



The China Challenge

A BLUE PAPER



The Takshashila Institution and Hudson Institute hosted *The China Challenge* online discussion series over six weeks between August 28, 2020, and October 2, 2020. The fundamental question underpinning these discussions was how India and the US can and should respond to China's increasing assertiveness and growing global ambitions. This Blue Paper is a compilation of ideas from these discussions.

Discussion 1: The Future of the World Order

AUGUST 28, 2020

SPEAKERS



Ambassador Husain Haqqani
*Director for South and Central
Asia, Hudson Institute*



Ambassador Nirupama Menon Rao
Former Foreign Secretary of India

Discussion Theme

How will the rise of an assertive China change the world order? Will the United States and China seek a G2? Or are they destined to clash? What does all this mean for India's quest for a multipolar world order and its desire for robust multilateral Institutions?

Ambassador Husain Haqqani

DIRECTOR FOR SOUTH AND CENTRAL ASIA, HUDSON INSTITUTE

China engaged in trade practices that did not conform to the global order and, in fact, undermined it. It engaged in technological theft, disregarding intellectual property concepts, and engaged in aggressive military technological espionage.

This will change in the next few years, not because China will stop but because the rest of the world has decided that their assumptions about China's rise were erroneous. Already, there is clear American willingness to crack down on illicit transfers of technology from China.

While the West wished and wanted China to rise peacefully, this is not what has happened under President Xi Jinping. There will be competition between the US and China, though not necessarily confrontation, in the near future.

The post-Covid world will not be as easy for China given a large population with rising expectations. It won't have the

same advantages of dumping manufactured goods at low prices as it has done in the past. If China is denied the privilege of global market access, it will find it difficult to sustain its stupendous rate of economic growth.

The expectation is that India will play a larger role in maintaining the region's freedom of navigation without losing its strategic autonomy.

The US should help build the capabilities of regional powers in Asia, so they feel comfortable enough to stand up to China's intimidation.

It is not in India's interest to create a rivalry with China. It must draft a policy prospectively for the next three to five years that helps it maintain its autonomy from China. India must also build stronger relationships in South Asia with its neighbours, barring Pakistan. India must be ambitious.

"There will be competition between the US and China though not necessarily confrontation."

Ambassador Nirupama Menon Rao

FORMER FOREIGN SECRETARY OF INDIA

We must prepare ourselves for disruption and disequilibrium as China grows faster than the US. This growth is much dependent on China's own internal issues such as the health of its economy and its leadership.

The US-China bipolarity will splinter the world. Therefore, we must find solutions that promote vital interests through connectivity and not division.

China fancies a world built on its idea of order, hierarchy, progress, and stability. It will try to create this order in smaller countries on its peripheries, trying to build patron-client relationships and seeking to become an arbiter of local politics to protect its own interests. Democratic politics, press freedom, and opposition voices will suffer in these countries.

China may seek to be the new champion of multilateralism as the US abandons the global order. The post-pandemic

world has created a power vacuum, and China is stepping in to create its 'community of shared future for mankind'.

There has been a fall in American prestige under the Trump administration. China has benefited from growing doubts in Asia about the durability of US leadership. The US must support Asian nations, rather than forcing them to overtly choose sides.

"China has benefited from growing doubts in Asia about the durability of US leadership."

Amid the pandemic, China has suffered severe reputational damage. It does not have the capacity to prove that it can act responsibly, be a peacemaker, or bridge divides. China suffers from great power autism which makes it unable to sense the how its actions and decisions impact the countries around it.

Discussion 2: Securing Freedom in the 21st Century

SEPTEMBER 4, 2020

SPEAKERS



Liselotte Odgaard
*Visiting Senior Fellow,
Hudson Institute*



Manoj Kewalramani
*Fellow, China Studies,
Takshashila Institution*

Discussion Theme

As China rises, it will use its power to market its authoritarian model of government. How does China export its norms and values today? And how does it influence politics in other countries? Has the Chinese model challenged the appeal of the liberal democratic model in Asia? What can the democracies do to reinvigorate it?

Liselotte Odgaard

SENIOR FELLOW, HUDSON INSTITUTE

China contributes globally to the undermining of democracy.

Brexit has driven the point home that the risk of leaving the EU is too big and comes at the cost of losing the political and economic benefits these countries have attained by joining the EU. On the issue of China, there is more and more convergence among EU member states that protective mechanisms need to be used against illicit and discriminatory Chinese practices. Consequently, the tendency to avoid taking actions that goes against Chinese interests to maintain friendly terms with China is becoming less and less pronounced.

The West has been very focused on values and has denied countries assistance if they don't follow basic liberal rules domestically. When Western countries have made demands for respect for liberal values such as human rights and the rule of law in return for development assistance in Latin America, Africa, or Asia, China has been quick to come to their support.

The West has neglected to present alternatives, but you see Europe, Japan, and the US coordinate better and being more serious about locating funding for development of strategic assets such as hard and soft infrastructure. Hence, developing countries are starting to get better alternatives to Chinese development assistance.

The US seems less willing to bear most of cost for maintaining a liberal World order. It has transferred responsibility to countries such as Japan, Europe, and India; which means that the US will have to learn to accept that these countries behave more independently and have their own agendas.

"China exports technology that helps other authoritarian regimes."

China exports technology that helps other authoritarian regimes. States should work with social media companies in trying to create content that promotes democracy.

Manoj Kewalramani

FELLOW, CHINA STUDIES, TAKSHASHILA INSTITUTION

China's rise alters or reduces the freedom of individuals, civil societies, and states. China will not turn away from its existing system towards a democratic model of governance; it has never adopted a Western style model. Chinese leaders have repeatedly said that a system of governance in a country must be a product of its own historical, cultural, and social experience.

China is entering areas where there is an unfulfilled need, and where countries have experienced constraints like limited funding or investment - we see this Asia and Africa.

In terms of the attractiveness of China's model, there is, in part, a demonstration effect. This is evident in the response to the pandemic. US and India have been hit hard by COVID-19. China could be hiding its numbers, but you can't fake children going to school and the visible economic activity taking place.

While Chinese investments have created debt, they have also exported China's infrastructure model that holds that if you build roads, businesses will come.

This model has led to China's immense debt, at 300% of GDP, but Beijing has been able to manage this. Meanwhile, it has forced other countries to become dependent on China.

There must be rules on how we deal with information. Government will always have to catch up because technology changes so rapidly. On an individual level, there has to be more transparency regarding how companies deal with governments with regard to individuals' data.

"China's rise alters or reduces the freedom of individuals, the civil society, and states."

Discussion 3: Is an Economic Divorce Possible?

SEPTEMBER 11, 2020

SPEAKERS



Narayan Ramachandran
*Co-Founder,
Takshashila Institution*



Thomas J. Duesterberg
*Senior Fellow,
Hudson Institute*

Discussion Theme

The United States has called for a restructuring of the global supply chains at a time when many American and Japanese companies are moving out of China. India has recently announced reforms that could make it a potential hub for these companies. Will the new opportunities push India towards greater trade and economic liberalisation? How does India's push for self-reliance fit into this world? What will global trade look like in the aftermath of COVID-19?

Narayan Ramachandran

CO-FOUNDER, TAKSHASHILA INSTITUTION

The three planks on which the multilateral global order must rediscover itself are (1) nuclear deterrence, (2) globalisation (including the rise of China), and (3) climate change. China has utilised the WTO very successfully.

It has abused and overused its privilege. The answer to Chinese expansionism is a different set of multilateral rules, which work to everyone's benefit.

We must bring back the old adages of trade. International commerce works best when it is: (1) reciprocal, (2) when it accounts for everyone's interests, and (3) when it involves fairness and balance.

Global trade is not going to recede dramatically, but it has had severe interruptions, such as the 2008 crash and the 2020 pandemic.

Trade will take time to bounce back. The rule-based order

established after the Second World War helped India, but it is now slowly fraying away. Reform in international trade organisations is much needed. India is the single biggest

beneficiary of the global trading system; it should not resort to protectionism but should, instead, embrace open trade.

Economic interdependence applies not only to trade but also the movement of capital, talent, technology, and resources. All of these must be discussed.

As frictions in trade increase, it is likely that despite bans on Chinese apps in India, the actual capital flow around the world will increase because, if you have to restructure global supply chains, you will have to recreate capacity that already existed somewhere else.

"The answer to Chinese expansionism is a different set of multilateral rules which work for everyone's benefit"

Thomas J. Duesterberg

SENIOR FELLOW, HUDSON INSTITUTE

The open trade system that came to be after the Second World War is threatened today. This growing problem is exacerbated by the rise of China and its mercantilist approach to global trade and economic development.

The pandemic has reinforced these tendencies by interrupting supply chains and causing countries to look more inward.

The US will make an effort to seek allies to Chinese economic dominance. This will require reforming the WTO, so that it works more effectively.

There must be more democratic oversight, and reforms in the controlling body of the WTO.

This implies creating new rules to tackle the Chinese challenge and China's actions in the digital economy.

It also requires a move towards plurilateral agreements as the driving force in the global trading system.

If transportation costs, availability of water, electricity shortages, and the usual political manoeuvring are taken into account, China becomes an increasingly less favourable place to do business.

"The growing Chinese market is still run on the basis of producers, not consumers, which is why China remains an export-oriented economy."

The growing Chinese market is still run on the basis of producers, not consumers, which is why China remains an export-oriented economy. In the private sector, there is realisation that China's growth is heavily dependent on foreign capital.

Discussion 4: The Struggle for Technological Supremacy

SEPTEMBER 18, 2020

SPEAKERS



Karthik Nachiappan
*Research Fellow,
National University of
Singapore*



Eric B. Brown
*Senior Fellow,
Hudson Institute*

Discussion Theme

5G and AI were considered revolutionary long before the pandemic. Now countries like China are using these technologies not just for contact tracing but also surveillance. How will the US and China compete over the future of these technologies? What must India do? How should it balance between its strategic interests and its need for cost-effective technology?

Karthik Nachiappan

RESEARCH FELLOW, NATIONAL UNIVERSITY OF SINGAPORE

The ongoing technology competition between the US and China is part of a broader strategic rivalry between the two nations.

There were long-standing concerns regarding China's industrial policy, market access restrictions, illicit acquisition of technologies through joint ventures, and the cyber theft of intellectual property or trade secrets.

The fact that technology has become important and central to bilateral tensions demonstrates how critical technology is for the US to remain the leading power in the international order. American tech companies have lost ground to their Chinese counterparts, specifically in 5G and manufacturing muscle.

The threats that the US faces will only multiply if Chinese applications and technologies are used and applied across the world. The values they espouse on issues like privacy and data security could create increased cyber risk, loss of

privacy, and threats to national security. As far as decoupling in the technology sphere is concerned, it seems as if China is preparing for a world where it does not have to rely on essential partners based in the US. This is in evidence in areas like semiconductors, AI, and 5G.

The US fundamentally believes that competition between nations is good if it is healthy and serves human progress. However, there have to be certain rules attached to lift all boats.

"China is preparing for a world where it does not have to rely on essential partners based in the US."

The challenge for the US is fundamentally a diplomatic one, where the question is regarding the establishment of arrangements and standards between like-minded democratic countries on how to create markets of scale. These markets of scale should enable innovation and globalisation to carry forward even while constraining the Chinese state.

Eric B. Brown

SENIOR FELLOW, HUDSON INSTITUTE

The main driver of the “geo-tech wars” was a decision made by China’s ruling Communist Party that the post-1991 international order was a threat to its future political survival and power.

Geopolitics, supply chains, and diplomacy have since become areas of contestation between the US and China. The Communist Party studies world affairs and trends very closely. Indeed, it understood and grasped the significance of emerging information technologies like 5G and AI long before other countries were able to do so.

The Party-state understood that controlling the digital networks of the world, through which information and data will flow, will become a major source of geopolitical power. The Party also understood that these technologies can be harnessed to make up for its own governance failings and shortcomings at home,

and also to enhance its strategic positioning and influence internationally.

The tech wars between the US and China are not just about leadership over the key technologies and industries

of the future, but fundamentally about the future of humane governance and international norms that govern economic and political laws.

The US is concerned about the deployment of Chinese surveillance technology in urban centres around the world. This is a threat to the sovereignty of these states, as there are deep concerns that China can use the data obtained to politically manipulate foreign governments.

By exporting these technologies, the Chinese state is also trying to foster other authoritarian clients that are dependent on it for stability. From the US’ perspective, this is China’s attempt at creating a more supportive world order.

“The U.S.-China tech wars are not just about leadership over industries of the future, but fundamentally about the future of humane governance and international norms that govern economic and political laws.”

Discussion 5: Is Belt and Road Asia's Destiny?

SEPTEMBER 25, 2020

SPEAKERS



Ambassador Vijay Gokhale
Former Foreign Secretary of India



John Lee
*Senior Fellow,
Hudson Institute*

Discussion Theme

Will China's sprawling Belt and Road Initiative succeed in connecting Asia's economies? What are its strategic implications? Why is India the only major country in Asia that has contested BRI? Can India develop other options for connectivity in Asia given its own economic constraints?

Ambassador Vijay Gokhale

FORMER FOREIGN SECRETARY OF INDIA

It is not because of BRI that we are seeing a spread of Chinese influence in South Asia. While many claim India is losing out in its own backyard, we should move away from the idea of exclusivity in a globalised world and consider the realities of our times.

The Chinese economy is five times the size of the Indian economy. It is an export-led economy, the largest trading nation, the largest investing nation, and therefore, it is bound to spread its political and economic influence in the region.

China must give India the benefit of the doubt. India's relationship with the US will continue to improve and is not aimed at China.

The Chinese reaction to the Quad was disproportionate; they assumed it as an Asian NATO. This was because from 2000, China was already contemplating a major naval expansion. They expected the War on Terror and the

global financial crisis would let them slip these developments under the radar.

India must provide alternatives to BRI and move the Quad in a direction that goes beyond values and shared systems of governance to actually seeing how we can cooperate to maintain a free Indo-Pacific, whether for anti-piracy, humanitarian assistance, or disaster relief, etc.

The legitimacy of the Communist Party depends on proving other systems, such as India's, to be weaker than theirs. The real target is not American democracy, but Indian democracy.

"India must give alternatives to BRI, move the Quad in a direction that goes beyond values and shared systems."

John Lee

SENIOR FELLOW, HUDSON INSTITUTE

The Obama administration was reluctant to criticise BRI because they were after much more cooperative outcomes, such as securing cooperation on climate change in what became the Paris Agreement. More generally, the Obama White House was desperate to gain Chinese tactical cooperation at the expense of American strategic objectives in the region.

Secondly, the US, like many regional allies, seems to be interested primarily in maritime economies and issues, not continental ones. The BRI began as a continental plan to expand westwards. Around 2016, China was largely making moves in Central Asia and some continental areas of South Asia, which didn't really interest the US.

Thirdly, it is only since 2017 that Xi Jinping has been explicit about what BRI is intending to achieve, which is a Sino-centric economic and strategic framework for China to achieve and dominate supply chains, as well

as infrastructure, technology, and commercial, legal, and normative standards.

Most countries partnering in BRI are not naïve. They are aware of Chinese objectives. But they seek the immediate economic gains the BRI offers, even at the expense of long term interests.

The Quad cannot be a military alliance. India is highly unlikely to participate in military activities in the East China Sea. But the key is to look at areas where all four countries are prepared to expand their efforts, including in the Indian Ocean and Bay of Bengal.

China is not trying to export its ideology but it does want the BRI region to reflect the processes of the Chinese political economy, with the CCP engineering outcomes and Chinese firms being the primary beneficiaries.

"Xi Jinping has been explicit about what BRI is intending to achieve; which is a Sino-centric economic and strategic framework for China to dominate supply chains, infrastructure, technology, and commercial, legal, and normative standards."

Discussion 6: Countering Beijing's Military Might

OCTOBER 2, 2020

SPEAKERS



Lt. Gen. Prakash Menon(Retd.)
*Director, Strategic Studies
Programme,
Takshashila institution*



Bryan Clark
*Director, Center for Defence
Concepts and Technology,
Hudson Institute*

Discussion Theme

From new theatre commands to new doctrines, from expanding naval and nuclear forces to new technologies, the PLA has changed almost unrecognisably over the last two decades. What does this mean for Asia and the world? How does China plan to use its military? What are the implications for India-China tensions along the LAC? Can India modernise its armed forces to meet the military challenge from China?

Lt. Gen. Prakash Menon(Retd.)

DIRECTOR, STRATEGIC STUDIES PROGRAMME, TAKSHASHILA INSTITUTION

China's military rise is impressive in terms of absolute military power, i.e. personnel and military equipment.

China likes to tell the world that it is big and militarily strong. It seeks obedience in Asia. China's military power in the absolute sense is far greater than India's. However, power is a relational variable, and China is not as powerful in the Indian Ocean as it is in South China Sea.

Indians generally don't fear China but believe that China likes to use levels of force that don't trigger large responses.

The influence that China has over Nepal with Prime Minister Oli in charge, is something India believes can eventually be rolled back.

Barring Pakistan, all the other countries in India's neighbourhood have gained a certain level of relationship

with Delhi which they will not easily let weaken because doing so will end up harming their own interests.

I don't believe Hambantota, the Sri Lankan port leased to China, should be put in the same category as Gwadar or Djibouti. Even with Djibouti, I doubt the US will let China move out of that base to pursue any belligerent action when push comes to shove.

India's international cooperation lies in the realm of its maritime domain. No one will fight for India along the northern border. The real cooperation is in the maritime domain. China can be shown its place only in the sea.

There is no space for trust with China anymore.

"Power is a relational variable; China is not as powerful in the Indian ocean as it is in South China Sea."

Bryan Clark

SENIOR FELLOW & DIRECTOR, CENTER FOR DEFENCE CONCEPTS AND TECHNOLOGY, HUDSON INSTITUTE

The Obama administration tried to establish a deliberate strategy to militarily address China's military modernisation.

The US has failed to exploit the opportunities that have been presented to it. For example, the trade war should have been focused on the best markets that would give the leverage and not domestic constituencies.

China is still focused on the near seas and near abroad; its ability to project power further away has been modest in relation to its efforts to do local sea and air control.

Extensive Chinese investment in east Africa like in Bagamoyo, Tanzania, where they are investing in port infrastructure and getting behind corrupt leaders, are means to get access to those littoral environments.

There is untapped opportunity for India and the US to counter China. India has better longstanding relationships in eastern Africa than the US does.

"China is still focused on the near sea and near abroad; its ability to project power further away has been modest in relation to its efforts to do local sea and air control."

The Quad is reemerging as a force to bring together naval forces of the four partner countries.

While the PLA Navy has modernised, it has been designed to operate in the near seas, with a couple of carriers and few large cruisers designed for open operations, along with a dozen or so destroyers.

The navy's missile magazines are too small to support self-defence and offensives operations, and the ships lack endurance to operate trans-oceanically.



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DISCUSSION OUTCOMES

The US should help build the capabilities of Asian powers so they feel confident to stand up to China's intimidation. India must pursue a policy that can help ensure its independence from China's influence over the next 3-5 years. India must also build stronger relationships with its neighbours, barring Pakistan. Above all India must be ambitious.

The democracies should bring back the old adages of trade, i.e., it works best when it is reciprocal, when it accounts for everyone's interests, and when it involves fairness and balance.

India and the US must demonstrate the effectiveness of the liberal democratic system through delivery. They must invest in capacity development in other countries and not undermine them through costly wars in the name of promoting democracy.

The US must focus on the establishment of arrangements and standards between like-minded democratic countries on how to create markets of scale that will enable innovation and globalisation to expand while constraining the Chinese State.

India must provide alternatives to BRI, move the Quad in a direction that goes beyond values and shared systems of governance to actually seeing how we can cooperate to maintain a free Indo-Pacific, whether for anti-piracy, humanitarian assistance, or disaster relief, etc.

India must invest in its naval and maritime power as its foremost priority to counter China. It should also capitalise on its long standing relationships in eastern Africa to counter China in that region.



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About the Takshashila Institution

The Takshashila Institution is an independent centre for research and education in public policy. It is a non-partisan, non-profit organisation that advocates the values of freedom, openness, tolerance, pluralism and responsible citizenship. The Takshashila Institution seeks to transform India through better public policies, bridging the governance gap by developing better public servants, civil society leaders, professionals and informed citizens.

About the Hudson Institute

Founded in 1961 by strategist Herman Kahn, Hudson Institute challenges conventional thinking and helps manage strategic transitions to the future through interdisciplinary studies in defence, international relations, economics, health care, technology, culture, and law. Hudson guides public policymakers and global leaders in government and business through a vigorous program of publications, conferences, policy briefings, and recommendations.