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One belt, one road, multiple rules-based orders

Matthew Sussex and Michael Clarke

Key points

- > The Belt and Road Initiative (BRI) is both a blueprint for a China-centric order in the Indo-Pacific and a means to address internal economic and political challenges.
- > China is not yet capable of leading that order, but its desire to do so is increasing.
- > Prospects for the long-term success of BRI are uncertain, but it will shift regional economic and strategic relationships.
- > Policy flexibility is vital for Australia to successfully navigate the regional changes caused by China's gamble on BRI.

Policy recommendations

- > Australia should aim to take an important leadership role within the Indo-Pacific in any new regional order.
- > Australia should seek to build coalitions of like-minded states around specific issues of mutual interest rather than construct new institutions or organisations.
- > Australian policy must be flexible, and prepared, if necessary, to decouple its values from its interests to take advantage of the opportunities that will present.

Belt and Road: high stakes for China

China's BRI is a grand, and risky, geo-economic and geo-strategic play. If successful, it will set up China as the dominant power in the Indo-Pacific with a strong, prosperous Chinese state. Failure will undermine its global reputation and power, with significant internal disruptions.

The achievement of the 'China Dream' requires economic growth and political stability to increase simultaneously alongside Chinese power and projection of its influence abroad. Hence the success of BRI is crucial to the fortunes of China's political elite.

Overplaying the extent of China's reach will encourage balancing behaviour and fan regional rivalries. Underachieving will cause both financial and reputational costs, raising questions about China's capacity to follow through.

There are many tensions within the design of BRI that, if not very carefully balanced, will lead to unfulfilled ambitions. Economic goals, such as strong jobs and economic growth for Chinese, are not always compatible with ideas of "cooperation and win-win relations". Chinese pursuit of geopolitical power can undermine the global system that Chinese economic growth has been built on.

As demonstrated at the 19th Congress of the Chinese Communist Party (CCP) - where the Party's constitution was amended to pledge it to the pursuit of BRI – it is now not only President Xi's signature foreign policy initiative but the Party's as a whole. Therefore BRI will now likely frame China's foreign policy beyond the end of President Xi's next five-year term.

Pursuing a 'win-win-win' for China

BRI is founded on the convergence of clear Chinese geopolitical, economic and ideational goals. Geopolitically, it is an attempt to respond to the opportunities and challenges presented by the United States' "rebalance" to the Indo-Pacific.

Economically, it seeks to paper over significant structural challenges undermining the CCP's legitimacy in general, and Xi Jinping's leadership in particular. These include regional imbalances within China as well as ethnic, demographic and environmental strains.

Ideationally, Beijing's rhetoric that BRI is based on principles of "development, cooperation and win-win relations" constitutes a strategy of assurance to the region that its rise will be beneficial to regional and global security.

Domestically, BRI also falls within the ambit of President Xi's ideological "master narrative" about the "China Dream" of "great national rejuvenation". Here, BRI is conceived of as both an expression of, and instrument for, achieving China's "return" to the centre of the global stage.

China is investing huge resources into BRI. The official "blueprint" released in March 2015 by the National Reform and Development Commission identified six core "economic corridors" linking the "Silk Road Economic Belt" (SREB) and the "Maritime Silk Road" (MSR), while supporting multilateral financial institutions: the Asian Infrastructure and Investment Bank (AIIB) and Silk Road Fund (SRF). Beijing earmarked considerable financial resources to fund these, including separate commitments of: \$40 billion for the SREB, \$25 billion for the MSR, \$50 billion for the AIIB and \$40 billion for the SRF.

The weight of effort and investment in BRI will change regional economic and strategic dynamics. However, delivering on all of its objectives, within a region where many countries have a long historical distrust of China, will be very difficult.

Short term cooperation ...

China has benefited significantly from the US-led global security and economic system. But it is currently not strong enough to supplant the West as the dominant global power centre.

Moreover, Beijing's capability to engender followers remains hamstrung by uncertainty over its long-term intentions. This was clearly demonstrated by the patchy regional response to the creation of BRI-centric multilateral financial institutions such as AIIB.

To deliver BRI, China needs buy-in from most countries in the region. It therefore needs to assuage concerns about its intentions. This means it is in China's interests to continue to cooperate somewhat with the existing order.

... but long term competition

While the BRI will be presented by China as a positive-sum initiative, it envisages zero-sum strategic outcomes. It is at once compatible with the rules-based order – by offering economic incentives for cooperation – and incompatible by long-term design. It is multilateral in aspirational form, but bilateral in function and content.

For example, the modernisation of the People's Liberation Army and its navy has been partly directed at supporting Chinese commercial interests and protecting Chinese access to the sea lines of communication vital to its continued economic growth. But its new power projection capabilities are also intended to eventually supplant US dominance in the maritime littoral of the Indo-Pacific. China's investment in ports such as Chittagong, Gwadar and most recently Djibouti, are central to this dual economic and strategic agenda.

Preparing for post-primacy America

How the US responds to BRI will inevitably affect its prospects. The US will remain the

primary military power in the Indo-Pacific, albeit in relative decline. It will be particularly strong in the maritime space, but China will increasingly contest it in continental Asia.

The US will also remain the world's main financial centre, and the US dollar will retain its status as the premier global currency. Yet the BRI will erode US influence, since Chinese FDI is tied to expectations of political leverage.

Serious questions about the US commitment to order in Asia are increasing. These questions had earlier been present – but were more muted – over how far the US was prepared to pivot to Asia under the Obama administration.

Under the Trump administration to date, US policy has been both seemingly more transactional, and less coherent. Not only this is problematic in the short term, but US regional leadership will remain a live issue for the foreseeable future. The US elite continues to debate whether primacy is even desirable.

Australia is well placed

In many respects Australia occupies an enviable position in the evolving Indo-Pacific order. We have had the luxury of choosing with whom to engage, and on what terms. Our primary security partner will remain the regional military-security leader for the foreseeable future. And our premier trading partner is an engine of global and regional economic growth.

While the BRI may or may not succeed on Beijing's terms, it will unsettle the regional order. We are in a strong position to navigate these changes successfully, but we must be able to respond quickly to changing circumstances.

Defending our interests

It is inadvisable for Australia to deviate from the US alliance as the bedrock of our strategic engagement within the region. However, Australia will need to adapt to new realities, challenges and opportunities. It cannot be complacent about its strategic geography, the permanency of its friendships, or its resources.

Nor can we assume that the order we have benefited from is immutable. We must acknowledge that the institutions constructed

for it may not be transferrable to the new Indo-Pacific, made up of not one rules-based order, but several overlapping ones. BRI is shaping up as an economic, strategic and legal-normative alternative in this respect.

This means Australia may need to separate, where possible, its values from its interests. Continually emphasising a declining rules-based status quo not only ignores changing economic and security realities in the Indo-Pacific, but also shoehorns Australian diplomacy into one camp. Beyond rhetorical convenience, doing so limits our ability to respond to fast-changing regional dynamics.

Since the precise nature of Chinese expectations about Australian contributions to BRI remain unclear, we need more detailed and publicly available analysis of Chinese intentions. Without this it will be difficult to consider any first step in cooperation, such as an MOU, that is closely calibrated with Australian interests. Hence Australia should consider a non-partisan working group to consider BRI's implications, drawn from the policy, academic and business communities.

Exercising leadership and influence

An adroit Australian response to changing regional power dynamics will focus on those institutions, alliances and fora that best serve our interests at any given time. Regional initiatives that portray Australia as objective, independent and committed to Asia warrant priority attention.

This should go beyond Australia's 'comfort zone' of leveraging its position in the East Asian Summit, G20 and APEC, and embrace like-minded coalitions that may not be based on deep institutional cooperation, or drawn from traditional friends and partners. A good start has been Australia's open-minded approach to the Regional Comprehensive Economic Partnership (RCEP), which China sees as part of the architecture of BRI in Southeast Asia.

We should likewise accept that the Indo-Pacific lacks the conditions to create the institutional architecture present in the transatlantic West, and that regional

multilateral frameworks will rarely resolve difficult problems, especially concerning sovereignty claims. While BRI may be a challenge to the existing order, it will also offer opportunities for Australia to shape Chinese preferences and expectations.

For instance, a sustained Australian effort to invigorate RCEP as well as TPP 11 will allow us to capitalise on having a footprint in many camps, and build Australia's reputation as a pragmatic and engaged player. This is even more so if Australia is seen by others to compromise in order to establish its bona fides.

The door should remain open to Chinese participation in the existing regional security. Australia's participation in joint naval exercises, involving humanitarian and disaster relief and live fire with the PLA Navy, stand as a sensible basis for building confidence.

Australia's positive regional role

Australia's strategic posture is too often characterised as a binary choice. Instead Australia should seize the opportunity to help others adapt to change, and to reduce uncertainty. It is uniquely placed to do so utilising its capacity to build like-mindedness with other countries in the region.

Australia is also well placed to build on existing security ties, reinforcing a more network-centric approach. However, if it is content to see itself as an advocate for one specific set of rules in regional order, it is likely to find its ability to influence others constrained to a shrinking circle of adherents.

Reliance on a posture based on a vision of regional order as we would like it to be, instead of acknowledging that change is already underway, risks missing opportunities BRI may present for ongoing Australian prosperity.

This hits on the central dilemma that BRI presents for Australia: China's initiative is not simply about maintaining and expanding economic growth and cooperation across the Indo-Pacific, but also reshaping its institutional and geopolitical order in ways that may be inimical to Australian national security.

To maintain its influence and standing, Australia may need to modify its commitment to the existing liberal, rules-based order. Sticking with the existing order is easier. But choosing not to invest in the construction of alternative orders, and shape them at an early stage, is unimaginative and potentially hazardous to our interests. While we have shown some signs of beginning this process, more can be done.

About this publication

This series of National Security College Policy Options Papers offers short, evidence-based and forward-looking insights for policy-makers on topical security, foreign affairs and geostrategic issues facing Australia domestically, in the Indo-Pacific region and globally. We seek contributions from and collaborations with qualified researchers and experts in these fields.

T +61 2 6125 1219
E national.security.college@anu.edu.au
W nsc.anu.edu.au

 @NSC_ANU

 National Security College

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About the authors

Associate Professor Matthew Sussex is the Academic Director of the ANU National Security College.



Dr Michael Clarke is Associate Professor at the National Security College, ANU and Director of the ANU-Indiana University Pan-Asia Institute.

