

China Chartbook

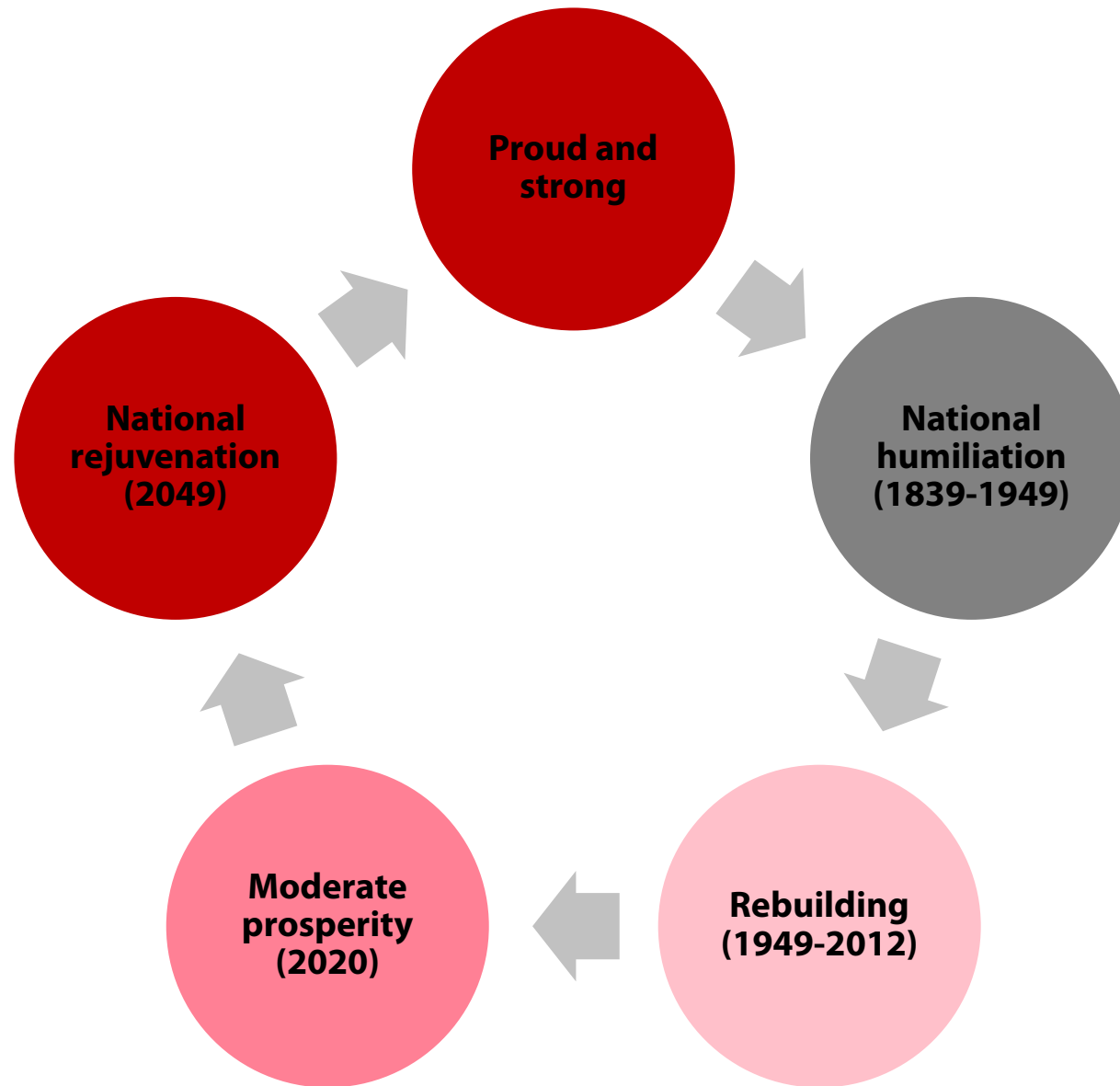
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# A Dream Of Asian Empire

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December 2014

# Xi Jinping's "Chinese Dream"



China's view of history is cyclical, based on a narrative of humiliation and rejuvenation (*fuxing*). The "Chinese dream," Xi Jinping declared in 2012, is "the great rejuvenation of the Chinese nation."

It has two goals:

- Build a "moderately well-off society" by 2020.
- Build a strong and prosperous nation by 2049, the PRC's centenary.

By mid-century, China aims to regain its position as the dominant power in Asia and be the US's equal in global affairs.

# Great power diplomacy

- After years of passive diplomacy, China wants to play a substantive role on the global stage. Under the banner of the “Chinese dream,” Xi Jinping has abandoned Deng Xiaoping’s dictum to “hide our capabilities and lie low” (*taoguang yanghui*). Instead, China will pursue a “proactive” foreign policy (*fenfa youwei*) and seek a “new type of great power relationship” with the US.
- In the context of foreign policy, the “Chinese dream” is code for restoring China’s historical dominance in Asia. At a work conference on “neighborhood diplomacy” in 2013, Xi said he would seek to improve diplomatic relations with China’s neighbors in pursuit of a single “strategic goal”: achieving “the great rejuvenation of the Chinese people.”
- China is serious about winning friends and helping its neighbors to benefit from its rise; its “win-win” diplomacy emphasizes mutual prosperity and common destiny. This marks a departure from the past, when Beijing did not try to cultivate close diplomatic relations (except with North Korea and Myanmar). It is also ready to make enemies of countries which do not cooperate.
- China’s interests come first: it wants to generate new trade networks, open up transit routes for its exports, and develop its poor border regions. And by financing roads, railways, ports and power lines in underdeveloped parts of Asia, China aims to draw its neighbors ever tighter into its economic embrace.

# Diplomatic sticks and carrots

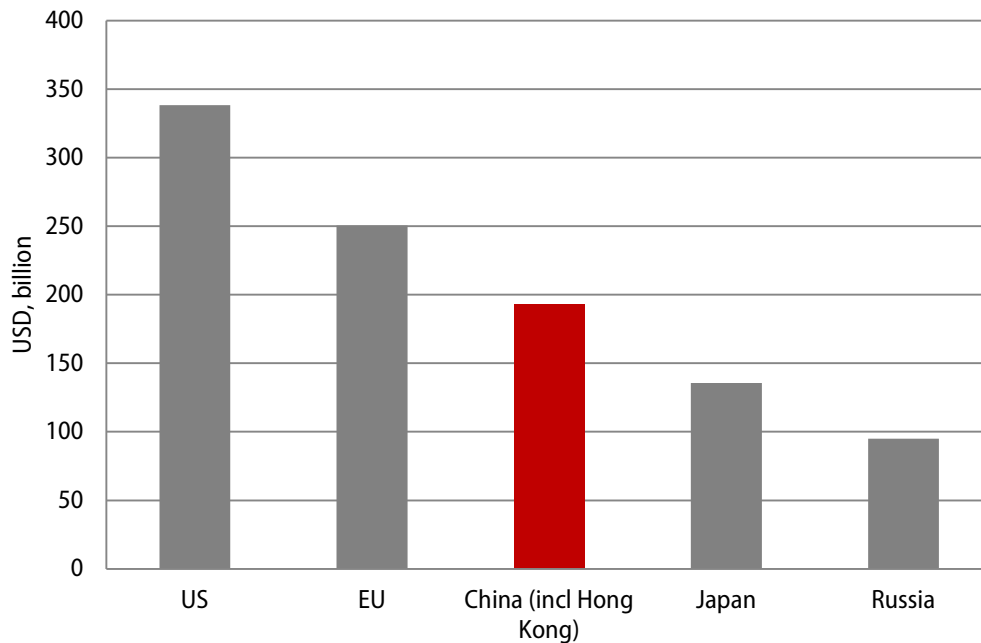
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- Xi Jinping's "proactive" diplomacy takes the form of sticks and carrots. China, he says, must strive "to safeguard peace and stability" in its backyard. Leaders have signed a flurry of trade and investment deals in Asia over the past two years. But in the East and China Seas, China is unafraid to intimidate its neighbors in its expansionist claims to territory.
- In Southeast Asia, Beijing's seesawing policy provokes anger and bafflement. Is China a positive force delivering economic growth and regional security—or a bullyboy riding roughshod over its smaller neighbors? Currently it is both. Beijing calculates that it can run a neighborhood foreign policy that is simultaneously friendly and coercive, trusting that its economic pull will prove irresistible.
- Five years ago, this strategy backfired. When China presented a map to the UN claiming sovereignty over 85% of the South China Sea and then bullied the weakest members of Asean to support its position, the larger members acted to limit China's influence. They turned to the US, which responded with its "pivot to Asia."
- China's leaders initiated a new charm offensive in 2013, before relations soured again in 2014. Yet Beijing's recent financial diplomacy has proved effective: all Asean members will join the China-led Asian Infrastructure Investment Bank (AIIB), against the US's wishes. China is not trusted by its neighbors, but they cannot ignore the economic benefits it confers.

# Financing an economic empire

## China is the world's third biggest investor

Economies ranked by 2013 outward direct investment flow

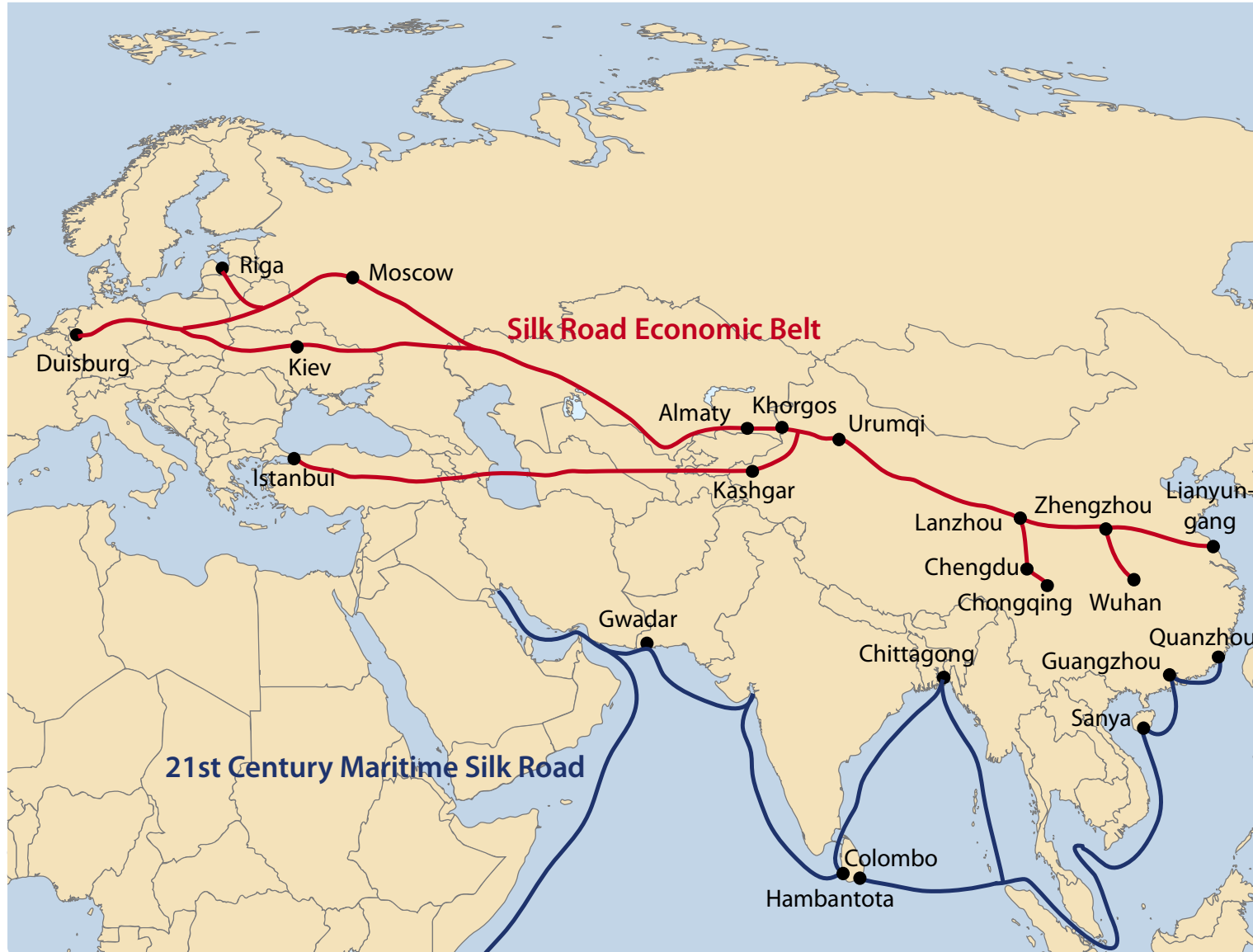


China estimates its companies will invest US\$1.25trn abroad over the next decade. It is wooing its neighbors with big infrastructure investments, competing with Japan to become Asia's leading investor and financier.

Many investments are financed by China Development Bank and China Exim Bank, but China is keen to use multilateral banks to allay its neighbors' fears of economic over-dependence. Yet the US and Japan have blocked its attempts for greater voting rights in the World Bank and Asian Development Bank.

No longer content with its minor role in the Bretton Woods institutions and their affiliates like ADB, Beijing is working to set up alternatives. It has persuaded 20 countries to join it as founder members of the AIIB, which is widely seen as a competitor to the ADB. The New Development Bank, sponsored by the BRICS countries, will also be headquartered in Shanghai.

# New Silk Road



Xi's vision of a "New Silk Road" involves building a "Silk Road Economic Belt" across Central Asia to Europe, and weaving a "21st Century Maritime Silk Road" through the sea lanes of the South China Sea and the Indian Ocean.

By building roads and railways over its borders and upgrading ports in Asia, Beijing is tying its neighbors' prosperity to their relationship with China. It is an attempt to restore China's position at the heart of Asia, laying the foundations of an economic empire.

# Silk Road Economic Belt



The goal of the Silk Road Economic Belt, which runs from northwest China to Europe, is to create a land-transport network that will lop thousands of miles off the traditional sea routes from China's east coast. It is also a transport route for imports of oil, gas and other natural resources.

China is competing with Russia to dominate Central Asia. For many Central Asian governments, the Silk Road Economic Belt is more attractive vision than Putin's more insular Eurasian Economic Union.



# Eurasian land bridge



Work on a “Eurasian land bridge” began before Xi took office. But Xi has folded existing projects into a grand narrative of national rejuvenation, turning the New Silk Road into a signature policy. The photo on the left shows “North Eurasia Road” on China’s border with Kazakhstan, which is nearly completed. The photo on the right shows the new highway from Xinjiang to Kyrgyzstan.



Beijing calculates that better connectivity will enable its underdeveloped border regions to become viable trade zones, helping to keep a lid on ethnic tensions in the volatile region of Xinjiang. Infrastructure construction will be supported by a US\$40bn Silk Road Fund, in addition to finance from the AIIB and Chinese policy banks.



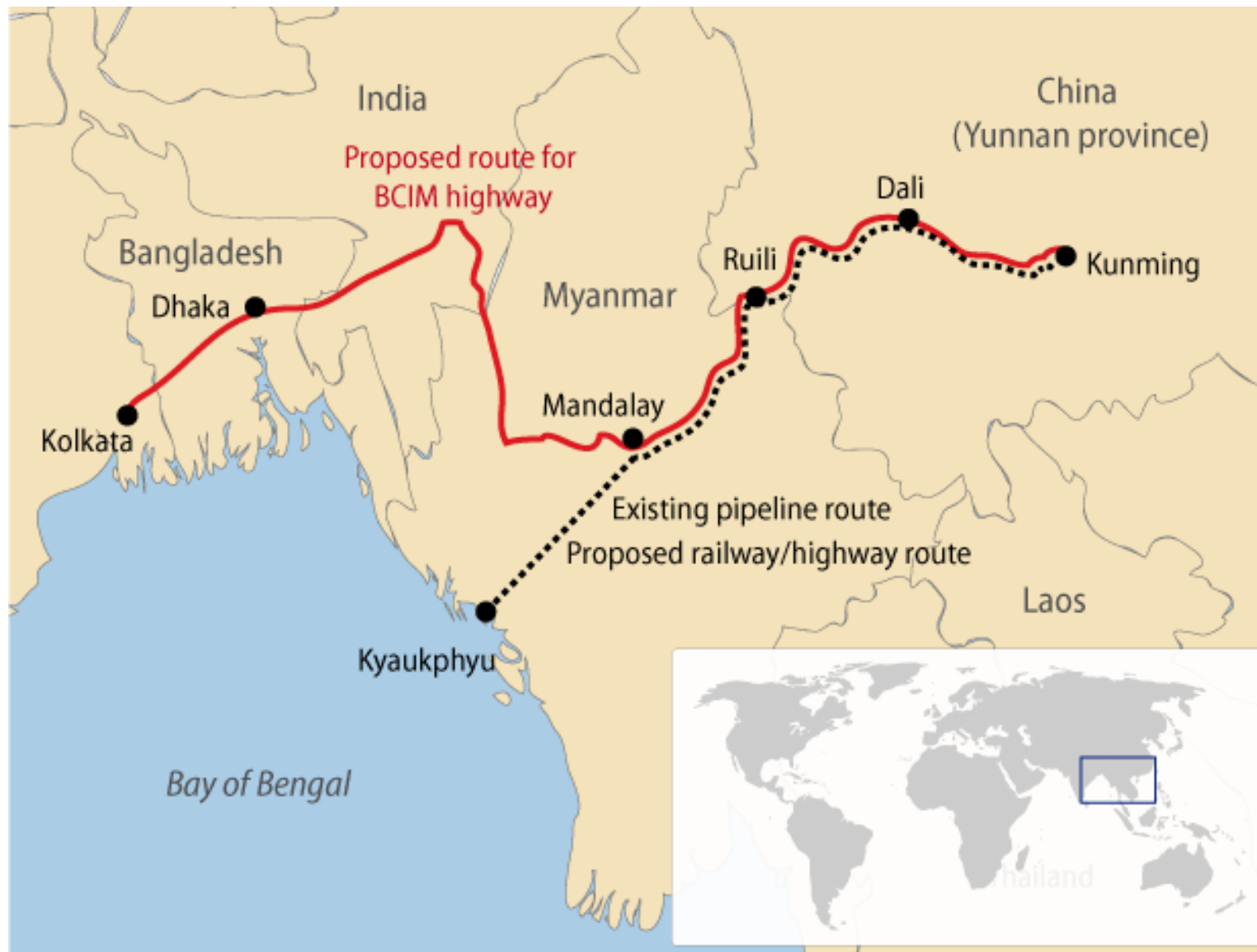
# China is expanding into Laos...



The southwestern province of Yunnan is a “bridgehead” for strengthening China’s clout in the Mekong Basin. Its companies are building roads, dams and power grids, and investing in mines, real estate and agriculture.

A new US\$4bn highway runs from Kunming, Yunnan’s capital, to Bangkok. China is also set to build a US\$7.2bn high-speed railway through Laos, financed by China Exim Bank using untapped minerals as collateral.

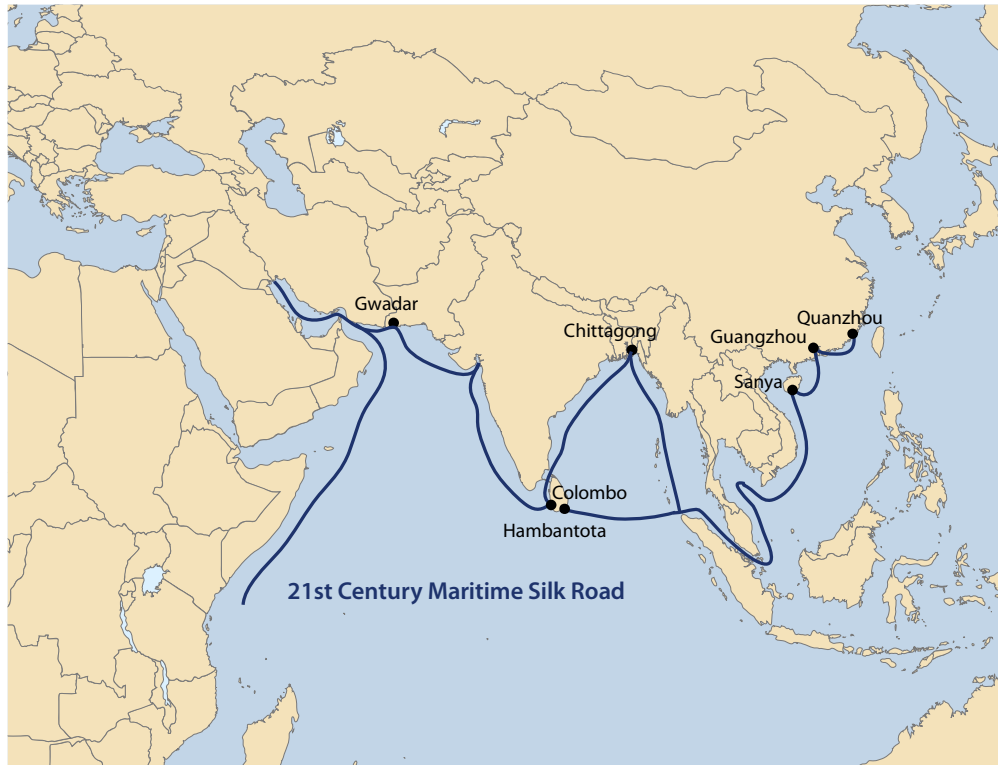
## ... and into Myanmar



The Bangladesh-China-India-Myanmar Economic Corridor will consist of a highway and other infrastructure connecting Kunming and Kolkata. Twin oil and gas pipelines already run from Kyaukphyu to Kunming.

Beijing's ultimate aim is to secure a western seaboard in the Bay of Bengal, enabling it to extend its sphere of influence into the Indian Ocean. Myanmar canceled a planned railway, but both it and India have given the go ahead to the BCIM plan.

# Ruling the waves



The goal of the “21<sup>st</sup> Century Maritime Silk Road” is to boost trade and give China more control over Asia’s sea lanes. China is slowly tightening its grip in the South China Sea, and it has financed new ports in the Indian Ocean (in Bangladesh, Pakistan and Sri Lanka). Its focus is commercial, but it is building a strong navy to protect its supply lines independently of the US Navy.



China’s long-term aim is to exert control over the China Seas and push the US Navy farther out into the western Pacific. A military conflict could be economically devastating, but remains unlikely. Beijing knows it is better off keeping the uneasy peace and patiently changing the “facts in the water.” Once China has control over the China Seas, it will focus on the Indian Ocean.

# Economic consequences

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China's geopolitical strategy will have interesting consequences for its economy. Not all will be easy to foresee but these seem very likely:

- **Reinforced commitment to a strong-currency policy.** China's strategy of integrating its neighbors into its domestic economy would be undermined by competitive devaluations. And China's vision of itself as the great power in Asia requires a strong currency.
- **Accelerating growth in outbound investments.** Financing foreign infrastructure projects, even at relatively low returns, is a more attractive proposition than keeping foreign reserves in low-yielding US bonds.
- **Rising exports of capital goods and construction services.** The projects arranged through the new China-sponsored development institutions could be a more reliable source of contracts for local firms than the ad-hoc bilateral loans of the past.

# Conclusion

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- Beijing's long-term aim clear: it seeks to restore China's historical status as the undisputed power of Asia. This means it will no longer tolerate an Asian *pax Americana*. As President Xi said earlier this year, "It is for the people of Asia to uphold the security of Asia."
- How should the US respond? The US has no intention of leaving Asia to the Chinese—and Asia needs a strong US military presence to ensure the internal balance of power. The US will be helped by its friendly relations with China's neighbors, none of whom trust the giant next door. But America's leaders must accept the inevitability of China's rise in the western Pacific. Rather than seeking to contain China, they should work more closely with it—for instance, by inviting it to join the Trans-Pacific Partnership.
- As China's regional power grows, neighboring countries face a dilemma: should they work together to keep China in check, or should they ally with China and ride along on its economic coattails? At the moment, most are hedging their bets. China needs to win the trust of other Asian nations and foster a sense of "common destiny" to make its rise more acceptable. Otherwise it risks creating a US-led coalition that will seek to restrain its ambitions.



# Contact and disclaimer

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**This presentation was prepared by  
Tom Miller, Senior Asia Analyst  
[tmiller@gavekal.com](mailto:tmiller@gavekal.com)**

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Head Office

Suite 3101, Central Plaza

18, Harbour Road, Wanchai, Hong Kong

Tel: +852 2869 8363 | Fax: +852 2869 8131

Beijing Office

603 Soho Nexus Center

19A Dongsanhuan Beilu, Beijing 100020

Tel: +86 10 8454 9987 | Fax: +86 10 8454 9984

**[www.gavekal.com](http://www.gavekal.com)**

*For more information contact [sales@gavekal.com](mailto:sales@gavekal.com)*