Western economies would be drawn to this network. More than anyone else, the West has aided Asia's dynamic growth and development – including China's. As liberal Western nations turn away from China, the rest of the Indo-Pacific stands to gain enhanced opportunity for trade and investment relations in association with the FOIP.

The two competing partnership networks would offer aid, trade and investment opportunities to attract developing countries, and provide connectivity infrastructure and services to network members under their respective governance norms. This difference would not necessarily entail an impenetrable firewall separating the two. Economic geography would place the nodes of these competing networks in the same strategically located cities, ports, free-trade zones and industrial parks across the region to facilitate interconnection.

It is likely that Indo-Pacific countries would be pressured to choose sides, but they would desire continuing access to both the advanced Western economies and the Chinese economy. Both networks would have to accommodate this desire, but their respective membership norms would be quite different with rules devised to reward loyalty. Regionwide network connectivity for all countries may thus continue but with reduced efficiency and convenience. Though bifurcation into alternative partnership networks might not be optimal, it would be preferable to an Indo-Pacific divided by walls into isolated blocs or suffering anarchy.

10.1 NETWORK COMPETITION IN A REGION ORIENTED TOWARD TRADE AND DEVELOPMENT

As discussed earlier, rival powers would stop mutual cooperation and begin a lose-lose economic war of attrition after a serious armed confrontation turns them into mutual enemies. This strategic logic produced the Cold War's Iron Curtain in Europe after the First Berlin Crisis, and the Bamboo Curtain in Asia after the Korean War. As long as serious armed confrontation can be avoided, Sino-US interdependence and cooperation could continue in non-critical areas and multilateral venues.

In any case, each side would use its own governance norms as an "operating system" to manage its regional partnership network. A network's ability to provide public goods as well as secure, reliable and efficient economic opportunity without unduly sacrificing a member's sovereign autonomy, values and dignity would determine its success.

The China-sponsored network would have special appeal to developing countries that lack trade and financial connectivity owing to their small markets, poor state of public finance, and insufficient institutional capacity to manage capital-intensive infrastructure projects. Regimes in such countries may fail to qualify for Western development assistance or may lack the time horizon needed to bring such projects to fruition. They would likely welcome offers of large BRI project loans that require little recipient government accountability and that deliver quickly built projects that promise to give impoverished localities privileged access to the Chinese economy.

BRI may easily attract such countries into a partnership network in which the Chinese party-state provides the financing and expertise for economic and political development; Chinese state-affiliated enterprises provide trade, financial and digital connectivity services; and the

PLA provides training and equipment for regime security. As this China-centered governance network grows, it inevitably displaces the rules-based order.

But the BRI is driven more by donor agendas than by service to recipient-country development needs. Thus, a growing number of BRI projects show a lopsided distribution of costs and benefits that empowers China, disempowers recipients, and proves to be unsustainable in a variety of ways. Moreover, BRI attracts countries with below-average investment risk ratings. The ability of such countries to service huge BRI loans is limited, and they would be the most vulnerable to exogenous events such as the Covid-19 pandemic.

Meanwhile, with declining growth, a rising fiscal deficit, an aging population, a declining national savings rate, a disappearing current account surplus, a deteriorating exchange rate, signs of capital flight, sharply higher domestic unemployment due to Covid-19, and rising clamor for debt relief by BRI partners, China may find it difficult adequately to finance BRI. Looking to the future, one would be surprised if BRI sustained its momentum (Crabtree 2019; C. Huang 2020; Steil and Della Rocca 2020). Nevertheless, having written BRI into the state Constitution, Xi Jinping has no choice but to persist with it.

In response to the BRI, the US and its partners have been mobilizing new resources to provide developing countries with infrastructure. This would consolidate a network of Indo-Pacific trade partnerships that remain secure under the rules-based order and give network members logistical, financial, digital and cultural connectivity within and beyond the region. In this way, a collaborative FOIP network would compete with a China-centered BRI to provide regional network connectivity services.

A US-led network of Indo-Pacific partners under the rules-based order has certain advantages over the Chinese-sponsored BRI-based network. For a start, the rules-based order is familiar to most. It is also transparently governed by multilateral and multistakeholder institutions under the rule of law and has proven to be safe, efficient and reliable in managing aid, trade, investment, monetary relations and maritime security. Finally, it links Indo-Pacific developing economies to wealthy and innovative Western economies with open cultures and long-established global supply chains that have a history of helping Asian economies move to middle-income status and beyond.

As these competing networks coalesce, their relative merits would become more evident. Network theory suggests that users will migrate to a service provider that operates a more reliable, convenient, comprehensive and cost-effective network platform, thus enlarging that platform's user base and making it even better to join. In a commercial setting, this network effect could allow one platform to corner the market for network service provision.

However, Indo-Pacific geopolitics makes it unlikely that one great power would depend on its rival to provide it cheap, reliable, efficient and secure regional connectivity. Therefore, each power would be driven to build its own network platform using "club benefits", the most important ones being development assistance, privileged access to its economy, and assistance in meeting traditional and non-traditional security needs.

Looking forward, if the US and China can avoid an armed conflict, the future seems to hold a networked region bifurcated by two providers of trade, financial and digital connectivity – one anchored in the advanced Western economies and the other in the Chinese economy.

Countries would want access to both sides but would gravitate to either the Western rules-based or the China-centered platform, with each network constituting a club of like-minded members governed by their respective rules but peacefully co-existing in the same region.

Even if endemic strategic rivalry precipitates armed confrontation between the PLA and US forces, most likely involving the South China Sea or the Taiwan Strait, a mindless escalation to nuclear war would be unlikely. In the Korean Peninsula, the US and China have fought and settled a limited war (at least between themselves if not between the two Koreas). And they have successfully managed a number of crises in the Taiwan Strait in the Cold-War and post-Cold War periods, as well as the 1999 US bombing of the Chinese embassy in Belgrade and the EP-3 incident in 2001 over the South China Sea. If bilateral crisis management fails despite its past successes, one can only hope that conflict escalation will provide time and additional opportunities for both sides to come to their senses and return to rational decision-making.

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