



# How Can America Challenge China's Political Ambitions in an Age of Deglobalisation?

DIMITRI ZABELIN



**LSE IDEAS** is the LSE's foreign policy think tank. Through sustained engagement with policymakers and opinion-formers, IDEAS provides a forum that informs policy debate and connects academic research with the practice of diplomacy and strategy.

# **How Can America Challenge China's Political Ambitions in an Age of Deglobalisation?**

**DIMITRI ZABELIN**

## The Author

**Dimitri Zabelin** is an Associate at LSE IDEAS, having studied political economy at the University of California, Berkeley for both his undergraduate and masters. He received additional training at LSE and is a member of the UC Consortium network. He then transferred his expertise to the world of foreign exchange where he authored reports on optimizing trading strategies for geopolitical risks. Dimitri has appeared in numerous publications and media outlets including BBC News, *The Diplomat* among many others that have translated his work in Asia, Latina America and Europe. He currently works in data policy.

“

In an age of deglobalisation, the US is at a disadvantage while China—and Asia as a whole—fortify themselves

”

**L**et China sleep, for when she wakes, she will shake the world. The rise of China has been a central issue to policymakers in the United States. Its growing role on the world stage politically and economically signalled that a regional hegemon is challenging the unipolar order of the US. The Asian giant's influence also began to manifest in third-party institutions that shaped the post-WWII order for decades. This includes, adding the Chinese Renminbi to the basket of currencies that compose the IMF's Special Drawing Rights (SDRs)—a major acknowledgement of China's increasing role in the global economy and financial system—as well as its growing influence in the World Trade Organisation (WTO).

China's ascent came about simultaneously with the decline of US influence and the integrity of its reputation. As Asia-specialist Parag Khanna notes in his book, 'the failures of policy in Iraq, Afghanistan, and Syria have demonstrated the limits of US influence, costing the country substantial credibility'.<sup>1</sup> This was compounded by the 2008 financial crisis and the ripple effect it had on politics thereafter, which further dented its international reputation. At the same time, Asia as a region was undergoing a process of intra-regional reintegration through infrastructure, finance and trade. The result—as it continues today—is the restoration of a pre-colonial dynamic of 'porous borders and soft sovereignty' and a shared sense of identity.<sup>2</sup>

In an age of deglobalisation, the US is at a disadvantage while China—and Asia as a whole—fortify themselves. The previous tools Washington had at its disposal, for example soft power, strong support in multilateral initiatives and third-party institutions, are still there although weakened. Together, these factors make China less vulnerable to external pressure when its actions in the region go against the global moral gradient and threaten to undermine regional

democracies. It is therefore imperative that to contain China's political ambitions, the US must re-centre itself on the global stage. To do so, it will need to rebuild trust among its allies, support policies that foster US-led economic growth—domestically and internationally—and repair its reputation.

For decades the US stood as the vanguard of globalisation and had almost completely unchallenged influence on the global economy and international dialogue. So what went wrong?

## **A New Hegemon, a New World Order**

Following the Second World War, the United States effectively dethroned the United Kingdom as the global hegemon and began to create the foundation for a new world order. The Bretton Woods Conference established the International Monetary Fund (IMF), the World Bank, and set the standard for international dollar-gold conversions. Initially, renowned economist John Maynard Keynes proposed using the Bancor, a nationless medium of exchange, as the global reserve currency. However, the US rejected the measure, and successfully argued to make the US Dollar the global reserve currency which could in turn be redeemed for gold. The US was then at the epicentre of a new financial and economic world, and embedded itself at the heart of these new institutions.

Even after the Nixon Shock, a series of economic measures undertaken by President Richard Nixon in response to increasing inflation in 1971, the US

reinforced its economic position when gold was removed as a metal that could be redeemed for US Dollars. Instead, what replaced it was something intangible but far more powerful: faith. The relative stability of the transition spoke to an underlying international consensus in the belief of the US government. With the largest military in the world and the biggest tax base, confidence in the Dollar helped quell what would have otherwise been comparatively more violent volatility.

In the decades that followed, buttressed by a new financial system with the IMF and World Bank as the primary pillars, global GDP surged from \$1.351 trillion in 1960 to \$25.5 trillion in 1995. That same year, the WTO was founded, simultaneously marking a new era of economic development. An era Economists would come to call hyperglobalisation.

This would be characterised as a period of accelerated interconnectedness along economic, political and cultural dimensions—but also as a time of dramatic rise in global wealth. A 2018 report by the World Bank found that, 'in the 25 years from 1990 to 2015, the extreme poverty rate dropped an average of a percentage point per year—from nearly 36% to 10%'.<sup>3</sup> This period of growth was part of a roughly 25 year period of economic stability known as 'The Great Moderation'. The relative stability of the period indirectly and directly lent credence to the notion that the current global regime was, on balance, functioning well. Faith in it was reinforced through decades of growth and integration—until the fatal touch of hubris undermined the system.

## The Great Recession and a Crisis of Faith

The 2008 recession was not only a financial cataclysm that subsequently plunged the global economy into a recession, but also the start of a general erosion of trust. Blind belief in the system back then, created an underlying complacency. As Oaktree Capital Management Co-Founder Howard Marks put it (quoting Peter Kaufman); 'as any system grows toward its maximum or peak efficiency, it will develop the very internal contradictions and weaknesses that bring about its eventual decay and demise'.<sup>4</sup> In other words, the stability and efficiency of the system itself, ironically created the circumstances for its own collapse. Confidence led to arrogance, then complacency, and in this subdued state policymakers and Wall Street executives let go of the wheel and drove the economy into an abyss. This behavioural change was also evidenced in the cycle of market 'booms and busts'; strong economic times lead to confidence, strengthened optimism leads to higher risk-taking behaviour, due-diligence protocols are relaxed until the fantasy wears off and the reality is undeniable.

The subsequent handling of the crisis and the asymmetry of the recovery led the vast majority of Americans to believe that the institutions were not working for them. Faith and trust in the government began to plummet.<sup>5</sup> What then followed were widespread protests, such as the 'We Are the 99%' protests, and intellectuals questioning the validity and functionality of the current system. This involved a deep questioning of long undisputed policies like globalisation, the nature of third-party institutions like the IMF and WTO and even the government itself. Looking beyond the hysteria, the main resounding outcome was the significant increase of inequality in difficult times. It should be noted that inequality in and of itself is a natural phenomenon and should not be discouraged, but there is a point at which its extremity will lead to a 'mobilisation of resentment' and create a political climate of distrust and disorder. This gave birth to the so-called post-truth era and created fertile ground for the rise of Donald J. Trump.

“

In other words, the stability and efficiency of the system itself, ironically created the circumstances for its own collapse

”

## The Triumph of Trump

If globalisation could be thought of as a ball of yarn, the 2008 recession would be the first tug, and the election of Donald Trump would mark the great unravelling. One risk of implementing globalisation policies, is their homogenising nature. If executed poorly, it can create the seeds of resentment that would later bloom into its undoing; or at the very least, cause a temporary regression. Mr. Trump tapped into this widespread sentiment and used that, along with phrases such as ‘America First’, to ascend to power. This inward-facing nationalism, outdated economic policies, firebrand politics and unilateralism all diminished Washington’s influence and credibility. As I wrote in a piece one year ago, ‘the acidic nature of unilateralism rusts away the institutional foundations of a rules-based system’, leaving doubt and uncertainty in its void.<sup>6</sup>

Even then, and still now, the US’s position sets a standard for global politics—both in dialogue and multilateral policy. When Mr. Trump initiated the trade war with China, a contagion effect took place, and trade wars rippled around the world. States started to act unilaterally. This led to weakened alliances and fewer partners who were willing to stand by the US in their approach towards China. At the same time, hurt from the trade war and disrupted supply chains, China began to turn inward. The most glaring example of this was the ‘dual circulation’ initiative which aims to reduce exposure and dependence on overseas markets and technology, instead focusing on boosting internal consumption. This is the opposite of Deng Xiaoping’s ‘great international circulation’ scheme. The latter approach was shown to have major vulnerabilities to external shocks, such as the 2008 meltdown, and caused widespread doubt about its reliability. This open approach also left China exposed to economic blowback from its increasingly bold political endeavours in Asia. Beijing’s turn inward is part of a major and more alarming trend US policymakers need to watch and address.

“

Beijing’s turn inward is part of a major and more alarming trend US policymakers need to watch and address

”



## Dragons Still Breathe Fire

In a globalised world of economic interconnectedness, the cost of political unilateralism has a multi-iterated ripple effect. It is structurally designed to reduce incentive for states to go rogue and not act with the global moral, economic and political gradient. With this in mind, combined with the isolating effects of the trade war, China has taken measures to partially remove itself from this interconnected system. By widely and deeply integrating into Asia, China becomes more insulated from the external costs incurred from its bold regional endeavours. This also makes China less exposed to outside pressure from the US and its allies as well as Western institutions.

When the new security law in Hong Kong was put forth, protests erupted and were subsequently cracked down on by Beijing. The US immediately condemned and responded to China's actions, and the latter threatened to fight back with 'unspecified countermeasures'. China's aggressive economic and political actions in the South China Sea has also raised tensions with the US, creating greater friction. These include the so-called 'Great Wall of Sand', in reference to island building which accelerated during the pandemic, and reinforcing the artificially created and unrecognised designation of the Nine Dash Line. The Nine Dash Line covers 85 percent of the South China Sea, where \$3.4 trillion worth of goods pass through every year. However, if Beijing makes international territory an extension of its territorial

sovereignty and enforces it, Western pressure to halt this operation would almost certainly escalate the situation. If economic sanctions were imposed, China's economy would be hit but partially shielded by its turn inward.

China's ambition to reclaim Taiwan continues to be an obvious point of contention, as any attempt to speak out against China's claim—even in the US—is met with threats by Beijing. Escalation in the Himalayas is another indication of China's growing territory-expanding aspirations. In 2020, for the first time in almost half a century, Indian and Chinese troops fired upon one another as Beijing steps up its regional fortification.

On the economic side of things, China is leading the largest trade agreement in history, known as the Regional Comprehensive Economic Partnership (RCEP) with 15 partners. Its composition includes the ten Association of Southeast Asian Nations (ASEAN) countries as well as Australia, Japan, South Korea and New Zealand. The trading bloc encompasses almost a third of the globe's population and GDP. This agreement further pulls the centre of gravity regionally, towards China, while simultaneously forcing out the US. Complete decoupling from the world's largest economy is highly unlikely, but a measured retreat from the global economy into the region is a strategic move, and one which allows China to pursue its political objectives.

## The Black Swan: COVID-19

The COVID-19 pandemic inflamed cross-continental geopolitical tensions, and further widened the US-China rift which was already under strain. Disrupted supply chains and asymmetrical information further magnified the already-fracturing global economy from the trade war. It also stoked the conversation of how dependent the US is on China and to what degree economic interconnectedness is feasible when political interests are diametrically opposed.

Beijing's secrecy and lack of cooperation with the West into the origins of the pandemic is a major dilemma policymakers are facing. Australia, whose largest trading partner is China, proposed an international coalition be brought in to investigate the outbreak. In response, Beijing's indignation led to punitive measures in the form of tariffs and other restrictions against the island's economy, which was already facing a precarious growth outlook.

China was showing yet another display of unilateralism and indicated it is not willing to cooperate in a rules-based system. The solution would have been to have had a political and economic framework set up that would have made it more costly for China to not cooperate than to do so. Hence, the Asian giant's partial dis-embedding from the global system has allowed it to operate more freely, and often to the detriment of others.

## Globalisation: Finished or Paused?

The arc of history has generally bent towards greater integration with interims of pushback before a reversion to the political-secular mean takes place. The rise of isolating-nationalism over the past few years can be seen as nothing more than the reassertion of a particular identity against what they view as encroaching universalism. In these circumstances, the strength of international institutions are put into doubt and their power to maintain the global status quo erodes at a commensurate rate. The result is economic, financial and political uncertainty that creates a cyclical compounding force of reinforcement until it exhausts itself and reverses course. This is assuming that the perceived validity of these institutions is able to survive a turbulent period of doubt. They almost certainly will, but their repair will take years of rebuilding trust and unwavering commitment on the part of the United States to preserve their influence and integrity.

Under President Joe Biden, the United States should devote resources to ensuring the integrity and effectiveness of institutions, such as the WTO and IMF, are preserved. Furthermore, it needs to regain the trust of its international partners in order to strengthen regional alliances, if it is to have any hope of standing up to China's growing political ambitions. For decades, the US was able to leverage the strength of international institutions to foster economic growth and development with a targeted political aim of

“

Strengthening alliances, restoring faith in institutions and becoming indispensably integrated with Asia is the way to curb China's growing influence and illiberal rule

”

expanding liberal, democratic ideals. The urgency to do so again increases as China's influence grows.

China appears to be seeking to 'combine Ming Dynasty expansionism with Tang Dynasty cosmopolitanism'.<sup>7</sup> This would certainly correspond with Beijing's stated aims of returning to some kind of pre-colonial dynamic of regional globalisation. However, its economic, political and cultural influence continues to grow beyond the shores of Asia, including the state imitation of its illiberal modes of governance. A recent survey found that from 1945 to present day, the 'percentage of Americans who feel it is "essential to live in a democracy"' has fallen from three quarters to under one-third'.<sup>8</sup> The retreat of the US from the global stage under Trump, has threatened to make undemocratic forms of government more prominent, and even favourable. If this retreat continues, tyranny is but a stone's throw away.

It is therefore imperative for the US to contain China's political ambitions and counter its regional fortification. Strengthening alliances, restoring faith in institutions and becoming indispensably integrated with Asia is the way to curb China's growing influence and illiberal rule. ■

## Endnotes

- 1 Parag Khanna, *The Future is Asian* (New York: Simon & Schuster, 2019), 140
- 2 Parag Khanna, *The Future is Asian* (New York: Simon & Schuster, 2019), 140
- 3 World Bank, *Decline of Global Extreme Poverty Continues but Has Slowed*. (Washington, D.C.: The World Bank, 2018). <https://www.worldbank.org/en/news/press-release/2018/09/19/decline-of-global-extreme-poverty-continues-but-has-slowed-world-bank>
- 4 Howard Marks, *Mastering the Market Cycle* (New York: Houghton Mifflin Harcourt Publishing Company, 2018), 180
- 5 “Public Trust in Government: 1958-2021”. Pew Research Center. Accessed August 1, 2021. <https://www.pewresearch.org/politics/2021/05/17/public-trust-in-government-1958-2021/>
- 6 Dimitri Zabelin, “China-Sweden Tensions Flare Up: Another Trade War in 2020?”, DailyFX, December 2019
- 7 Parag Khanna, *The Future is Asian* (New York: Simon & Schuster, 2019), 137
- 8 Parag Khanna, *The Future is Asian* (New York: Simon & Schuster, 2019), 285



THE LONDON SCHOOL  
OF ECONOMICS AND  
POLITICAL SCIENCE ■

# A Unique International Relations Programme for Decision Makers

**LSE IDEAS**, a centre for the study of international affairs, brings together academics and policy-makers to think strategically about world events.

The **Executive MSc International Strategy and Diplomacy** programme is a one-year degree designed to enhance the strategic vision and negotiation skills of professionals from the public, private or NGO sectors working in an international environment.

The programme has been especially tailored so that you can accelerate your career while holding a demanding position in the public or private sector.

“Right from the first week I was able to apply the lessons I had learnt to our operational and policy work and to coach my teams to look at issues differently.”

—**Dame Karen Pierce**  
UK Ambassador  
to the United States

## CONTACT US

[ideas.strategy@lse.ac.uk](mailto:ideas.strategy@lse.ac.uk)  
[bit.ly/execideas](http://bit.ly/execideas)



# How Can America Challenge China's Political Ambitions in an Age of Deglobalisation?

DIMITRI ZABELIN

**For general enquiries:**

**LSE IDEAS**

Floor 9, Pankhurst House  
1 Clement's Inn, London  
WC2A 2AZ

+44 (0)20 7107 5619

[ideas@lse.ac.uk](mailto:ideas@lse.ac.uk)

[lse.ac.uk/ideas](https://lse.ac.uk/ideas)

COVID-19 has accelerated the trend of de-globalisation and further entrenched China into the growing political and economic fort of Asia. This has made the US less effective at implementing policies aimed at curbing Beijing's political ambitions and strength in the region. Washington must therefore make itself indispensable in Asia and employ strategies for bringing China into a global network that can collectively reign in the Asian giant's growing influence.

