

# A More Insular US. China Fills The Vacuum. China's strategy to neutralize America's containment policy.

For decades the US has relied on emerging markets, especially China, for cheap production, and OPEC and the Middle East for a steady supply of oil. In order to safeguard its interests the US has engaged the world's energy producers and exporters and manufacturing countries politically and strategically. Where America's economic and commercial interests are not served the US has been happy to pursue a policy of unilateralism which to some had come across as arrogant. America's newfound independence in manufacturing led, by onshoring and greater automation, and in energy, led by shale and fracking, have driven foreign policy to be more insular. This has created a political and strategic vacuum which China has been happy and clever to exploit.

The US has always been pragmatic about its international relations. The fight against Communism may have been its last ideological battle. Most of its other strategic campaigns have revolved around protecting commercial interests, trade routes or energy supply. Meanwhile, the US, for reasons valid or not, have been less sociable and have either failed to sign or ratify a long list of international treaties such as Protocols I and II of the Geneva Convention, the International Criminal Court, even the Mine Ban Treaty, and indeed the UNCLOS.

While the US has been busy refocusing on domestic consumption, manufacturing and energy independence China has been building bridges and winning friends. It led the establishment of the **Asian Infrastructure Investment Bank** to which Europe and most of Asia have signed up. Only the US and Japan have not joined the effort. Taiwan and North Korea were turned down. China has become **Africa's leading trading partner** and a growing and important source of investment capital. China's demand for resources may slow but its growing hunger for agricultural goods and farmland will likely grow. In October of 2013, the government announced the **One Road One Belt** initiative to improve connectivity in Eurasia.

In recent months, the Chinese President Xi Jinping has been given a very warm welcome at Buckingham Palace, as deals worth some 30 million GBP were cut. Angela Merkel's recent visit to Beijing yielded some 17 billion USD in aircraft orders for Airbus.

In a further move towards global norms of market economics, China has further liberalized its current account, announcing a new methodology for the currency fixing to include market pricing, demand and supply. Her ambitions for the RMB to be included in the **IMF Special Drawing Rights** will likely be successful further drawing China into the international fold.

Last week, Xi Jinping met with the outgoing Prime Minister of Taiwan, Ma Ying-jeou, marking the event with a carefully choreographed handshake. The last time China hardballed Taiwan, the people voted in the pro-independence DPP. China is not about to make the same mistake and has toned down the rhetoric in the hope that the KMT, who are in any case expected to lose, will prevail in the coming elections.

In the area of financial infrastructure, the China's **Cross-border International Payment System or CIPS** is an important alternative payments system to challenge SWIFT. This is a significant step given the universal utility of SWIFT. When the US threatens any country with economic sanctions, denial of SWIFT is one of the most persuasive elements. CIPS is currently only used for RMB settlement and clearing, but its protocols are compatible with SWIFT and will with time erode SWIFT's monopoly.

In all of this the US is perhaps feeling slightly left out. Hence perhaps the USS Lassen's FONOPs (freedom of navigation operations) 12 nautical miles off the Spratly's on October 28. The US Navy's cruise tours through the international waters of the South China Sea are legal, but it is perhaps awkward to cite the UNCLOS when criticizing Chinese ambitions in the area since the Americans have not themselves ratified this treaty.

With the Americans playing the short game and being rather more mercenarily pragmatic, China has played a more nuanced and skillful hand. China is building or joining clubs and cliques as America has pulled out of regions where they have felt their business interests do not lie.

The positive to take away from all this is that China's strategy of engagement appears peaceful and constructive. It asks that it is allowed to do unto its own people as it sees fit but will otherwise play internationally by international rules. Fair enough since this is the

same argument that gives the US pause in ratifying Protocols I and II of the Geneva convention. If this interpretation is correct it means a lower risk of martial conflict, which can only be positive. The fear has always been an insecure, insular China, turning inwards and away from the rest of the world. The same risk is less likely to apply to the US.

Why would China do this? It is an efficient defence against the America's China containment policy.