

# **THE DOUBLE BYPASS**

## **HOW THE UNITED STATES AND CHINA ARE ROUTING AROUND EACH OTHER AND TRANSFORMING THE LIBERAL ORDER**

Mark Leonard, Bosch Public Policy Fellow

**2012-2013 PAPER SERIES**

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MARK LEONARD<sup>1</sup>

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This paper is dedicated to Craig Kennedy whose enterprise, intelligence, creativity, and restless energy have done so much to animate the transatlantic relationship over the last two decades.

# EXECUTIVE SUMMARY

Theorists of international relations have laid out two elegant scenarios for the future of Western liberal order:<sup>1</sup> A positive one where rising powers such as China are welcomed into existing institutions and eventually socialized into upholding liberal norms, and a negative one where liberal powers fail to adapt and the new pretenders seek to overturn the order and develop competing institutions. But as China and the United States face off in the messy reality of the international system, it is becoming increasingly clear that neither scenario is likely to take shape.

Seen from Beijing, there was never a binary choice between joining the institutions of the Western liberal order and developing parallel ones in China's image. The Chinese leadership has pursued a carefully calibrated strategy of joining universal institutions, seeking to minimize the constraints they would put on China and developing China-led institutions that exclude the West.

Until recently, Western states put more effort into reforming and bolstering the universal institutions that they created and only acted outside them in extremis. But faced with gridlocked global institutions, they are increasingly mirroring China's bypass diplomacy and creating new groupings outside of the universal institutions.

In the new order that is taking shape, universal institutions will continue to exist but they are increasingly seen as a transactional space rather than as a blueprint for global government. Most of the energy in the global system is going into a new generation of institutions forged by states with similar levels of development and similar histories. You can think of it as the rise of "similateralism" — international organizations whose members

have flocked together because of similar histories, incomes, and levels of development.

Rising powers joined Western-led institutions but regard them with suspicion and work together in a series of "post-colonial friendship associations." The established powers, on the other hand, are disconcerted by their loss of control over the universal institutions and are increasingly flocking together into new communities of similar countries. This is creating a new liberal archipelago of organizations — from the European Union to NATO and the TTIP — that enshrine the principles of the liberal order in new ways.

Proponents of this approach argue that, if successful, these similateral institutions are simply a stepping stone to universal ones. If they are successful, they will encourage China and other rising powers to join them. But critics are more likely to see these institutions as hollowing out the universal order. It is true that some of the dynamics resemble the self-segregation of advanced societies where — with the onset of universal institutions — the wealthy and the privileged have retreated into their own schools, hospitals, and gated communities.

<sup>1</sup> Ikenberry, G. J. (2011), *Liberal Leviathan: The Origins, Crisis, and Transformation of the American System*, Princeton.

# 1 FROM SYMBIOSIS TO COMPETITION: THE PERILS OF CONVERGENCE

“When China is as powerful as the United States, we will have the same attitude to sovereignty as the United States.”

**Yan Xuetong, conversation with the author in 2008**

“If Americans want to understand Chinese power and ambition today, they should start by looking in the mirror.”

**Robert Kagan, *Ambition and Anxiety: America’s Competition with China*, 2009**

**W**e need to stop behaving as if China and the United States come from two different planets and that their tensions are a product of their differences. In fact, although they are still very different from each other, the biggest problem facing China and the United States could be the fact that they are becoming increasingly alike.

The reality is that China and the United States got on pretty well when they were very different — with each side playing ying to the other’s yang. Their economies were symbiotic and China’s passive foreign policy did not fundamentally challenge the United States’ activist building of a post-cold war order. Even when they competed, they tended to fight past each other, with China’s commercial diplomacy working round the United States’ military alliances, and Beijing’s focus on its neighbors and the developing world leaving Washington’s rich world relationships intact.

But today, the two countries are increasingly mirroring one another as they take radical measures to deal with opposite problems. And the more alike China and the United States become, the less they seem to like each other. Economic interdependence is causing friction even as it creates common interests. Political liberalization is leading to nationalism as well as greater participation, and a more activist Chinese

foreign policy is questioning U.S. leadership rather than lessening the burden on Washington. As they converge in the middle, the asymmetric rivalry between the two nations is morphing into a full spectrum competition. Both countries are preparing for a bipolar world, and increasingly see their relationships with other countries through that prism.

As they rebalance their economies and recalibrate their foreign policies, Washington and Beijing are increasingly fighting over their similarities, especially their common pretension to regional dominance in East Asia.

This stands in stark contrast to the dynamics of the Cold War, when geopolitics was, above all, a clash between ideologies. At that time, increasing contact and encouraging convergence between these two disconnected societies was the key to détente. But in an era of interdependence, the opposite dynamics apply: differences often lead to complementarity, while convergence is often at the root of conflict. If Karl Marx helps explain the Cold war’s ideological cleavages, Sigmund Freud is the best guide to the tensions of the age of interdependence. He explains how countries that are similar tend to glory in the narcissism of small — and diminishing — differences that mask an underlying sameness with an ersatz sense of otherness. He shows that psychology and

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*For most of the last two decades, there was an almost perfect symbiosis between Beijing and Washington.*

symbols can have as powerful a sway on human relationships as material forces and abstract interests.

The paradox that Sigmund Freud explains is the great convergence of globalization, which could lead to an unraveling of the universal order. We can already see that as deepening interdependence breeds greater tensions, Western and Chinese policy are increasingly trying to “route around” each other rather than investing in common institutions. Although global trade and global institutions will continue, the core of order will be forged by clusters of like-minded states who flock together based on their similarities. Their goal will be to strengthen themselves from the inside out, and the parallel groupings they build will increasingly eclipse the dream of a single multilateral liberal order.

#### **From Symbiosis to Competition**

For most of the last two decades, there was an almost perfect symbiosis between Beijing and Washington, DC. Chinese savings bankrolled U.S. consumption; its manufacturing workhouse made the products designed and serviced by the United States’ post-industrial economy; and its introverted foreign policy did not fundamentally undermine Washington’s global problem-solving. In fact, China and the United States were so closely bound together that the historian Niall Ferguson and the economist Moritz Schularick came up with a name to describe the phenomenon: Chimerica.<sup>1</sup>

Chimerica was possible because the governing philosophies on each side of the Pacific mirrored each other so perfectly — and in fact came to depend upon each other. China was run according to the “Deng consensus.” Deng Xiaoping’s

<sup>1</sup> Ferguson, N., & M. Schularick (2007) “Chimerica’ and the Global Asset Market Boom,” *International Finance*, Wiley Blackwell, vol. 10(3), pages 215-239, December.

economic policy was based on export and investment-driven affluence, his politics were about the quest for stability, and his foreign policy credo was about keeping a low profile while creating a benign environment for economic development. The United States had an equally strong governing credo that embraced globalization and credit-fuelled growth, a democratic politics that behaved in a predictable way, and an interventionist foreign policy designed to create and defend stability within a U.S.-led world order.

Of course, during this period there was competition as well as co-operation between China and the United States. But because they were starting from such different places in power and strengths, the contest was so asymmetrical that the two sides often fought past each other. Economically, Chinese goods might have outcompeted some low-scale U.S. products but generally the China price meant sourcing options in abundance for U.S. companies and cheaper Wal-Mart goods for the U.S. consumers. Militarily, China has avoided an arms race and instead concentrated on so-called “anti-access/area denial” strategies. In Asia, the United States concentrated on military primacy and its hub and spokes approach with its allies while resisting non-U.S.-led economic initiatives in Asia, even when they came from Japan (such as the proposal for an Asian Monetary Fund during the 1997 financial crisis). In contrast, China sought to reassure its neighbors by supporting multilateral regional integration while giving them an economic stake in China’s rise through trade deals. While the United States before President Barack Obama put the most store in its relations with advanced democracies and energy-rich countries in the Middle East, China put much of its diplomatic activism into its neighbors while increasing its presence in the neglected continents of Africa and Latin America.

It was the collapse of Lehman Brothers in September 2008 that brought the “Chimerican” era to an end. Washington and Beijing vowed to rebalance an economic relationship that they both felt had become unhealthy. In parallel, they recrafted their foreign policies to reflect a change in the balance of power. As Beijing and Washington changed their economic, political, and foreign policy credos, they found themselves becoming more similar, and more prone to competition than complementarity.

In the economic realm, China is moving to stimulate domestic consumption and its service economy. Meanwhile the United States has abandoned “benign neglect” of its currency, become an energy exporter, and pursued reindustrialization and export-led growth through a new generation of “high-quality” trade deals with rich countries, including Europe and Japan. In the place of the old consensus on globalization, there is a sense that the United States is at the wrong end of an uneven playing field. Obama’s economic advisers, at least rhetorically, are determined to advance government policies to support the United States’ reviving manufacturing and export machines. The United States was not foreordained to have a service-oriented economy. High labor and energy costs combined with substantial foreign competition made manufacturing difficult at best. Now, the energy side of the equation has changed both in terms of domestic prices and the cost of transporting finished goods. Coupled with the advent of 3-D manufacturing, this could see a manufacturing sector emerge, at least for domestic demand. Chinese efforts to move up the value chain and U.S. attempts to re-industrialize will lead the two countries to compete more directly, as each moves closer toward the other’s traditional modes of production and consumption. For example, China no longer wants to supply the cheap parts inside an iPhone based on design and earnings

that end up in the United States but instead see their own brands become global beacons, with Huawei spearheading that move in telecoms. This competition — and the sense that China is not playing by fair rules — will increase the intensity of perennial concerns about currencies, intellectual property, cyber-crimes, regulations, market access, and investment.

In the domestic political sphere, China is moving towards a more participative system where different factions fight it out and where the internet and especially social media create a much livelier public sphere. Meanwhile U.S. politics is increasingly polarized and anti-elitist. While elites on both sides still want to have a good relationship, the political dynamics could push the relationship into a more competitive space. In the past, Western policymakers often accused China of stoking nationalist outrage and then claiming to be constrained by it, but today the drum-beat of national assertiveness on social media seems to narrow the options available to national leaders. We may be seeing what political scientists have told us: that while democracies tend to be more peaceful, countries in transition can be more belligerent than settled autocracies.<sup>2</sup> The logic of Cold War thinking was that the Communist Party was bad and civil society was good. But in today’s world, it is the CCP that is urging restraint while ordinary people and bloggers are calling for greater assertiveness.

However, it is in foreign policy that the two sides have the most convergence — in some cases almost swapping their traditional roles as they seek to

<sup>2</sup> Mansfield, Edward D., and Jack Snyder (1995), “Democratization and War” *Foreign Affairs*, Vol. 74, No. 3 (May — Jun., 1995), pp. 79-97; Mansfield, Edward D., and Jack Snyder (2002), “Democratic Transitions, Institutional Strength, and War,” *International Organization*, Volume 56, Number 2, Spring 2002 pp. 297-337; Mansfield, Edward D., and Jack Snyder. *Electing to Fight: Why Emerging Democracies Go to War*. Cambridge: MIT Press, 2005.)

*The collapse of Lehman Brothers brought the “Chimerican” era to an end. Washington and Beijing vowed to rebalance a relationship they both felt had become unhealthy.*

*President Obama has sought to develop a model of low-cost leadership — almost an U.S. version of Deng Xiaoping’s “low-profile strategy.”*

mirror each other’s strategies. China, on one hand, is struggling to manage a surge in its global influence. Its foreign policy elites are engaged in a wholesale rethinking of their strategy — questioning each of the sacred cows of the Deng era. On the other hand, China’s globalists want to participate more actively in global institutions. After the Libyan crisis where many developing countries favored action, there has been an escalation of the debate about how to interpret “non-intervention” in a world where China is exposed to many hotspots. In disputes with neighbors and other players, there is a questioning about whether economic interests should have primacy over political ones — and in Japan’s case where the nationalist outcry of Chinese protesters have led some companies to relocate from China to Vietnam, economics have already been sacrificed for political ends.

Most radically, there is a debate about whether China should rethink its opposition to standing alliances. Academics such as Yan Xuetong argue China must develop “quasi-alliances” with a dozen countries, including Russia, the Central Asian republics, Pakistan, Sri Lanka, Myanmar, and North Korea, offering them security guarantees and even potentially the protection of a Chinese nuclear umbrella. He sees this response to the United States’ “pivot to Asia” as part of what becoming a “responsible power” means for China — not exactly what Robert Zoellick had in mind when he called for China to become a “responsible stakeholder.” “When China is as powerful as the United States,” says Yan Xuetong, “it will have the same approach to sovereignty as the United States.”

Washington, meanwhile, is trying to reconcile its will for power with the war-weariness of its citizens and the politics of servicing the deficit. The president has sought to develop a model of low-cost leadership — almost an U.S. version of Deng Xiaoping’s “low-profile strategy” (although

while Deng was seeking to hide China’s growing wealth, Obama is seeking to hide the growing pressure on U.S. resources). This involves a mix of soft power, sanctions, drones and alliance management or “leading from behind,” while trying to establish effective, pragmatic relations with great powers such as China and Russia. With the “pivot to Asia” President Obama has decided to rebalance the military from land wars and build on the traditional U.S. “hub and spokes” approach in Asia. This reflects the new thinking of its focus on engagement in multilateral institutions, its emphasis on trade and investment with the TPP, and its implicit acknowledgement that expansion in the Pacific is only possible if the United States lessens its exposure in the Middle East. A senior commander at PACOM explained to me that through this multi-dimensional game, “instead of playing chess we are playing ‘Go’ (Chinese chess).”

If you want to understand the causes of this political cross-dressing, just study the reading lists of military planners on each side of the Pacific. While Chinese planners pore over Joseph Nye’s work on soft power and Andrew Marshall’s work on high tech war,<sup>3</sup> policymakers in the Pentagon make a point of reading texts on “Eastern ways of thinking” such as the French philosopher Francois Jullien’s “The Propensity of Things,” the “Geography of Thought” by cognitive psychologist Robert Nisbett, and even books on Chinese medicine such as “The Web that Has No Weaver.” Just as Chinese thinkers have long sought to adapt U.S. ideas to a Chinese context, U.S. strategists are increasingly becoming more similar to China — either consciously by studying Chinese ways of thinking about strategy or unconsciously by using the power of the state to fix domestic economic problems. This convergence is causing greater tension between China and the United States.

<sup>3</sup> *The Economist* (2013), “The dragon’s new teeth,” April 7, 2013.

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The reality is that China and the United States are now more similar than either side would like to think. They have competing brands of exceptionalism that give them a belief in power politics, an idea that they should be exempt from certain elements of international law, and a belief they are destined for regional pre-eminence. What's more, their domestic problems will prevent them from investing in a harmonious relationship, and the increasingly assertive behavior of their respective allies will lead to ructions. Rather than complementing each other as they did over the last two decades, China and the United States are heading towards an increasingly fractious competition in which even the positive-sum areas will be riddled with conflict.

It is no coincidence that the crisis of globalization and interdependence has come at the same time as the crisis of elites. Globalization was very much an elite-driven project and the anti-elitist mood is very much also a cry against it. In the growing crisis of interdependency, everyone thinks that they are at the losing end of the bargain. The United States complains about losing jobs, the Chinese complain about losing their hard-earned savings. The United States complains that China is not playing by the rules, while China says that the rules were invented by the West to keep others down. As the tensions mount, many of things that were perceived as opportunities are now seen as threats.

## 2 THE END OF INTEGRATION

*The fact that the two sides have become more similar without finding common cause has also led to a rethinking of the international architecture.*

During the last three decades, China has liberalized its economy, grown a middle class that now numbers hundreds of millions, and seen the development of a genuine public sphere amongst its close to 600 million netizens.<sup>4</sup> Its government has been welcomed into international institutions from the World Trade Organization to the G20 and been shown international respect by successive U.S. presidents.

Many in Washington had hoped that those domestic changes would be accompanied by moves to take greater responsibility for upholding the Western-led system, but they have been frustrated to discover otherwise. The hope was that by working together, they could create space for a rising China within the leadership of the liberal world order. However, the depth of the economic challenges following the global financial crisis has made both sides less outward-looking. While before the crisis, the different powers were focused on projecting power abroad, now their main focus is on “nation-building at home.” The fact that the two sides have become more similar without finding common cause has also led to a rethinking of the international architecture.

When President Obama came into power in 2009, he hoped to integrate China into global institutions and encourage Beijing to identify its interests with the preservation of the post-war international system. But five years on, according to a senior official who knows the president’s mind, his attitude is best defined by one word: disappointment. Obama felt his attempt to engage the Chinese in a real G2 was rebuffed on his first trip to China in November 2009 and by the rudeness of the Chinese

<sup>4</sup> Associated Press (2013) “China’s online population rises to 519 million,” July 17, <http://bigstory.ap.org/article/chinas-online-population-rises-519-million>.

at Copenhagen Climate Summit in December.<sup>5</sup> This was compounded by a growing challenge to the U.S. interests and standing on cyber and, above all, on maritime issues.

In parallel, Europeans have become less enamored of the success of integrating rising powers into universal global institutions as they are blocking progress and using these institutions for other ends. For them, the wake-up call came with the Copenhagen conference on the environment. Denmark spent years preparing the conference, only for the outcome to be decided by a small meeting between Obama and the “BRICS” nations (Brazil, India, Russia, China, and now also South Africa). The Europeans were not even invited. The G20 is another case in point. Although Europeans pushed for its creation, their enthusiasm has dimmed. “We are not coming here to take lessons on democracy or on how to handle the economy,” said EU Commission President José Manuel Barroso ahead of the 2012 G20 meeting in Los Cabos, Mexico, where the leaders of the BRICS tried to increase their voting power in the IMF and gloried in giving Europeans advice on the eurozone crisis.<sup>6</sup>

From the United Nations to the G20, a pattern seems to be emerging. Rather than being transformed by global institutions, China’s sophisticated multilateral diplomacy is changing the global order itself. At the G20, China has made common cause with other creditors against the idea of stimulating global growth. In the UN,

<sup>5</sup> The event is described in Kenneth G. Lieberthal, December 23, 2009, “Climate Change and China’s Global Responsibilities,” <http://www.brookings.edu/blogs/up-front/posts/2009/12/22-china-climate-lieberthal> as “open dissent at the Friday evening meeting — including having one member of Wen’s delegation shout and wag his finger at President Obama.”

<sup>6</sup> Reuters (2012) “‘We are not coming here to receive lessons’ — Barroso at G20,” June 19, 2012, <http://rt.com/business/barroso-warns-us-against-giving-advice-195>

they have pushed back on the global norms that emerged after the Cold War, and are increasingly finding themselves in supportive company. In 1997, the United States got 77 percent support from other states in the UN General Assembly for resolutions on human rights issues, compared to less than 50 percent support for China. By 2012, the roles had been switched; China had over 65 percent support while the United States had less than 40 percent backing.<sup>7</sup> Another disappointment has been the way China has hindered rather than helped the conclusion of the Doha round on world trade. There were big hopes that supporting China's membership in 2001 would promote both a dramatic opening of the Chinese domestic market, as well as turning China into a supporter of multilateral deals on the world stage. Western negotiators have been dismayed at the way that China — together with India — has stalled on multilateral trade talks, preferring to launch a plethora of bi-lateral or mini-lateral deals of its own. Obama's international economic czar, Mike Froman, put it bluntly at the German Marshall Fund's Brussels Forum: "There is now a global consensus that we're not going to be able to achieve the big multi-lateral deal which we all agree would be the best possible outcome if all the countries were willing to come to the table and play their respective roles."

The result of these moves, however, is not what the integrationists warned against: a concerted Chinese attempt to overthrow the Western liberal order. Seen from Beijing, the choice was never one of joining the order whole-heartedly or trying to overthrow it. Instead China has always had a three-fold strategy: 1) joining international regimes and trying to benefit from its presence within them; 2) simultaneously organizing itself within the order

to lessen its impact in Chinese sovereignty; and 3) in parallel constructing minilateral institutions outside of the order to advance its own agenda. The net result has been the hollowing out rather than the overthrow of the liberal order.

Of course, there is a mix of hypocrisy and wishful thinking in the West's approach to the "liberal order." As the Barroso quote on the G20 seems to demonstrate, many in the developing world think that Western states are keener on multilateralism when it is something that they inflict on others. Mark Malloch Brown puts it like this: "The rest of the world thinks that the West uses international institutions — whether through the 'Responsibility to Protect' at the UN or conditionality at the World Bank — to bend other countries to its will."<sup>8</sup>

Even if the approach of Western states is sincere, was it really realistic to expect a country such as China — with one-fifth of the world's population — that has only recently rediscovered sovereignty after long periods of external interference to fully endorse institutions and norms it had no part in developing? Chinese scholars such as the influential academic Shi Yinhong argue that the West should think not so much about "integrating China into the Western Liberal Order" as "adapting the Western liberal order to accommodate China."<sup>9</sup> This adaptation would involve a major redistribution of formal influence in the global financial and security institutions to correspond to the "factual strength they respectively have and the contribution they have made." In Asia, the United States would have to accept Chinese and U.S. military parity to the east of Taiwan, a peaceful reunification of the two sides of the Taiwan Strait, and a narrow but substantial span of "strategic space" for China in the western Pacific. In addition,

*Was it realistic to expect a country with one-fifth of the world's population that has only recently rediscovered sovereignty after long periods of external interference to fully endorse institutions and norms it had no part in developing?*

<sup>7</sup> Gowan, R. (2013) "Who is winning on human rights at the UN?," ECFR, September 24, 2012, [http://ecfr.eu/content/entry/commentary\\_who\\_is\\_winning\\_on\\_human\\_rights\\_at\\_the\\_un](http://ecfr.eu/content/entry/commentary_who_is_winning_on_human_rights_at_the_un).

<sup>8</sup> Interview with the author.

<sup>9</sup> Interview with the author.

*Rather than accepting the compromises of a G2 or the gridlock of the status-quo, the West is developing a third strategy: the idea of routing round China.*

the U.S. system of alliances would need to become “less military-centered and less China-targeted.”<sup>10</sup>

China’s rise creates a conundrum for the United States, or rather the whole West. The West is not yet ready to adapt the existing world order to meet China’s aspirations, but nor it does have enough control of universal institutions to reshape it to its own ends. So rather than accepting the compromises required of a G2 or the gridlock of the status-quo, it is increasingly developing a third strategy: the idea of routing round China in order to change it from the outside.

In the economic realm, the United States has launched two big drives to refocus the international trading system. In 2010, a group of “like-minded,” high-income countries launched negotiations on the Trans Pacific Partnership (TPP). This group of predominantly high-income countries — which deliberately did not include China — have committed to developing high-standard, “21<sup>st</sup> century” trade pact with strong standards on state-owned enterprises, labor, the environment, and intellectual property rights. If Japan and Korea join the 11 countries who have signed up, it would cover 40 percent of global GDP.)

Even more ambitious in scope and in the depth of the commitments is the proposed Transatlantic Trade and Investment Partnership (TTIP), which John Kerry claimed would “create one of the largest allied markets in the world,”<sup>11</sup> setting the stage for the development of global rules. Through the new economic arrangements, the West is trying to stop China from using its vast domestic market to establish a regulatory and standards challenge in the economic sphere. The goal in all this is not to push China out of the international division

<sup>10</sup> Interview with the author.

<sup>11</sup> Xinhua (2013) “Transatlantic free trade deal good for U.S., Europe: John Kerry,” February 27, 2013

of labor, but rather to use these deals to set the rules of the road without China and then present them to Beijing as a *fait-accompli* (in the hope that more enlightened elements in Chinese society might actually embrace them as they seem to be doing with TPP). As Karel De Gucht, the EU’s trade commissioner, has argued, “This is about the weight of the Western, free world in world economic and political affairs.”<sup>12</sup>

There are parallel developments in the security realm. Through the “pivot,” the United States is trying to strengthen a set of long-standing relationships that can slow China’s attempt to establish military primacy in the Western Pacific. (The individual spokes might even eventually be linked into a more cohesive security arrangement through working on procurement, common doctrines, training, and interoperability.) And when it comes to international interventions, the West is increasingly practicing “forum shopping” with the Arab League and other regional organizations to get things done without hitting Chinese vetoes. Even when there is a UN mandate, such as on Libya, the key decisions are taken inside a “Group of Friends” while NATO was in charge of the military command.

Meanwhile China — which has never seen a contradiction between joining existing institutions and building its own — is routing around the West just as the West is routing around China. It has set up institutions of its own, such as the Shanghai Co-operation Organisation, the BRICS, and bilateral and multilateral trading arrangements with countries in Asia, Central Asia, Africa, Latin America, and Europe. One of the most prominent multilateral projects is the BRICS Development Bank, which Mark Malloch Brown describes as a “game-changer” because, unlike the World Bank,

<sup>12</sup> Reuters (2013) “EU trade chief hopes to clinch U.S. trade deal by late 2014,” February 27, 2013.

“it is based on a co-op structure where states pool credit and resources rather than being seen as a vehicle for one group of member states to subjugate another.”<sup>13</sup> In cases such as the East Asian Community, China took advantage of the U.S. aversion to multilateralism in the George W. Bush era, which led to a U.S. self-exclusion from Asian regionalism.

In between these emerging and competing U.S.-led and China-led orders stand the universal institutions such as the UN Security Council, the G20, IMF, World Bank, and others. But these are often gridlocked by differences in worldview between their members. As such, they serve more to manage differences between great powers than to turn the emerging nations into responsible stakeholders. The West will focus on making progress in a transactional way rather than thinking they will socialize the Chinese into becoming “responsible stakeholders.”

Over time, it is likely that more institutional energy will go into building the “world without China” and the “world without the West” rather than reforming the universal common institutions.<sup>14</sup> That is what has led thoughtful commentators such as André Sapir to claim that TTIP “will mark the beginning of the end of the multilateral trading system as it exists today.” He claims that the WTO system has always stood on two legs: a trade-liberalization leg and a rule-making leg, consisting of a set of rights and obligations and a system of dispute settlement in case they are not respected. The proliferation of bilateral agreements — of which an EU-United States FTA would be the largest — has already taken much of the first leg outside the multilateral system. And, Sapir claims, if the European and United States, who make up half of the global GDP,

are outside the multilateral system it will only be a matter of time before they develop their own dispute resolution system outside the WTO. In these circumstances, it is unlikely that the WTO will remain sufficiently strong very long. As a result, he predicts that the once-proud WTO “will become like another Geneva-based organization, the International Labor Organization, a place with a beautiful view on the lake where ministers make nice speeches once a year but never take important decisions.”<sup>15</sup>

Instead of multilateral institutions being seen as the bedrock, countries will come to regard the new networks forged between countries with similar levels of prosperity and history as the most advanced form of order. This process of integration — the coming together of like-minded countries in formal institutions — could best be described as “similateralism.” The new order that is emerging echoes the structure of national life, where people are flocking into like-minded communities that live, work, and play with one another. As in national life, they will still trade and interact with people from different backgrounds, but they will seek to minimize and formalize their contact with them — and privilege their contacts with like-minded countries with similar levels of development.

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<sup>13</sup> Interview with the author.

<sup>14</sup> Naazneen Barma, Ely Ratner, and Steve Weber, “The World without the West,” *National Interest*, no. 90 (July/Aug. 2007).

<sup>15</sup> Sapir, A. (2013) “The Transatlantic Trade and Investment Initiative: Hope or Hype?,” Brugel, March 5, 2013, <http://www.bruegel.org/nc/blog/detail/article/1034-the-transatlantic-trade-and-investment-initiative-hope-or-hype/>.

# 3 LIFE IN THE SIMILATERAL WORLD

*The non-aligned will operate like bilingual children who can speak the languages of both parents.*

This new lukewarm United States-China competition will be the central axis of global tension for at least the next generation. In this world, the biggest tensions will come not because China is too Chinese and the United States too American — but because the two countries become too effective at mirroring each other's strengths. As China rebalances its economy, U.S. companies will find themselves in (unfair) competition with Chinese counterparts rather than enjoying the benefits of complementarity. As China becomes more democratic, it will become more assertive and more nationalistic. As China develops a more activist foreign policy, its actions will increasingly challenge U.S. interests. Through their tensions, we will see a gradual unraveling of the global economy and the political integration that supported it. After two decades of globalization, we will see each of the big political theaters re-erecting barriers and focusing more on domestic repairs than on global expansion.

We will end up with a strange new bipolarity — which looks superficially more like the Cold War than the world we have experienced for the past two decades — only with a diminished United States, a smarter (and more successful) peer competitor, stronger non-aligned countries, and weaker international organizations. Though the structure is similar in some ways, the dynamics will be fundamentally different from the Cold War competition between the Soviet Union and the United States.

Firstly, power is much more diffuse today than it was during the Cold War. Although many Chinese and U.S. military planners and security analysts talk about a new bi-polar era — the reality is that neither power will have the traction enjoyed by the United States and Soviet Union during the Cold War. The reality will be what Barry Buzan has described as a “world without superpowers,” where

great powers like China and the United States have limited control even over their allies.<sup>16</sup>

Secondly, the competition between China and the United States will be about status rather than ideology. At its heart is a tension over regional pre-eminence in Asia rather than a fundamental clash of world views.

Third, unlike the Cold War, this will predominantly be a geoeconomic rather than a geopolitical contest. Although there are strong military elements in the contest for capabilities, bases, and attempts to deny each other access to certain waters, the core of the rivalry will be economic and political.

Fourth, it will be characterized by high levels of interdependence between the major players — not just through the formal institutions in the middle but in the intense economic interpenetration of the different countries. These levels of economic interpenetration will continue, but in this new world interdependence will be seen as a risk to mitigated and managed rather than a recipe for warm relations. This is obvious in the U.S. debates about Chinese investment and national security concerns around Huawei and other companies.

Fifth, while many of the so called “non-aligned” countries found themselves forced to choose sides during the Cold War, today they will be able to take advantage of benefits from both orders. Although the way that many planners think about the contest is of the United States plus allies lining up against China, this will be a promiscuous world order where countries work together with each other in different formats and are willing to join arrangements with both sides. The non-aligned will operate like bilingual children who can speak the languages of both parents. And the parents should

<sup>16</sup> Buzan, B. (2011), Public lecture May 10, 2011, <http://blogs.lse.ac.uk/internationalrelations/2011/05/12/a-world-without-superpowers-de-centered-globalism/>.

not expect their children to choose one parent over the other permanently.

Finally, the contest will be predominantly about status rather than ideology. As well as a rivalry for the status as number one power in the Western Pacific, this will be a competition to set the rules of the game for other countries — while making themselves exempt from the rules. China has so far been too weak and defensive to articulate an alternative vision of world order, but that is set to change. China and the United States will increasingly use the same words but will compete to define what they mean. The key battlegrounds will be concepts such as:

- Order: different ideas and formats for regional integration, multilateralism, and international law

- Legitimacy: different ideas for organizing the exercise of power domestically and internationally
- Capitalism: fair trade, the relationship between the state and companies, the manipulation of currencies
- Responsibility: the duties and obligations of nations in an inter-dependent world.

Like the United States and England in Oscar Wilde's famous phrase, they will be divided by a common language.

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