Rising Powers in International Development

A Prognosis and Diagnosis for China and the 2016 G20: The Politics of a New Global Economic Geography

Stephen Chan

February 2016
The IDS programme on Strengthening Evidence-based Policy works across seven key themes. Each theme works with partner institutions to co-construct policy-relevant knowledge and engage in policy-influencing processes. This material has been developed under the Rising Powers in International Development theme.

The material has been funded by UK aid from the UK Government, however the views expressed do not necessarily reflect the UK Government’s official policies.

AG Level 2 Output ID: 354

A PROGNOSIS AND DIAGNOSIS FOR CHINA AND THE 2016 G20: THE POLITICS OF A NEW GLOBAL ECONOMIC GEOGRAPHY

Stephen Chan

February 2016

This is an Open Access publication distributed under the terms of the Creative Commons Attribution License, which permits unrestricted use, distribution, and reproduction in any medium, provided the original author and source are clearly credited.

First published by the Institute of Development Studies in February 2016
© Institute of Development Studies 2016

IDS is a charitable company limited by guarantee and registered in England (No. 877338).
## Contents

Abbreviations and acronyms 2

1 Introduction 3

2 A history of China and the great powers 4

3 Virtue, Africa, independence and liberation 6

4 Excluding architecture 9

5 Of banks, roads, belts and great corridors 11

6 Scenario for a global political economy: A 13

7 Scenario for a global political economy: B 14

8 Scenario for a global political economy: C 15

9 Scenario for a global political economy: D 16

10 Scenario for a global political economy: E 17

11 Scenario for a global political economy: F 18

12 Scenario for a global political economy: G 19

13 Scenario for a global political economy: H 20

References 22
## Abbreviations and acronyms

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>AIIB</td>
<td>Asian Infrastructure Investment Bank</td>
</tr>
<tr>
<td>BRICS</td>
<td>Brazil, Russia, India, China and South Africa</td>
</tr>
<tr>
<td>FDI</td>
<td>foreign direct investment</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>NAM</td>
<td>Non-Aligned Movement</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
</tr>
<tr>
<td>PRC</td>
<td>People’s Republic of China</td>
</tr>
<tr>
<td>TPP</td>
<td>Trans-Pacific Partnership</td>
</tr>
</tbody>
</table>
1 Introduction

The Teacher of Old left behind this doctrine:
‘Worry about the Way, not about poverty.’
I found the Way too high and hard to reach,
So made up my mind to find it through hard work.
Grasping the plough, I enjoy the season’s labours,
With smiling face I encourage the peasants to work.
In the level fields I enjoy the wind from afar,
Where sturdy shoots are sprouting forth new leaves.
Though I have not measured this year’s harvest yet,
Its present state shows many signs of hope.
(T’ao Ch’ien, third century poet)

The early Chinese Communist regime depicted T’ao Ch’ien as a people’s poet, an ascetic recluse who embraced poverty and a peasant’s life. In fact, he rose as high as provincial governor, and his verses about labour, poverty and gallons of wine were often metaphors. He was not rich but was what one might call ‘low gentry’, able to view at first hand the wealth of those above him, sometimes to taste it. He had ‘ornate pins of office’ and delighted in feasting his poorer neighbours. But he never forgot his start in life: ‘Since my hair was bound up, I’ve laboured to do good, | For four and fifty years I’ve done my best. | As a young man, I came up against the world’ (Frodsham 1967: 114–17).

The ‘Teacher of Old’ in T’ao’s poem is Confucius. The sentiment is that virtue is greater than a concern for poverty. T’ao himself expressly suggested that such virtue was impossible to attain: ‘Man’s life is based on constant principles, | Foremost of which is the need for clothes and food. | How can we pay no heed to things like these, | And still hope to attain to happiness?’ The tension between necessity and virtue, one a material absolute (eat or die), and the other an aspirational normative condition (to be virtuous is to be happy), has run through all of China’s development assistance to the surrounding world. Often, the two would establish contradictions in how China approached especially the developing world. The aim of this report, however, is to argue that – for 2016 – the China that will greet the states of the G20 will be a China that aims to change the material world. It will deploy a vocabulary of virtue. I have myself sought to recognise those moments when Confucian virtue was a key underlay of China’s relationship with Africa (Chan 2013). China will still hope that virtue will be achieved ‘through hard work’. Increasingly virtue embroiders a self-justifying romance as China develops an economic realpolitik that is breathtaking in its ambition.

It is not only breathtaking in its ambition, it is very old-fashioned. It can be read as the dawn of a new age, but it is not. China is about to lead the world in a resurgence of the old growth paradigm. It is conscious that the proportion of the world’s population living in extreme poverty has fallen from 32 per cent in 1990 to 16 per cent in 2010. In the words of Martin Wolf, ‘growth matters’ (Wolf 2015). China’s views of development spell the final eclipse of any ‘basic needs’ doctrine, and may in fact eclipse any sense of meaning to millennium or post-millennium development goals. The idea is growth and development simultaneously, organised at the most macro level possible. From this, T’ao’s ‘clothes and food’, and a lot more besides, will not trickle but flow down. It is old-fashioned in another way, not often remarked. This report will suggest that the world is witnessing a refurbishment of China’s old Three World Theory – in which the BRICS (Brazil, Russia, India, China and South Africa) group and the G20 play pivotal roles.
A history of China and the great powers

The ambivalent history of China’s relationship with the outside world, involving both a conviction that it was the ‘central kingdom’ while vacillating between a contemptuous and an exotic view of the great outside was counterpointed by Jonathan D. Spence – who wrote that, in turn, the outside world held China in contempt or as huge exotica. Finding moments of balance on either side was hard (Spence 1998). This was especially true in those moments of self-regard where the Chinese view of outsiders was one that regarded them as barbarians (Cao 2001). However, as the Western imperial moment swept into China, with the Opium Wars and the forced concession of port territories, the Chinese sense of utter humiliation became a marked feature of how it would later address the outside world. This was marked in the war-torn traumas of the twentieth century (Mitter 2004).

Even so, it is not as if China attracted only humiliation. It also attracted solidarity. André Malraux’s great novel, Man’s Estate, depicts the efforts of a motley band of internationalists fighting (and dying) with the Chinese Communists in the 1927 Shanghai uprising (Malraux 1961). And, even in the depths of the Second World War, at a time when US sympathies for Chiang Kai Shek and the Kuomintang gained solidity, there was still real debate between key US advisory figures such as Patrick J. Hurley and John S. Service on the extent to which Mao’s forces should be helped (Mitter 2013: 355).

But, after the end of the war, the configurations of the Cold War took shape and one of its most marked aspects was the USA championing of the minority Kuomintang regime as the ‘official’ China in the United Nations and on the Security Council (Mitter 2004, Chapter 5). The Cold War immediately became ‘hot’ in Korea, with Chinese troops going face-to-face against US forces, and the sense in China of isolationism began to grow – greatly deepened when Beijing and Moscow quarrelled and even the Communist world split. The sentiment, however, that some form of alliance could nevertheless exist with the non-superpowers was one that intrigued the Chinese – some sort of ‘global coalition of the dispossessed’, to coin a term – and this sentiment was given flesh as an idea with principles in Zhou Enlai’s speech to the 1955 Bandung Conference, including the principle of non-intervention in the domestic affairs of others. It is not often acknowledged that Zhou also had to engage in much diplomatic footwork behind the scenes to allay the fears of many who wished to see a neutral world body but were distrustful of the Chinese (Ampiah 2007: 32–35). But, insofar as Bandung lay the foundations for what became the Non-Aligned Movement (NAM), the Chinese recognised a global constituency that it could lead, and which could provide China in turn with friends in the face of the hostility of the US and USSR. The Chinese Three World Theory was born out of this search for both leadership and friendship.

Just as Bandung hosted Zhou Enlai’s famous speech on equality and non-intervention, so it was that key Chinese policy initiatives were indebted to Zhou. Deng Xiaoping’s four great economic modernisations of 1978 drew from work initiated by Zhou in 1963. What became known as the Three World Theory was Zhou’s crafting of Mao’s extemporaneous interview of 1946 with a US journalist, Anna Louise Strong, into the Bandung speech and his work afterwards. That crafting and work reached maturity in February 1974 when Mao met and discussed the theory with visiting Zambian President Kenneth Kaunda (Chan 1992: 19). This was a neat diplomatic trick – to suggest that the theory had a conjoint African authorship, in this case with someone who was then known as one of the new ‘philosopher kings’ of Africa.¹ Deng Xiaoping announced it as official Chinese theory and policy on 9 April 1974.

¹ The term is John Hatch’s. Hatch was a New Statesman journalist who became a member of the House of Lords and, as a member of the Labour Party’s Fabian Group, championed people such as Kaunda and Tanzania’s Nyerere (see Hatch 1976).
The Three World Theory was precisely an effort in both intellectual and operational terms to provide China with a secure place in a world perceived as dominated by superpowers. Rather than viewing China as surrounded on two sides by the USA and USSR, it posed the superpowers as a single imperial pole of power – the first world. The second world was all those countries between the first and third worlds, that is, those not irremediably sucked into a superpower orbit – those who could be detached by diplomatic or economic means. The third world was China in alliance with the developing nations of Bandung and the NAM; together, they would be powerful enough to resist the identical appetite for domination of the USA and USSR, and seek also to win over the second world to the cause of the third (Yee 1983; Chan 1985).

The plan within the theory provided for an operationalisation that demanded both a courting of the second world but, above all, a leadership of the third. It assumed the third world would welcome a leadership to its resistance of the first; and it assumed, above all, that China could lead. That assumption was shattered in 1979, when China itself felt it had no choice but to invade Vietnam – a disastrous military excursion – but that invasion was hardly leadership of a country that was part of the third world, and the Vietnamese resisted not the first world on this occasion but China. The other event of 1979 was the surprise Soviet invasion of Afghanistan. No one had foreseen it. It came out of what came to be termed a ‘blue sky’. But China had neither foreseen it, nor been able afterwards to resist it. It led a third world country such as Afghanistan precisely nowhere in terms of security against a member of the superpower first world. After 1979, the theory faded away from official sight.

In any case, events in another direction were leading China to view one part of the superpower axis, the USA, as a putative ally of China against the USSR. The visit of Kissinger (then US national security adviser) in 1971, and the visit of both President Nixon and Kissinger to Beijing in 1972, have been hailed by Kissinger in his memoirs as the moments when he both recognised the wisdom of Zhou – but still claimed credit for a historic diplomatic breakthrough (Kissinger 1979). Needless to say, the views of Chinese authors suggest rather more credit was owed to Zhou (Shao 1996).² Even so, as the years passed, the rapprochement with the USA seemed to be working and strengthening. The USA ended direct military involvement in Vietnam in 1973, and Saigon fell in 1975 without any US effort to halt it. After 1979, it seemed better to work with the USA than against it, particularly if the USA was also against the USSR.

---
3 Virtue, Africa, independence and liberation

1975 was also a year in which the Cold War against the USSR reached a turning point in Africa – where, particularly in countries such as Angola, it had become decidedly hot. Fred Halliday called it a second Cold War, its savage combat qualitatively different from the North Atlantic feint and counter-feint that never led to open hostilities (Halliday 1989). The Chinese had been caught on the wrong side of this war, supporting alongside the USA the guerrilla group UNITA (União Nacional para a Independência Total de Angola), whereas the Soviets – with Cuban military muscle on the ground – had supported the eventually triumphant MPLA (Movimento Popular de Libertação de Angola), both to win control of the newly independent state and to repel a heavily armoured South African invasion. Withdrawing from the Angolan quagmire meant the Chinese had to reappraise their African policy. There was, by that stage, only the Zimbabwean project of liberation left to see through (before the much later outcomes of what might be called civil wars or wars of secession, as much as liberation wars, in the Horn of Africa, involving Ethiopia, Eritrea, Sudan and South Sudan). Zimbabwe attained independence in 1980, with Chinese military support of Robert Mugabe’s faction. But that was really an endgame to a Chinese policy which, by the mid-1970s, had two distinct elements, two overlapping phases.

The first of these was post-Bandung munificence in the name of solidarity. As sub-Saharan African states began gaining independence from 1957 onwards, especially from 1960 onwards, they attracted Chinese support. And the North African states received aid earlier. We must remember that 1956 was only seven years after China achieved its own ‘liberation’ as the People’s Republic of China (PRC), and this was followed by the immensely costly war in Korea. Yet, in that year, China made a US$4.7m grant to Egypt – a huge sum in those days. But the 1960s were characterised by much Chinese clumsiness towards Africa. Zhou Enlai made a diplomatically disastrous tour of Africa in 1965. He, or his people, completely misread the situation, particularly in East Africa, and went there speaking of revolution – in countries just itching for self-directed stability after the struggle for independence. Even so, with the advent of pragmatism – a slow lesson in the learning when it came to Africa – and the effort to secure a global support base, China spent some US$2bn in Africa from 1970 to 1977 – again, a huge sum at the time.

This was the period in which the Chinese hallmark in Africa, and later in much of the rest of the world, was writ large – with the construction of the 550-mile Somali border road, and the great Tazara railway between Zambia and Tanzania. The Chinese propaganda films of the time, especially of the Tazara rail construction, depict a romantic and heroic collaboration. Chinese and Zambian workers toiled side by side; many Chinese workers died. Zhou Enlai, in recruiting workers had told them that some would not come back; many of those who did not die did not go back anyway, deciding to settle in Zambia and Tanzania as those countries’ first significant Chinese diaspora. Like all pioneering diasporas, they would later look aghast at the behaviour of newcomers from their home countries.

The Tazara project was related to the liberation struggle, as landlocked Zambia, exile headquarters of three major liberation groups, was much harried by the white rebel regime of Rhodesia. Zambia made an easy target, with all its transport links to the sea having been built in colonial times heading southwards through white-rulled territories, including apartheid South Africa. Tazara was meant to bring the Zambians relief from this dependency by constructing a rail link to the Indian Ocean. But, by the time of its completion, and with the exception of the liberation of Zimbabwe from its Rhodesian minority government, China had begun fighting shy of the liberation project. The project of munificence continued for a time. It had brought dividends in that, for instance, at a time of diplomatic isolation by the West, at a time when China could not occupy its United Nations (UN) Security Council seat – in which
the Taiwanese instead sat – China achieved a base of diplomatic recognition in Africa. Sudan was the fourth African country to recognise China. Long-term gratitude for this was to cloud Chinese judgment of the Bashir regime in Khartoum for a long time, despite Bashir’s military pogroms in Darfur.

After the Kissinger visit to China, the first diplomatic fruits of a very young rapprochement was the allowance, finally, of China to assume its UN Security Council seat. It was now part of the P5, the permanent veto-wielding members of the Security Council. It would take time to adjust to its new role. Those countries it was helping were now a huge percentage of the UN General Assembly, so China still needed their support, while they in turn looked to China for new modes of support from the Security Council. It was not until the late 1980s and the entry into the 1990s that the third great phase of Chinese involvement in Africa began in earnest, and China’s experiments there were in many ways a trial run for those of more recent times elsewhere – just as membership of the P5 allowed the Chinese to contemplate how to have a major, if not dominating, voice in those institutions that made up the global architecture. First, however, the Chinese turn to a fully functioning capitalism (with state and Party controls and overall direction) needed a global marketplace and a long-term global strategy.

Even so, the Chinese turn to the developing world has often been misunderstood. That world has become very important to China, but of chief importance are China’s links to its own region, and to the North Atlantic European and US economies and markets. It is Chinese foreign direct investment (FDI) that has certainly increased markedly in Africa, but actual volumes of trade suggest that the countries that depend on China for their ongoing economic performance as opposed to FDI are elsewhere. From 1992 to 2010, South African trade with China rose from 1.8 per cent to 13.1 per cent of the South African total; Nigerian trade from 0.5 per cent to 6.9 per cent; Egyptian trade from 1.6 per cent to 9 per cent. These would be Africa’s three great players. In the same period, however, US trade with China rose from 3.5 per cent to 14.3 per cent, representing much greater overall figures from a much larger economy than anything in Africa; Brazilian trade rose from 0.9 per cent to 14 per cent. And in the East and South East Asian regions, in 2010, Malaysian trade with China was 16.3 per cent; Indian trade was 10.5 per cent; Japanese trade was 20.4 per cent; South Korean trade was 22.8 per cent; Taiwanese trade was 22.1 per cent and Australian trade was 20.6 per cent. In other large economies, Saudi trade with China was 12.8 per cent and Russian trade was 8.9 per cent in 2010 (Dyer, Pilling and Sender 2011).

In the five years since 2010, the volumes of African trade with China have risen. Some figures suggest that China is now overall Africa’s largest trading partner – but this is to say Africa’s largest single trading partner. The basket of Western countries still provides Africa with its largest trading partnership. I make the point here and again later in this report that there are questions of how quickly China–Africa trade can grow – there being very ambitious targets for such growth – in the light of African productivity of goods and materials to China, and African absorptive capacity of increased goods from China. Having said that, in the light of what may be at least described as ambitions greatly to expand China–Africa trade, all current figures must have a provisional basis as we look towards the next half decade.

The advent of the 2000s saw a much greater sense of assurance and self-confidence on the global stage from China. However, there was still a clear project of ensuring respect for the Chinese coming-of-age from those states that had achieved super or major power status at an earlier stage – and these were states that had either posed security threats to China in the past, such as Japan, or did so during the Cold War years, such as the USA and Russia. Insofar as Russia had a presence in East Asia, and insofar as the USA had a huge Pacific presence and still supported strategic East Asian states such as Taiwan – with huge naval fleets on the high seas and military bases in Okinawa – the Chinese view of the globe and its place in the globe hinged upon also being able to achieve indisputable security in East Asia.
and the Pacific. Rex Li writes most cogently of this effort. Not only was the discourse, and the entire discursive construction, of China as having a great power identity and a huge resource in sustaining and continuing to build a modern nationalism that had been brought into existence by a no longer attractive Communism – but it harked back to a period before the ‘humiliation’ of the nineteenth and early twentieth centuries, when there was a Sino-centric view of China as occupying a central role in the global hierarchical system (Li 2009: 34–35).

It is against this background that we now turn our attention to the build-up towards the 2016 G20 to be hosted in China.
4 Excluding architecture

The post-Second World War architecture included institutions for cooperation (e.g. the UN), for close-quarters collaboration (e.g. what became the European Union), for what was called ‘harmonisation’ (e.g. the Organisation for Economic Co-operation and Development (OECD)). This was apart from the financial institutions (e.g. the World Bank and International Monetary Fund (IMF)) that were formed for highly constrained but effective forms of economic regulation to accompany the facilitation of capital flows. Here, the circulation of capital became more important than its mere accumulation. As long as it was a circulation dominated by the West, all was well with the World Bank and the IMF. We shall return shortly to that. The practice of ‘harmonisation’ in the OECD was one where capitalist countries, by consultation and research, did not develop too far apart from one another, and each was able to remain fiscally in touch with the others at all times. In many ways it was the OECD that furnished the post-war triumph of global capitalism and prevented it from being a house that could have fallen apart.

Its political counterpart, comprising the most economically powerful countries, was the G7 – rather like a political Security Council of the OECD. The developing world, in the form of the NAM, established its own counterpart to the G7, the G77, which campaigned for a more egalitarian global economic order. The entire late 1970s and early 1980s quest for what was called a ‘New International Economic Order’, aided and abetted by high-level expert groups such as the Brandt Commission (Independent Commission for International Development Issues 1980), was a key agenda item of the G77. China, however, was not included in the World Bank, the IMF, the OECD or the G7 – and it was not even invited to join the G77, which was founded in 1964, until 1981. China might have wanted to lead the developing world, but was still to an extent distrusted by it.

The G77 was the developing world’s response to the exclusive nature of the G6, as it first was, founded in 1975. The G6 comprised France, Germany, Italy, Japan, the USA and the UK. It became the G7 with the addition of Canada in 1976. These were the world’s richest capitalist economies and were part of the Cold War architecture that seemed dated when the Cold War died down after the fall of Communism in 1989. Even so, it took until 1997 before Russia was added to the group and it became known as the G8 – although the G7 has met without Russia since its annexation of Crimea in 2014. This expressed the continuing use of the group as a political as opposed to a purely economic device. No invitation has ever been extended to China.

It was only in 1999, with the establishment of the G20, that China secured a seat at an expanded top table. The G20 included Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the UK, the USA and the European Union. Its establishment recognised that global capital and its artefacts – production and trade – were no longer at the command of only the great post-war powers. The G20 disposed of 85 per cent of the world’s gross product, 80 per cent of world trade, and contained two-thirds of the world’s population. But this means that, as late as 1999, the exclusionary practices of world politics had kept China from full membership of the global economic system’s summity. The UN’s Security Council was well and good, but China’s economic outreach needed the friends and partners it found within the G20.

China’s inclusion in the world’s financial and economic organs has been uniformly slow. The World Trade Organization was established in 1995, but China only gained membership in 2001. The World Bank Group was established in 1944, but China gained membership only in 1980. However, the real issue at stake with Chinese membership of the World Bank is voting
strength. It was only in 2010 that China’s vote rose from 2.77 per cent to 4.42 per cent – based on capital made available to the group. The strongest vote in the World Bank is that of the USA with 15.85 per cent. Japan’s is second with 6.84 per cent and this leaves China in third place, ahead of all European powers, Russia, India and Saudi Arabia. But the gap between 15.85 per cent and 4.42 per cent is a huge one, leaving the USA as still the dominant player in the World Bank, and reluctant to allow the Chinese any further increase in capital subscription and voting strength. The US Congress has also been reluctant to ratify the 2010 agreement on expansion of Chinese strength in the IMF. Even former Federal Reserve Chairman, Ben Bernanke, on 2 June 2015, blamed Congress for the Chinese banking initiatives discussed in the next section of this report (see Pilling and Noble 2015). There has been a very recent breakthrough on this matter, in December 2015, after many years of delay (see BBC 2015d).

But 2009 also saw agreement that the G20 would replace the G8 as the main economic summit of the world’s wealthiest nations. In a sense, the limit to Chinese strength in the World Bank only added to the determination of China to use the G20 as a springboard and a kind of unifying device for its own plans towards global economic strength.

It is in this light that we can see the rise of Chinese interest in the foundation of other banks, and of a sort of ‘Security Council’ within the G20 – one that this time, in a reversal of its own Cold War exclusion, excludes the Western powers. By that I mean that the BRICS consortium is well placed to assume a commanding role in the G20. All the policies and strategies involved will probably come together in a visible global vision at the 2016 G20 in the beautiful lake city of Hangzhou, China.

It will have taken eight years for China to be given a turn to host the G20. Since 2008, the annual event (although there were two G20 summits in both 2009 and 2010), has been hosted in Washington DC, London, Pittsburgh, Toronto, Seoul, Cannes, Los Cabos (Mexico), St Petersburg and Brisbane; and it was hosted in Antalya (Turkey) in 2015.
5 Of banks, roads, belts and great corridors

There is an emerging alternative, perhaps rival, global architecture. This will reprise and expand greatly all that China has practised for many years, and that is transport corridors of rail and road, but now also lined with infrastructure for community benefit. It will involve new multilateral banks in key regions, but they will be banks in which voting is based not on strength of capital subscription, but purely on a one-member-one-vote basis, without any Chinese veto – even if China is the main financier. It will see an overarching role for the new BRICS Bank, and it is this that is likely to make its first major programme of loans at or near the time of the G20. It will also see, in addition to transport corridors across land, maritime corridors and, here, there will probably be a role for a refurbished Chinese navy. With this, the global economic geography would also assume a geopolitics that will see the return, minus Russia at this stage, of global superpower rivalry – albeit couched in the friendliest of language and the most careful of diplomacy.

The first key area of direct rivalry is in the Asia-Pacific, with the USA launching the Trans-Pacific Partnership (TPP) – albeit with some domestic misgivings in member countries about job security in a liberalised trade zone. China is not included in the TPP, but has secured agreement in 2014 from regional countries for an Asia-Pacific Free Trade Area – an ambitious and upscaled outgrowth of earlier Doha Round talks. This will require some years of planning and strategic preparation – but the immediate challenge to the TPP will be the new Asian Infrastructure Investment Bank (AIIB), which, although not concerned directly with trade, will hugely influence capital flows in the region. Figures vary, but it is to be capitalised at least at US$50bn, with China providing half if not more of this figure. Australia, with US prompting, at first said it would not join the AIIB, but then changed its mind. A non-Asia-Pacific power, the UK, also wishes to be associated with the new bank. Western powers perceive the effect the AIIB will have in economic development and fiscal flows in the region. We shall dwell upon the implications of the name of the bank – especially what is meant by ‘infrastructure’ – below. For now, if the AIIB is a challenger to US plans in the region, then China is also launching a challenge to Russian interests in the area of the Silk Road.

This is where the intriguing vocabulary of ‘One Belt, One Road’ arises – for the land route will also be an infrastructural corridor, with communications and energy systems and facilities as part of a provision that will go far beyond transport. The road will be paralleled by a maritime ‘Silk Road’ route, so that China’s links with the countries to its west and south-west will be comprehensive ones that will also considerably develop those countries themselves. This ‘One Belt, One Road’ project is being capitalised at some US$50bn, about half if not more coming from China.

An extension of the Silk Road project will be the 3,000km southern route through Pakistan. It will link China to the Indian Ocean by a direct transport artery. It will also have an electronic communications and energy infrastructure and, more importantly to Pakistan, it will open up for the first time the capacity of Pakistani governmentality of its problematic northern territories. At a stroke, these territories, home to Taliban and other bandit societies, will be made accessible, and the populations of those territories will be able to enjoy developmental benefits and thereby be weaned from the outlaw organisation of their lives. This is expected to involve some US$46bn of Chinese investment and, of course, has raised great interest in India, Pakistan’s rival regional power, with Prime Minister Modi himself now interested in a new relationship with China (Gracie 2015).

Everywhere one looks, the Chinese are making plans and achieving agreements with powerful and strategic partners. US$50bn is proposed for new infrastructure, transport and steel projects in Brazil (BBC 2015a). There is talk of a trans-Amazon transport link across
Brazil and Peru, to be built by the Chinese (BBC 2015b). And, of course, there is Africa – where much talk and speculation is concentrated on the size and nature of Chinese investment. Some of this suggests Chinese investment of as much as US$100bn by as early as 2020. By the same year, according to the Chinese premier, Africa-China trade will double (Zhuang 2014). This is a rather huge projection, and it remains to be seen how it will be done. If there is not greater African productivity of goods or materials sought by China, then will it be in goods from China to Africa? In which case, where is the African absorptive capacity? Chinese ambitions towards Africa may not yet be fully blueprint, but the signals are certainly being given that huge investments are being contemplated. Much of this, as in the Silk Road, Pakistan and Brazil, will be infrastructural. The final completion of a Cape-to-Cairo transport link, first proposed at the dawn of colonialism by Cecil Rhodes, may ironically be due to China – itself being imperialised by the West at the same time Africa was. Transport is of course a hallmark of Chinese involvement in Africa. The Tazara Railway, linking Zambia to the sea via Tanzania, at the time of white stranglehold on transport routes south through Rhodesia, controlled by white rebels, and South Africa, controlled by apartheid, remains the template for all visions of what the Chinese can do for the continent. The more recent huge plans to build a transport corridor across southern Democratic Republic of Congo, with infrastructural provision, and which aroused huge antipathy from the West, is an updated version of the same template (Chan 2013: 31–33). That too, as in Pakistan, would have increased governability and enhanced development in a volatile and troubled region. But, if 2020 is a target year, then the G20 in 2016 represents a latest-possible moment for the specifications of what investments will entail.
The vast Chinese expansionism is not simply investment and capture of strategic routes and destinations for economic reasons. A maritime ‘Silk Road’ route will demand a naval presence in the Indian Ocean – where there is both a problem with piracy, but also a prospective competition with other naval powers. China has declared its future naval policy will be a ‘high seas’ one, not just a land-and-islands protective one (BBC 2015c). There is a geopolitical challenge lurking within the Chinese G20 agenda. It is this implied flexing of muscle that reaches from the economic to the geopolitical that raises eyebrows among Western policymakers.

Certainly the original Bandung speech by Zhou and the Three World Theory were geopolitical in their intent. They were a safeguarding of China from the imperial strength of the USA and the Soviet Union, and an outreach of Chinese policy that would challenge that imperial strength. The point of principle was that it would not, in turn, become imperial. To many, that would now seem a contentious principle in its emerging application. But what we see is a development from a Three World Theory to membership of the G20, and the institution of a vast apparatus that, if it is not to challenge, for example, the IMF and World Bank as institutions of the West, can act as an alternative to them. It can also act as a supplement and complement to them – and this makes the 2016 G20 fascinating in terms of which of these two directions might be signalled. However, just as the Three World Theory saw both the USA and the Soviet Union as powers to be challenged or contained, the development of an AIIB in the Pacific, a region of longstanding US interests, and a ‘Silk Road’ within the ‘soft underbelly’ region near Russia and its interests, seem fascinating reprises of an older strategy.

The possible use of the BRICS group as an inner cabinet, a star chamber, a ‘Security Council’ of the G20 – even with the inclusion of Russia, but with majority resources from China – speaks to another earlier moment when China had no place within the UN as a whole, let alone its Security Council. Altogether, these things speak of a future policy that is simultaneously a corrective of historical exclusions – a corrective to an extension of the century of humiliations from the Opium Wars and which had not fully ended with the revolution.
7 Scenario for a global political economy: B

An alternative view, more benign to Russia and the West, and more fully positive to the recipients of Chinese outreach, would be to see the future as less geopolitical, more economically based, of course, but also more to do with a challenge to orthodoxies and ideas. It becomes an intellectual challenge, not an ideological one, as both China and the West will work within the same capitalist system and its economic values, but an intellectual one in terms of embracing a wider world and what will emerge from the development of this wider world. China of course might influence development but cannot control all that emerges from development. One of the things development assistance facilitates is agency.

This becomes not a dyadic construct, for example, the Washington Consensus versus the Shanghai Consensus, but a proposal for international relations that is idealistic. In the literal sense of roads, communications and infrastructure, it knits the world together. But it knits peoples together in a way that promotes interaction. A huge objective of the Pakistani government, as it contemplates the possible effects of the Chinese road through its territory, is to integrate its northern population into the mainstream of Pakistani society, public administration, educational regularity (i.e. removing dependency on madrassas or privately run, largely religiously based schools and colleges) and political expectation. Of course it also reduces, if not in the end removes, challenges to government authority – but the interactivity involved will mean a greater pluralism within regular Pakistani society and politics.

One of the implications of John Burton’s post-war writings on a global ‘cobweb society’ was precisely the idea of interactivity – although Burton would never have foreseen electronic interactivity – and he had a vision that this interactivity would become so widespread and intense that governments could simply not control all of it (Brown 2001). Burton, before he became a scholar, was the Australian ambassador who, at the San Francisco conference to establish the United Nations, argued for a less powerful Security Council and stronger General Assembly. He did not deny the persistence of hegemonic centres, but he wanted them to exist under perpetual challenges.

The Chinese of course do not want such challenges, but the hegemonic centre amidst a huge uplift of plurality and equality within that plurality will mean a greater range of political and diplomatic allies, trading partners and outsourcing centres. There is a sentimentality, if not idealism, in all of this. The Nobel prize-winner Pearl Buck was perhaps right to name her 1933 translation of Shih Nai An’s thirteenth-century novel All Men Are Brothers, for that is the theme of what was Mao’s favourite novel, originally entitled The Water Margin. It was the account of 108 outlaw heroes drawn from high and low stations in life who fought a righteous rebellion against the emperor and were brothers despite earthly station (Buck 1948). At the end of the novel, it is revealed that each had been born under a star – so heavenly station, or destiny, had determined their equality so that they could resist injustice.
8 Scenario for a global political economy: C

None of the possible idealism or sentimentality disguises the fact that China has and is setting about to construct huge infrastructural provision in three continents and to establish itself in the Indian Ocean, possibly in the Pacific Ocean, but certainly with huge investment in Asia-Pacific. The early post-Bandung years of transport construction, the epitome of the Tazara Railway, and all else that has followed or is now trailed for the future bespeaks a more joined-up world on Chinese tarmac and rail, with communications on Chinese cables or satellites. In this sense, China has never changed since its post-Bandung agenda and strategy of transport routes. What has been added is the commitment to modern infrastructure.

But having said that, wired-up and linked regions are not in themselves a joined-up world. The regions, with their regional investment banks or institutions will need a coordination, an epicentre, and it is here that the future of the BRICS Bank becomes of importance. Its relationship to the other regional banks and funds is not an agenda item for any negotiations at the time of writing, and may not be by the time of the G20, but given, in round numbers, the Chinese investment of up to US$50bn at a time, region by region, it would be untoward if the Chinese did not have some plans for how all this worked as a whole.

Under this expectation, we look at a future world of vastly improved communications, administration and transport links on the one hand – all laid down under a common Chinese model of development, and largely built by Chinese engineers (thus laying down an international Chinese presence) – and, on the other hand, the possibility of a global Chinese-led, if not Chinese-determined global financing series of mechanisms under an umbrella mechanism. The roads and railways are not everything.
Scenario for a global political economy: D

None of this is to suggest ‘world domination’ by the Chinese. It is certainly to suggest some distinct hegemonic capacities in various parts of the world and a significant presence, seeking at least equality with the Bretton Woods institutions, in the world overall. But, ‘Silk Roads’ with their ‘One Belt, One Road’ catchphrases, Pakistani transport and infrastructure corridors, African Cape-to-Cairo ambitions, Brazilian and Peruvian trans-Amazon scenarios, the AIIB, a naval presence in the Indian Ocean, even the BRICS Bank, do not by themselves add up to world domination. They contribute towards greater equality in a world hitherto dominated by others. But Chinese outreach, despite the planned packages of US$50bn capitalisation or investment here and there, does not match China’s record – and China’s need – in investing in the West. A BBC business report, summarising a Heritage Foundation study, is very revealing and is worth restating (Anderson 2015).

China has been constantly investing in the world outside its borders, reaching a peak of about US$140bn in 2013, and totalling US$870.4bn from 2005 to 2014. Although it has invested in Africa – US$21bn in Nigeria, US$15bn in both Ethiopia and Algeria, and US$10bn in both Angola and South Africa – these sums are more than matched by investments elsewhere, e.g. US$24bn in the UK and US$11bn in France.

However, the top investment destinations from 2005 to 2014 have been the US (US$72bn), Australia (US$61bn), Canada (US$39bn), and only after these have developing countries featured, with US$31bn invested in both Brazil and Indonesia. Of all these investments, some US$400bn has been in energy; transport investment comes second at US$135bn and then metals at US$125bn.

Insofar as some of these investments have to be in corporations active in energy and transport sectors, the roll call is predominantly Western corporations, for example, Rio Tinto, Glencore and BP, and in banking groups who themselves invest in such sectors – Standard Bank and Morgan Stanley. Other corporations high on the investment list include IBM, Anglo American, Barclays, Diageo, Volvo, General Motors, Thames Water, House of Fraser and, amazingly, US$1.94bn in Weetabix.

China cannot achieve a global political economy on its own, and certainly not on its own terms, but it can certainly have both positive financial returns and leverage in the Western economies via its investment policies.

This is all to China’s advantage. Together with US$4tn in foreign reserves, the Chinese packages of US$50bn for each of its banks or funds is significant but not fully indicative of its investment capacities and possible plans. This US$4tn is largely invested in various sovereign wealth funds – meaning China already, just by the location of its reserves, not to mention the other investments listed above, has leverage over the futures of many countries.

Much of the investment in the Heritage Foundation figures above and much of the Chinese foreign reserves lie within emerging economies and developing countries – but the size of commitment to the USA is the critical factor here. Here, despite the immensity of the figures involved, even all the Chinese resources put together would not ‘buy’ the USA or lever the USA off its high place in the global economy. Even if the Chinese economy grows larger than that of the USA, that will not of itself mean that Chinese economic influence will at the same time automatically surpass the economic influence of the USA. In addition to macro figures, their strategic use will have to constitute a second phase of Chinese global outreach.
10 Scenario for a global political economy: E

This report has thus far suggested some crystal ball outlooks for a world to be announced or made apparent at the 2016 G20 in China. It has sought to give a historical continuity to it all and, within that, to suggest that Chinese ‘radicalism’ is in fact a conservative, if imaginative and seemingly bold, reimagining of much older Chinese approaches to the world. But, however much China might want to use the G20 as a platform for its new world economic ‘package’, it will still be a meeting of the G20 in which many of the members, and a great number of friends of the members, have fundamental developmental problems. The 2015 G20 at Antalya cannot yet be analysed in terms of its response to what was agreed at the G20 in Brisbane – but, presuming the world of development has not fundamentally moved on from Brisbane, what must China do to answer the challenge of development laid down by the G20 itself in 2014?3

To be fair, G20 communiqués have been long on rhetoric and short on substance. They seek to be different from G8 or G7 communiqués, without the grandiosity of great wealth behind each and every one of the signatories. G20 members have growing wealth, but there is a huge gap between the USA and China on the one hand, and South Africa on the other. The aspiration towards greater equality, i.e. towards a smaller gap, was summed up in the 2009 London communiqué: ‘We start from the belief that prosperity is indivisible’. But this means a mission well beyond the G20 towards the poorest and particularly least economically resilient nations – that is, not just towards those who are poor but those who cannot become rich because international conditions as well as internal factors buffet them. Insofar as international systemic issues can be mitigated, the G20 has an interest in systemic issues. Seoul, before Brisbane, talked of ‘growth with resilience’, and by this was meant, among other things, food security, financial inclusion and infrastructure. Brisbane emphasised financial inclusion and infrastructure, as well as domestic resource mobilisation. What the last area really means, and how the international community can make it happen, has never fully been made clear (it is meant to include tax base strength, but even Greece cannot mobilise a dependably strong tax base) – but I have argued that the G20 in China is likely to centre on financial inclusion and infrastructure. All the belts, roads and investment banks clearly indicate a Chinese contribution towards infrastructure; but financial inclusion risks being submerged in an extraordinary financial provision. All the Chinese direct investment and capitalisation schemes can hardly render recipient countries as full partners. It might be said they are, but the sheer scale of Chinese announcements is monumental and overshadowing.

In a very real sense, the Chinese have no choice. The wider a development agenda, the less can be done to grand scale. There is no end of such agendas that are no more than pious shopping lists. But to take the macro approach the Chinese seem to intend, and to build it around great financial institutions, is to reassert a growth and trickle-down model; it is to reassert Walt Rostow in Chinese dress. The difference this time is that there will be less difficulty in controlling and coordinating institutions – as all will have a Chinese provenance. The principles behind how this control and coordination will be exerted – or whether, more subtly, it will come via OECD-style ‘harmonisation’ of policies and actions will be the stuff to watch at the G20 in 2016.

3 I am thankful to an unpublished paper by Robin Davies on this issue, although my interpretation of Brisbane and its consequences is somewhat different to that of Davies.
11 Scenario for a global political economy: F

The Millennium Development Goals were always that mixture of seemingly responsible and desirable ambitions, and a strict glass ceiling. The ceiling was apparent in the sense of raising people out of poverty but with no mention of making them competitive with their benefactors. They were a perfect *noblesse oblige*. In a very real sense, they reprised in more sophisticated dress the basic needs doctrine of the 1970s, when clean water, shelter, and appropriate technology became mantras that would restore, for example, an Africa arcadia with happy peasants behind happy oxen, both drinking happily clean water. There was no mention of industrialisation, not to mention competitive industrialisation, never mind industrialisation that eclipsed or threatened that of the West. The route to development was subordinate to the lifestyles reserved for the West and achieved by non-threatened industrialisation.

The search for a New International Economic Order in the late 1970s and early 1980s at least sought to reframe the international systems of finance and trade and implicitly the world of manufactures and the entry points and conditions for manufactures from the developing world.

The July 2015 UN agreement, after negotiations in Addis Ababa, adjusted the vocabulary and announced Sustainable Development Goals – the sustainability being concentrated into environmental concerns – and spoke of economic opportunity, as well as greater capacity on the part of developing countries to seek reform of international taxation (2015e). Here, therefore, was concern over control of financial institutions, instruments and taxation regimes. In this, there was a clear sign that future agendas would be aimed at permeation of the glass ceiling.

The idea of reducing the tax advantages of many international corporations is a controversial one – one that many international civic action groups have taken up. Since the majority of these corporations are Western ones, Chinese siding with this initiative is also a Chinese sense that a reduced Western capacity to set the rules on taxation and related matters is also an increased space for Chinese business endeavours.
12 Scenario for a global political economy: G

The interesting thing about the July 2015 BRICS summit in Ufa, Russia, was its emphasis on a macro approach to development. The BRICS New Development Bank, with emphasis on the word ‘New’ to differentiate it from the post-war Bretton Woods institutions aims, in the words of a South African report, to ‘make tangible changes to the global order rather than merely serving as a symbolic co-operation club’ (see Davis 2015).

The Ufa summit went beyond economic matters. It pondered the reforms required to the UN Security Council. The irony is that two G20 and BRICS members, China and Russia, would not wish to sacrifice their veto powers in the Security Council – which is what, together with enlargement, reform would mean. The BRICS grouping itself can, however, act not only as an alternative to the World Bank and IMF but to the Security Council – in the sense that it can become a ‘Security Council of Global Economics’, and thereby of significant global political economy. Not an alternative Security Council of high politics however.

The actual Ufa Declaration had 77 paragraphs. Many of these fell into the trap of waxing comprehensively about far too much. Insofar as they are there, they indicate a commitment to have a say on global political as well as economic matters. Ukraine, Syria, Iraq, Gaza, terrorism and other political and militarised matters are mentioned. Insofar as both Russia and China have invested themselves in highly specific stances over many of these issues, for example, Russia over Ukraine, the paragraphs are not only comprehensive but general – calling for negotiated and diplomatic ways through, but without any diplomatic method that might intrude upon the high politics at stake.

However, there were two paragraphs of note to the argument of this paper. Paragraph 19 was ‘deeply disappointed’ at the lack of progress in the USA to ratify the 2010 IMF reform package (which would have increased Chinese voting power); and paragraph 18 spoke of G20 ‘macroeconomic policy coordination’. Here we have, not quite an instruction, but certainly an approval of conversation already begun in the G20. It is however a mandate for it to continue and develop. The term ‘coordination’ becomes important here – and it is important in its own right, but also in specific arenas such as international taxation reform.
13 Scenario for a global political economy: H

The BRICS group understands it cannot intrude upon high politics successfully without forms of interaction with the first world. This is why the G20 becomes important. The US and Europe are in the G20, but they are not part of the BRICS. In a curious way, they are part of a ‘General Assembly’ without it actually being said. There is a sort of ‘first world’ in its old variant, and a new third world, with the G20 including both, as well as the middle countries of the old second world – these second world countries needing to be won over in the language of the early Chinese Three World Theory.

What I have tried to sketch in this report are a number of key points that, clearly, have a crystal ball element to them. I acknowledge the dangers in such an exercise. Come the actual moment of the G20 I am happy to be embarrassed. However, I have suggested a pattern that is:

a. Historical: it comes from an early Chinese view of the world when the Chinese sense of both its modern self and its place in the modern world was insecure and defensive.
b. Theoretical: in the loose sense of the word, but Chinese ‘theory’ has always sought an immediate relationship with the empirical world. It is a theory of alliances, outflanking strategies, and leadership.
c. Macro: in the sense that there is very little here that is to do with the minutiae of development planning and international finance.
d. Institutional: in that the building of international institutions, and their endowment by massive capital sums, can change the international financial architecture. This has much consequence for development but also much consequence for the hegemonic stakes in the global political economy.

That global political economy will be brought under a Chinese and BRICS hegemony by means of regional banks and funds and infrastructural corridors that cut across key geographical regions – and, in this, have also a key geopolitical impact.

Insofar as international geopolitics are at least inflected by these developments, the battle for command of the global political economy will also be one for command of the world’s strategic space.

None of this can happen immediately. There is a long-term strategy, a long-term outline plan here. The West, particularly the USA, will remain huge players globally. But, 50 years from now, China and India, two of the BRICS players, will sandwich the USA as the first and third largest economies in the world, and China will have purchased such leverage over the second largest economy.

What I am suggesting is that all the activity being almost drip-fed to us on a regular basis – if US$50bn at a time can be called drip-feeding – activity such as the AIIB and the One Belt, One Road Silk Road initiatives, is building towards a picture that will achieve full clarity by the time of the G20 summit. It will be a dazzling Chinese event. It will be an announcement of intent and sizeable accomplishment already in place towards fulfilling that intent.

Along the way, it will feed and clothe a lot of people. China will say it has set about its global economy with moral purpose. And in a way this will be true. The doing of good for oneself will do good for the world. Zhou Enlai, if his spirit still hovers, would smile at the roundedness of it all, with the Three World Theory he helped Mao propound coming full circle – with its defensive strength and outreach from that strength, and the progressive isolation and siege.
works around its nearest competitors, in this case the USA. Perhaps the last words should be from T’ao Ch’ien:

    Away in the distance, strange and not of this world  
    Fragrant chrysanthemums brightly unfold in the forest.  
    As I raise my goblet, I think of those hermits of old,  
    A thousand years later, their principles still endure.  
(Frodsham 1967: 117)
References


Buck, P.S. (1948) All Men Are Brothers, New York: Limited Editions Club


—— (1985) ‘China’s Foreign Policy and Africa: The Rise and Fall of China’s Three World’s Theory’, The Round Table: The Commonwealth Journal of International Affairs 74.296: 376–84


