

MEMORANDUM

TO: Foreign Minister Wang Yi
FROM: Rahila Sule; Heinz College, Carnegie Mellon University
SUBJECT: Recommendations for Expanding China's Influence in Asia
DATE: February 27, 2022

Abstract

Through a combination of economic, military, and technological transformations, China has garnered soft and hard power to gain global influence and boost its growth over several years. Overall, as China continues to enhance its ability to acquire power through innovative transformations, it is set to position itself as the largest economy in the world displacing the United States. To expand China's growing influence in Asia, China should accelerate outward-oriented trade reforms through the Comprehensive and Progressive Agreement for Trans-Pacific Partnership and should build soft power through a reformed Belt and Road Initiative that upholds transparency and accountability.

China's road to rejuvenation

China is the second largest economy in the world and a superpower in Asia

Over the past ten years, China's growth has been evident in its economic capacities. Since 2010 when its GDP was valued at \$1.33 trillion the nation's GDP has continued to grow and as of 2020 it was \$14.723 trillion.¹ Also, with an Asia Power Index of 74.6 in 2021, China stands out as a superpower in Asia. This is based on China's dominance across several indicators including economic capabilities, military capabilities, economic relations, defense networks, diplomatic influence, and future resources. Furthermore, the country's GDP at purchasing power parity of \$27.6 trillion, validates its economic strength and highlights its geopolitical relevance.²

China has bilateral investment agreements with over 100 countries covering expropriation, arbitration, and repatriation of investment proceeds.³ Currently positioned as the second largest economy in the world, China's execution of the Regional Comprehensive Economic Partnership (RCEP) serves as powerful leverage for stabilizing trade and investments especially as economies are hedging against the effects of COVID-19. But the RCEP also serves as an assertion of China's leadership within the Asia Pacific region.⁴

China's Belt and Road Initiative (BRI), launched in 2013, was established to boost economic integrations in trade, investments and infrastructure with Asia, Africa, Europe, and other trading partners. Globally, the BRI is an opportunity to raise incomes by providing investment to countries that would have struggled to modernize their infrastructure. Evidently, countries are being transformed by the BRI; for example, Nigeria has ongoing road and railway projects that will improve transportation systems.⁵ Overall, the BRI exemplifies China's willingness to address the needs and wants of countries in need of development.⁶

Consequently, through the Digital Silk Road – the technology dimension of the BRI – China is positioned as the optimal provider for the development of technological infrastructure across several developing economies. China's successful digital transformations over the past decade validates its capability to deploy Chinese technology to other countries in a bid to construct the digital infrastructure for the 21st Century.⁷

Though the BRI has a global focus, it has a strong domestic rationale as it is a means to export overcapacity and connect China's interior regions to exterior markets; thereby increasing value chain integration. As at 2021, over 50% of the largest Chinese investors in the BRI were state-owned enterprises (SOEs).⁸ With SOEs such as the China Communications Construction Company already reaping benefits of the BRI. Through the BRI, China has booming investments and trade agreements with Asian countries. However, skepticism concerning its intentions in these countries is also growing due to inadequate implementation information. Disputes associated with lack of transparency, unsustainable debt and environmental damage pose a risk to the BRI brand.

China's military transformations and growing military power

Since President Xi's military reforms in 2012, China has expended significant financial investment in maintaining, renewing, and expanding its military competencies. China is currently the third largest nuclear force in the world. With an allocation of \$252 billion in 2020 spent on the nation's defense, it has gained increased military strength. China's military spending is remarkably 50 percent larger than the combined outlays of Japan, India, Taiwan and the 10 ASEAN countries.⁹ Coupled with its development of the world's "largest and most diverse" ground-launched ballistic missiles, as referenced by the Center for Strategic and International Studies, China has developed advanced weapons that can threaten the United States (US) and allied bases within the Asian

region.¹⁰ China's continued expansion of its nuclear capabilities reinforces its military posture within Asia.

Additionally, China's maritime capabilities are especially outstanding as the nation has developed the largest coast guard in the world. Concurrently, China has modernized its naval vessels; in agreement with former President Hu Jintao's declaration stating the importance of maritime rights as well as managing seas and oceans.¹¹ With multiple disputes over the South China sea as China, Brunei, Indonesia, Malaysia, the Philippines, Taiwan and Vietnam contest maritime claims, China's improved naval power positions it towards more amicable solutions to these disputes. As the nation is aware that the more pressure it puts on these countries, the more likely they are to move towards allyship with the US. Nonetheless, according to Singaporean scholars Angela Poh and Weichong Ong, China's military modernization has enhanced the nation's ability to compete with the US. They specifically highlighted the Strategic Support Force that was created as part of People's Liberation Army to combine cyber, electronic and space warfare capabilities through military and civilian research and development.¹²

China's growing economic and military power contest US geopolitical influence in Asia

As of 2010, Jim O'Neill – chief economist at Goldman Sachs – suggested that China was on track to overtake the US as the world's number one economy by 2027.¹³ Now in 2022, it is evident that O'Neill's prediction is highly probable. China is essentially on par with the US in terms of economic capability and has a lead in terms of regional economic relationships within Asia. China has become the primary foreign investor in many Indo-pacific countries as its trade volumes within Asia are at nearly three times more than that of the US and the region. These economic interdependencies have formed the bedrock of China's influence and power within Asia.¹⁴ In terms of military capabilities, China's growing military transformations pose a challenge for the US's geopolitical influence in Asia. Compared to the US, China is in the lead for military manpower as the nation has the world's largest military with 2 million recruits in its People's Liberation Army as of 2019.¹⁵ The nation also has a virtual monopoly on ground-ballistic missiles capable of nuclear and conventional strikes. Although the US has various financial and technological advantages, as noted by General David Berger, a US marines chief, China is "the pacing threat for the next decade".¹⁶ Based on all these, China will likely remain a strong adversary to the US as it continues to acquire power in Asia.

Recommendations to expand China's influence in Asia

Considering its growing economic power, China should continue expanding its influence in Asia to strengthen its position as a superpower in the region. The following two economic policy changes will support China's goal for a China-centric economic order in Asia, in correspondence with a realist perspective on foreign policy.

Accelerate China's market growth through CPTPP membership

According to Professor Peter A. Petri and Professor Michael G. Plummer, China's membership in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) would yield considerable political and economic benefits to China and other members.¹⁷ If China joins the CPTPP, gains could quadruple from its current estimated \$147 billion to \$632 billion through a shift of imports and exports of other CPTPP countries towards China.¹⁸ These new intra-CPTPP trades would strengthen production chains thereby improving productivity of manufacturing firms within the region. For China, along with RCEP, its CPTPP membership will be an additional leverage to guard against economic losses from its trade war with the US.¹⁹ China would be positioned as the economic hub of the agreement, and this would be a strategic victory for China ahead of the US since the US withdrew from the CPTPP's predecessor (Trans-Pacific Partnership) under the Trump administration. Also, China's CPTPP membership is an opportunity for China to shape global economic innovations while communicating its commitment to outward-oriented trade reforms. To meet the CPTPP's requirements China should start by undertaking the following reforms:

- Boost transparency of state-owned enterprises.
- Ease restrictions on cross-border data transfers.
- Reduce tariffs that drive discrimination between local production and imports.
- Enforce patents to protect trade secrets and intellectual property – specifically to protect foreign firms.²⁰

Improve economic ties with other Asian countries through BRI transparency and reform

Based on research conducted by the Asia Society Policy Institute, the BRI project should be reformed to include publicly available international standards and policies that guide the project implementation.²¹ Transparency will boost confidence in the BRI brand as well as increase China's

influence and soft power in Asia. According to former President Jintao Hu, soft power ties in with the Communist Party of China's historical emphasis on culture's role in promoting harmony for development. A good example for emulation is the case of the Asian Infrastructure Investment Bank (AIIB) that was also faced with valid uncertainty. However, two years after its inception, the AIIB modernized its policy to adopt international standards that enhanced transparency and accountability.²² If the BRI follows a similar path, even modest improvements in procedures and standards would be significantly beneficial to host countries. Each BRI project should be:

- *Open*: Require and conduct a comprehensive and transparent project preparation process that entails a detailed assessment of the technical, financial, environmental, legal, and social considerations for the BRI project.²³ Conducting transparent analyses of projects can foster acceptance and build trust.
- *Standardized*: Develop a standard BRI contract using applicable International Federation of Consulting Engineers (FIDIC) standardized contracts.²⁴ FIDIC contracts would protect the legal rights of all stakeholders and align Chinese construction companies with international best practices.
- *Affordable*: Implement blended financing to guarantee that BRI projects are commercially viable. BRI projects should be structured as private and public financing projects when possible.²⁵ The inclusion of commercial banks and investors ensures BRI projects are affordable.
- *Collaborative*: Establish a local grievance mechanism that enables stakeholder engagement throughout the BRI project lifespan.²⁶ This would serve as a system for early detection of problems and would generate practical insights valuable to successful implementation.

Conclusion

The Chinese government's implementation of structural changes and innovations are certainly driving growth for the country. Reforming the BRI brand and China's potential CPTPP membership will reinforce its power and strengthen its credibility in Asia and globally. China's growing influence in Asia could make countries within the region more successful but could also boost China's position to being the largest economy in the world.

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