

# One Belt, One Road, One Pivot

**By William H. Overholt**

China's One Belt, One Road strategy proffers an inspiring vision of common development of up to 60 countries based on infrastructure development and common standards. The US Pivot to Asia announced a much-needed shift of priorities from less-important Iraq and Afghanistan to paramount interests in eastern Asia. But One Belt, One Road could be jeopardized by hubris and by an increasing global perception of China as a country of reef-grabbing expansiveness. And the Pivot has failed because Washington neglected its diplomatic and economic aspects and instead focused on military and economic constraint of China. The resulting vicious circle in US-China relations could be curtailed by leadership on both sides, says William H. Overholt.

CHINA'S new strategy of "One Belt, One Road" begins with a set of domestic problems and expands into a grand strategy for the Eurasian and African continents and beyond. This grand strategy then encounters the US "pivot" or "rebalancing" to Asia.

As China itself pivots to a new economic growth model, it faces serious problems, among them the need to assure access to resources, deflate or reallocate industrial overcapacity, deleverage key sectors, and deploy its US\$3.5 trillion of foreign exchange reserves productively. Abroad, it can only prosper if its partners prosper, and it can only achieve resource security and stability in its north and northwest if the jihadist conflagration ceases to spread in the Middle East, North Africa and Central Asia.

China's over-accumulation of foreign exchange reserves was a major strategic error, which has led to losses in dollars, euros, yen, depreciating commodities and some major foreign investments. The 2008 Global Financial Crisis taught China that if it has hundreds of billions of dollars in dollar-denominated foreign exchange reserves, it can suddenly incur massive losses through no fault of its own. This means it would be safer to deploy the funds in RMB-denominated investments.

China's One Belt, One Road strategy aims to ameliorate these problems and create an international environment of prosperity and stability friendly to China. The vision is grand: development of high quality infrastructure and common standards on land from Southeast Asia to Western Europe and along the sea lanes from China around Southeast Asia, South Asia and Africa to Europe.

## **BUILD A BIGGER MIRACLE**

The Chinese vision seeks to replicate and expand the results of the Asian Miracle. The economic takeoff of East Asia consolidated domestic stability in most countries; ideological politics waned, separatism diminished, and the resources needed by governments to administer and suppress disorder rose. Likewise, regional peace dramatically improved as countries realized that a focus on economic growth would bring more stability and prestige than emphasizing military dominance and territorial claims.

In its foreign policy/security agenda, the One Belt, One Road vision bears closest resemblance to the US Cold War policy of rejuvenating Japan and Western Europe and promoting development elsewhere. This created a global network where the most prosperous countries were US allies supportive of US interests. America's core strategy was economic, protected by a powerful military. In contrast, the Soviet Union and North Korea gave almost exclusive priority to the military; domestic economies imploded, and the Soviet empire became an economic burden rather than an asset.

The Chinese vision's best hopes are personified by its initiative toward Pakistan. It has verbally committed some US\$46 billion to the development of a country that is nearly as divided, tribalized and ideologically rabid as Indonesia once was — and as important strategically because it is a nuclear power. China has used the planned development of the port of Gwadar to devise a credible vision for civilizing one of the world's greatest hubs of terrorism, drugs, gangs and human trafficking, and to reach landmark understandings with India on key water issues.

As with the US Cold War vision, China's One Belt, One Road vision is impressive not just for its geographic scope but also for its integration of economic, political and national security considerations.

## **BUILDING A NEW SYSTEM**

As the vision has evolved, so has the institutional basis. Initially China sought to expand the Bretton Woods institutions — the International Monetary Fund and the World Bank — and modernize them to fit today's diversified global economy. While the idea had global support, including from the US president, it was blocked by the US Congress. At the same time, China concluded that, based on difficult experience with US\$600 billion of bilateral loans, a multilateral approach would be more efficient and

scalable. So China founded a series of institutions — the New Development Bank, or BRICS Bank; the Asian Infrastructure Investment Bank; the Silk Road Fund; and a reorganized China Development Bank that cumulatively will have more lending power than the Bretton Woods institutions.

Implementation of China's vision depends on crucial assumptions. It can succeed only if the transformation of China's domestic growth model outlined in the Third Plenum program is largely achieved and leads to continued relatively rapid growth. That, in turn, depends on President Xi Jinping's ability to impose the Third Plenum vision of market allocation on the Chinese economy, despite massive interest group opposition.

It depends on creating a system that, with reasonable consistency, produces creditworthy projects and on getting host countries to accept, for instance, the common standards that would enable a high speed railroad to go from Chongqing to Frankfurt unimpeded by changes of track and complex customs procedures. It also depends on balancing the need for repayment and profit against the need for the host countries to feel politically respected and equitably profitable. When and if development successes start to squeeze the space available to jihadists, the Chinese strategy will then encounter a need for military protection of its economic strategy.

These preconditions are theoretically achievable, given the potential economic benefits, just as the US Cold War vision for the Asian economic takeoff was achievable, despite regional variations, early economic ignorance, Maoist guerrilla warfare, Islamic jihadism in Indonesia and frequent local anti-Americanism. The many successes of the China Development Bank give considerable credibility to Chinese plans, as does the takeoff of Ethiopia (currently the world's fastest growing country) under Chinese guidance. But, very crucially, it is too early to firmly predict the success of *any* of these prerequisites. Success is by no means assured. China's grand vision may exceed its financial and administrative resources.

## **INTERACTION WITH THE US PIVOT**

How does this grand strategy interact with the US pivot to Asia, later renamed the rebalancing? The idea of rebalancing to Asia was broad: to redress excessive US focus on Afghanistan and Iraq, which had led to neglect of far greater strategic and economic interests in China, Japan and eastern Asia. While the president and the secretary of state have returned to the practice of attending APEC and ASEAN meetings (except for the most important one, in Indonesia, which President Barack Obama skipped for domestic political reasons), US policy attention remains more

heavily focused on Syria, ISIS, Iran, Israel and Ukraine. The US has no top official with special expertise on China or Japan. The primary diplomatic achievement of Secretary Clinton's four years was to preside over a potentially historic deterioration in relations with China. Obama's two ambassadors to Japan have been domestic political supporters with no experience of either Japan or diplomacy. At best, it is a halfhearted diplomatic rebalance.

The administration's one important regional economic policy, the Trans-Pacific Partnership (TPP), has received priority attention only late in the second Obama administration. It is a peculiar policy, marketed as a high quality trade agreement even though it includes less open Japan and Vietnam while excluding the more open Chinese economy. Bush 43 chose TPP despite business advice to support the more inclusive FTAAP, because TPP excluded China. Obama's selling of TPP focused on the negative objective of excluding China, the world's largest trading power, from a leadership role in regional trade agreements. Meanwhile, interest group pressures ensured that Congress would focus on the cost of every relationship with China almost to the exclusion of the value of the greatest economic partnership in world history.

Congress also blocked modernization of the Bretton Woods economic institutions, thereby ensuring that new institutions would arise to displace them; the administration refused to support the new institutions, thereby guaranteeing that China would dominate them. At best, it is a flawed, halfhearted economic rebalance.

The pivot to Asia initially appeared as primarily a military reallocation, directed at China. The administration immediately realized that this was problematic, renamed it the rebalancing, and began a series of explanations intended to remedy the impression. But it has been hard to clear up that understanding, because it was correct. The military measures were concrete: put 60 percent of the navy in the Pacific, send Marines to Australia, enhance military cooperation with Singapore and especially Japan, get US troops back in the Philippines... a sharp contrast with limp diplomacy and weak, counterproductive economic policy.

One reason for the failure of the broad rebalancing concept is the global shift in US strategy from 2001 onward: the abandonment of an integrated economic, political and military strategy in favor of an overwhelming emphasis on the military. In the jargon of the war colleges, from 1945-2001 the US had a national strategy, with integrated military, economic, political and cultural components. The core of that strategy was to rejuvenate Western Europe and Japan and to develop the "third world," binding all to the U.S., while protecting that strategy with a strong military. Since 2001, this has

given way to a predominantly military strategy.<sup>1</sup> This has its origins in Congress, which guts the budget for diplomacy, will not consider substantial economic aid budgets and will not support vigorous programs of global trade and investment liberalization, but is generous with the defense budget to the point of foisting important programs on the military that the Pentagon doesn't want. The presumption that foreign policy is predominantly a decision about what weapons to procure and where to deploy them has become pervasive in the national consciousness.

In the Middle East, this is particularly self-defeating. The lack of post-invasion economic planning for Iraq ensured that country's disintegration and the emergence of a Middle East dominated by Shia Muslims at the expense of Sunnis and thus by Iran at the expense of Iraq and Saudi Arabia. Likewise, the absence of a broader economic strategy on the lines of US Cold War strategy, and instead overwhelming reliance on the military, ensures continuing defeat as jihadism spreads.

## **MILITARY SELF-DEFEAT**

The particular military strategy chosen, aerial bombing so as not to endanger US troops, amplifies the defeats and spreads the problems. I learned the weaknesses of such a strategy early in my career. In 1967, I spent a summer interviewing the jailed Filipino communist leader Luis Taruc and his non-jailed colleagues. His colleagues were headquartered on a mountain nearly adjacent to Clark Air Base, then the largest US air base in the world. They hilariously described having watched waves of the most modern US fighters take off, bomb their mountain, and scarcely ever inflict significant damage. The guerrillas were generously armed and funded by plundering base supplies, to the point where the Philippines Armed Forces Commander in Chief, General Manuel Yan, seriously asked me whether the US was really trying to defeat the Philippine government rather than the guerrillas. That's what happens when you rely on air power without boots on the ground. The technologies have improved on both sides, but the strategic illogic of using hundred million dollar airplanes going 600 miles per hour to chase US\$20,000 pickup trucks going 30 miles per hour, while lacking human intelligence on the ground, remains the same.

The second lesson of that era applicable today derived from the carpet bombing of Cambodia and the rise of Khmer Rouge fanaticism. My chairman at Hudson Institute in the 1970s, Herman Kahn, fervently supported the Vietnam War, was perhaps the greatest American strategist of the era and was very conservative. To provide context for the consequences of the bombing, he said, frequently, "The general who is expected to lose 25,000 troops in a battle and only loses 5,000 is a hero and a genius.

The general who loses none is immoral.” He would go on to explain something that many people outside the military cannot comprehend. Despite the horrors of war, there are instinctive standards of fair play. When bombs rain down from the sky, and the source of the bombs takes no substantial risk, the response is an outpouring of rage and destructiveness that is an order of magnitude different from losing a battle toe to toe against a superior opponent. Thoughtful senior military officers get this. Civilian bean counters don’t. And this affects the US position even when, as with ISIS, the other side is raping and beheading, barbaric almost beyond measure. There is no moral comparability to the two sides, but there is a gratuitous rage and morale cost to US strategy that energizes and spreads jihadism.

The result: On balance, there has been little rebalance except for incremental military deployments. Barring direct conflict with China, there is no likelihood that a broad rebalance will occur. The Middle East conflicts and Ukraine are immediate, urgent, worsening and expanding toward Central Asia and across North Africa. This urgency inexorably diverts attention from more important trans-Pacific interests. As long as the US pursues a truncated, incompetent strategy in the jihadist world, urgent Middle East issues will trump the important East Asian issues.

## **FAILURE AT SEA**

The US pivot and One Road intersect in Asia’s maritime conflicts. There, America’s effort to strengthen its military presence and military alliances increasingly succeeds because it gets so much help from China.

China’s posture in the South China Sea differs little from those of Vietnam, Malaysia and the Philippines. All overreach and employ dubious arguments. What is different about China’s position is that it is so big. China’s claims are neither disproportionate to the others’ nor more poorly grounded, but a big power has responsibilities that are different from those of a small power. When a 10-year-old is playing with five-year-olds, the bigger boy has a responsibility to solve problems, not just to beat up the smaller kids. China is now a big power with a small power mentality.

Had China sought compromise and equanimity in the South China Sea the way it did with 12 land borders and the Gulf of Tonkin, the magnetic attraction of the Chinese economy would be turning the South China Sea politically into a Chinese lake. The region’s resources would be far more available to China, because they would be developed quickly and available to the country with the most money, than they are under confrontational conditions. Instead, China’s strategy is to allow military

assertiveness to undercut its economic interest and to use economic magnetism to overcome ASEAN's sense of injured sovereignty. That will sometimes work tactically against ASEAN, but stores up strategic trouble for the future. China's assertiveness has a military logic, but it undermines China's national interest. This mirrors U.S. developments.

While China's overreach has facilitated US military rebalancing, the US has weakened its own leverage. When Japan, against US advice, formally purchased the Senkaku/Diaoyu islands, breaking successful 1972 and 1978 understandings intended to defer sovereignty disputes indefinitely, the US, viewing the military relationship with Japan as the decisive consideration, failed to dissociate itself emphatically from that decision and instead escalated its backing of Japan's position. In the South China Sea, during the years immediately after 2002, when China honored the outline of a Code of Conduct agreement permitting only joint drilling in disputed waters, ASEAN countries drilled hundreds of wells in disputed waters and the US said nothing. Then it came down hard on China. These decisions positioned the US as a partisan, not a provider of public goods.

The impression in maritime Asia and much of the world is that China has become a bully. China's geopolitical image is now defined by reef-grabbing and island-building. Conversely, the impression in maritime Asia is that, whenever the US has a choice between military and other values, it chooses the military. US self-righteousness combined with conspicuous silence about abuses committed by its partners elicits cynicism. US provocative surveillance, intended to trigger Chinese defenses so that the US can read electronically how China would respond in a real crisis, projects and instigates enmity. Here too military considerations subvert a national policy of not treating China as an enemy. Major US decisions consistently make military sense but undermine stability and belie the US posture that it is providing public goods rather than seeking narrow advantage: bringing Taiwan under the US-Japan alliance (2005); the contemporaneous initial minister-level commitment to defend the Senkakus militarily; working with the right wing in Japan to push unpopular military upgrading at the cost of spending political capital needed for economic reform; being silent or supportive when ASEAN countries, Taiwan and Japan made exaggerated claims, built island military bases, dumped cement on rocks to claim them as islands, amended national constitutional boundaries to include more reefs, and planted fake artifacts to show historic occupation, then bitterly denouncing China for later doing the same thing; upgrading the military commitment regarding the Senkakus/Diaoyus to presidential level after Japan broke the 1978 deal with China.

Thus US rebalancing has not happened, except in the military sphere, and is destined to fail as long as there is no effective strategy for the jihadist regions and as long as US policy focuses on maximum military advantage against China and excluding China from the new global TPP/TIPP trade regime. Conversely, One Belt, One Road is jeopardized by economic hubris and by China's simultaneously antagonizing virtually all of its maritime neighbors. China and the US are engaged in a gradual but serious vicious circle of antagonism.

Were China to start breaking the vicious circle by compromising a single maritime dispute, and were the US to start taking a balanced approach to maritime issues (as new Defense Secretary Ashton Carter may have begun to do in the south), the disputes could cool. Were China to acknowledge the need for US and EU support of its One Belt, One Road strategy for it to be economically and strategically viable, and were the US to acknowledge that its currently one-dimensional military strategy needs to be integrated with an economic strategy of the kind represented by One Belt, One Road, then both the US pivot and One Belt, One Road would likely succeed in collaborative forms and the jihadist violence that threatens both would be gradually curtailed. A cooperative policy focused on global development, global environmental improvement (where China now spends more than any other country), further development of the most productive economic partnership in world history and containment of jihadist movements, could institutionalize a virtuous circle. To accomplish that would require a return to visionary leadership and integrated national policy on both sides.

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#### Notes

<sup>1</sup> For details of this historic shift, see William H. Overholt, "The Enemy Is US," *The International Economy*, Vol. 29, No. 3 (Summer 2015).