

SEVENTY YEARS OF REVOLUTION

Unprecedented backlash marks China's rise...

...With USS Ronald Reagan in the South China Sea, and Japan's Defense White Paper 2019 calling out China as the main security threat to Japan

THIS IS THE seventieth year of China's revolution. In these 70 years, China's spectacular rise as an economic powerhouse with formidable manufacturing and technological prowess is laudable. But China's rise, purported to be a 'peaceful rise', has been anything but peaceful. Its rise has evoked a backlash—a backlash so fierce that it has united even an intensely polarised America.

Japan, too, has viewed China's rise in the region with caution. Japan's recent Defense White Paper 2019 indicated that "qualitatively and quantitatively superior military powers concentrate in Japan's surroundings," referencing China's expansion and intensification of Chinese military activities—ahead of North Korea's enhancement of ballistic missiles.

For decades, China 'bided' its time on the global stage. Indeed, moderniser Deng Xiaoping admonished "the nail that sticks out, gets knocked down." Deng preferred a low-profile China that 'bided its time' (*taoguang yanghui*) and focused on 'bringing in' (foreign investment, technology) in support of economic reforms. When it came to contentious issues, Deng chose to leave it to the "wisdom of future generations." Indeed, Deng's collegial and accommodative diplomacy took the sting out of Tiananmen (in 1989) and, critically, paved the way for Hong Kong's return (in 1997).

In the last decade, China has chosen to deviate from Deng's low-profile mantra—be it in the high seas with territorial disputes in the South China Sea, the East China Sea and the modernisation of the People's Liberation Army Navy (PLAN). In the mountains, China breached the status quo in the Doklam standoff. On land, China's ambitious Belt and Road Initiative, BRI, seeks a global footprint.

Japan's recent Defense White Paper has drawn attention to China's concept of 'Three Warfares' (2003), namely 'Media Warfare' (influencing domestic and public opinion), 'Psychological Warfare' (deterrence) and 'Legal Warfare' (recourse to laws) as part of the work of the military.

In the past decade, this has certainly played out. Make in China 2025, military modernisation by 2020 and innovation power by 2050 have shaped public opinion, both domestic and international. Military modernisation, the key to building deterrence, has been met with aircraft carrier Liaoning, a Russian-built Kuznetsov-class carrier in service in the PLAN in 2012. A new Type 0001A indigenously-built aircraft carrier will be oper-



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ational later this year. China's Type 075 class of amphibious assault ship also marks a breakthrough in China's maritime capabilities. Its territorial disputes in the South China Sea, the East China Sea and the Yellow Sea have taken recourse to domestic and international law.

Among other actions, the fallout of China's Three Warfares is the posturing evident in arm-twisting companies and corporations to fall in line with the One-China policy. For example, American Airlines and Delta had to stop references to Taiwan. Several countries have switched diplomatic allegiance from Taiwan to China. In recent weeks, Solomon Islands and Kiribati switched recognition to China from Taiwan.

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Why did China shift from keeping a low-profile to a 'go-out'? The only mandate that the Communist Party has to stay in power is economic growth, which was inevitably slowing down. China rode the wave of globalisation and the international trading system in the 1980s and 1990s. Reforms lifted millions out of poverty. But reforms also led to sharp inequalities, urban poverty, the phenomenon of 'hol-

lowed-out' villages (because of outmigration), 'left-behind' children (left behind by their parents in the rural areas who went in search of work), land-grabs, environmental pollution, the new realities of China's breakneck reforms. The Communist Party sought to re-energise its mandate by re-framing economic growth in terms of the 'new normal', i.e. slower but qualitative, innovative growth.

The backlash of economic reforms was sought to be contained and channelled by shifting attention from the domestic to the international. Nationalism was deployed to boost up China's image in its own eyes.

Nationalism is nothing new and has been invoked time and again, aided by state manipulation of public opinion. In the past, anti-Japanese and anti-Korean demonstrations have been quickly mobilised. Nationalism has been evident in frequent allusions to China's past glory in East Asia (tributary relationships), 'China Can Say No' (1996 bestseller), the Olympics (2008), the Shanghai Expo (2010) or surpassing Japan as the second largest economy (2010). In fact, it was in 2010 that the then foreign minister Yang Jiechi said in

Hanoi at the ASEAN Meet that "China is a big country and other countries are small countries, and that's just a fact." In 2010, China began to articulate that the South China Sea was part of its 'core interests'.

China's domestic audience was energised with a China that has "stood up, become stronger and richer" seeking its "great power status" of yore, and meeting its inevitable destiny of Two Centenaries—the Two Centenaries implies China's two goals of achieving a 'well-off society' (by 2021, 100 years of the Communist Party) and high-income 'modern socialist country' (by 2049, 100 years of the revolution).

The grand sum of the above was China's premature assertion of its 'great power status' before its time. This assertion explains the backlash against China.

In reality, China's rise has riled. Deeply polarised politics has not prevented unanimity in the trade war against China. There is also bipartisan support on Hong Kong. Ahead of the momentous celebrations in China, the Congressional committees in the US House and Senate approved the Hong Kong Human Rights and Democracy Act, 2019, which will be voted upon in the coming weeks. In another uncharacteristic move, American aircraft carrier USS Ronald Reagan is "conducting routine operations" in the South China Sea.

For China celebrating its 70 years of revolution—70 years of the Communist Party and 70 years of revolution is but a fraction of a fraction in China's grand 5,000-year civilisation. It has been said as much that China has 'learned to learn'.

Certainly, the Communist Party seems to have taken cognisance of a 'peaceful rise' that has gone awry. Speaking at the United Nations Climate Action Summit in New York recently, China's state councillor and foreign minister Wang Yi was keen to emphasise that "seeking hegemony is not in our DNA" and that the "United States is and will still be the strongest country in the world."

China's recent spate of White Papers are attempts to convey a similar message—that China seeks no hegemony but 'peaceful development'. Indeed, the newest White Paper out of China's stables "China and the World in the New Era" hopes that "China contributes to a better world."

Seventy years after the revolution, China may be enmeshed in a 'new era' of 'Xi Jinping Thought', but may be wiser playing Deng's old dictum of aiming high, playing low.

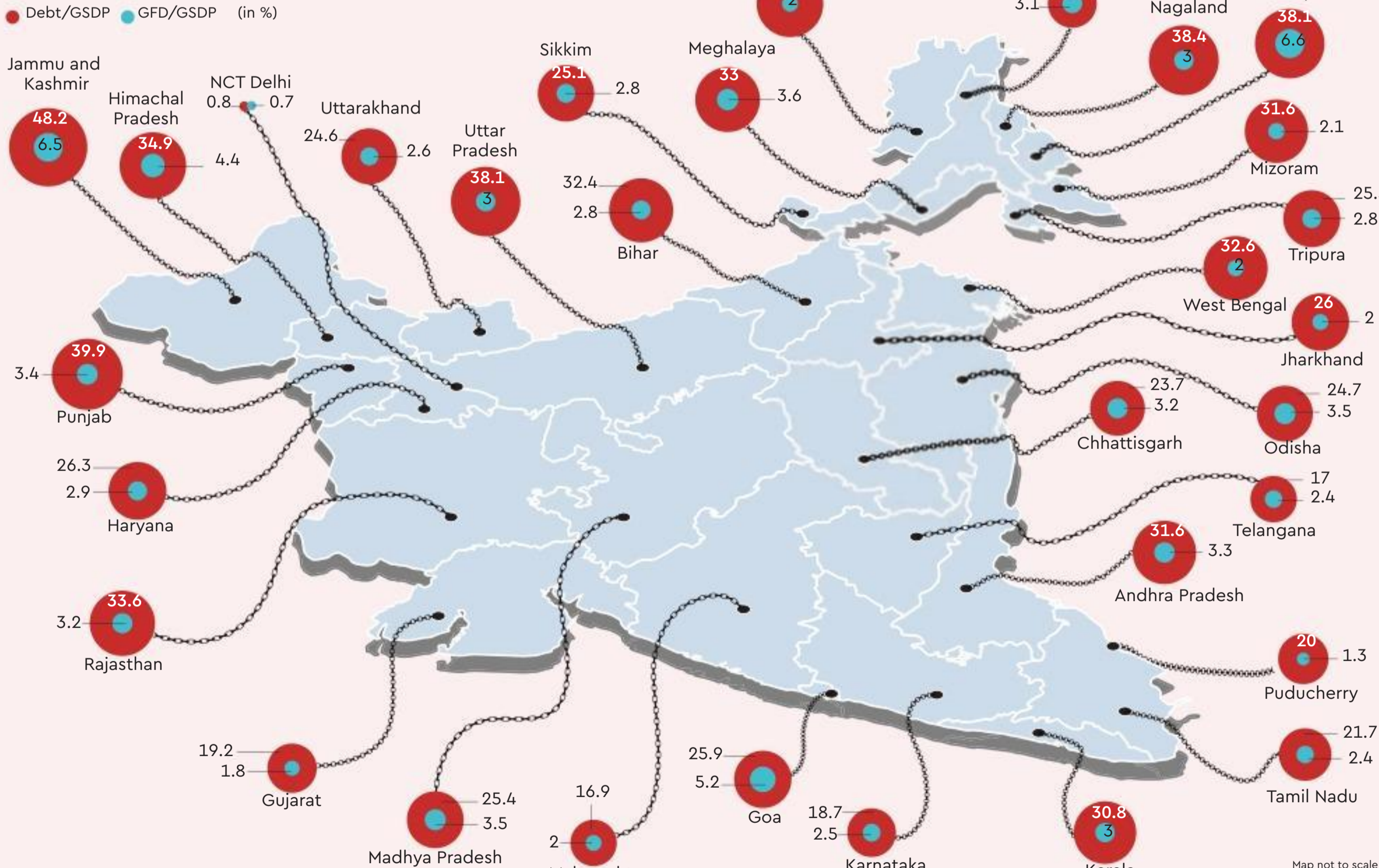
DATA DRIVE

Debt doubts crop up again

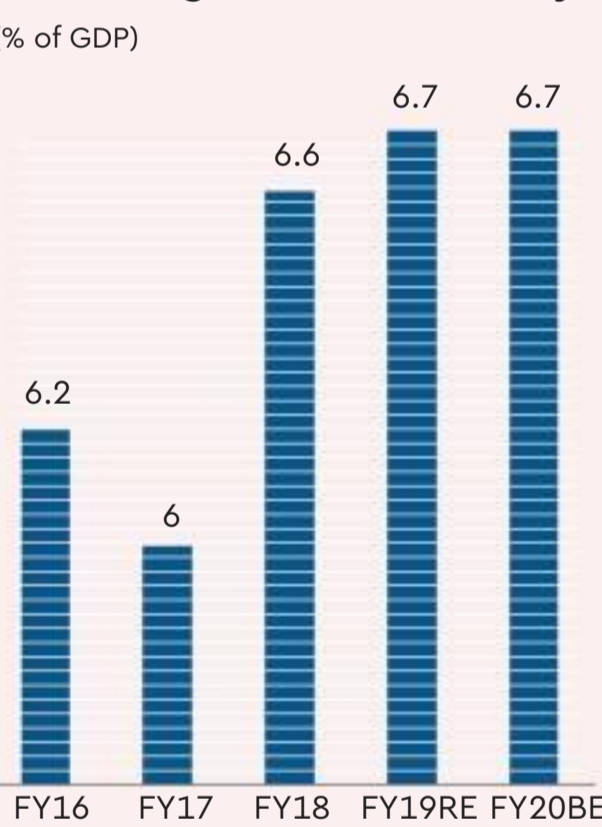
ALTHOUGH FISCAL DEFICIT has been a worry for the states in the past, RBI's latest report on state finances, shows that they are well in the clear as far as fiscal condition is concerned. The combined fiscal deficit budgeted for FY20, although a bit higher at 2.9%, puts them in a comfortable position. More important, if one discounts for UDAY expenditure, it falls to 2.5%, or well within the recommendations of the NK Singh committee. But, all is not rosy—the report shows that there has been no reduction in the debt-to-GDP ratios, budgeted at 24.9. In fact, a closer look at the data reveals that there has been little change in states' own tax and non-tax revenues. While the own-tax revenues are expected to be 6.7% of the GDP, non-tax revenues have been increasing over the last few years. If India is to become a \$5 trillion economy, it cannot do so without the states increasing their revenues—both tax and non-tax—and curbing their non-development expenditures.

Besides, most states require a policy to contain debt, as fiscal prudence shall achieve little if it comes on the back of debt increase and fall in capital expenditures. A better idea, RBI itself suggests, would be to "balance aspirational policy choices against two major operating constraints: generating adequate revenue within the Legislative Framework and adhering to Fiscal Responsibility Legislations (FRLs)."

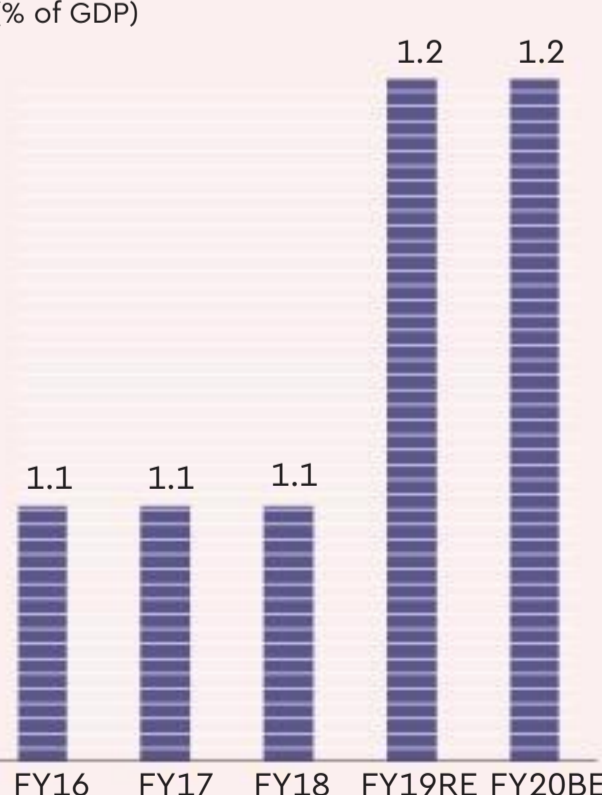
Debt profile



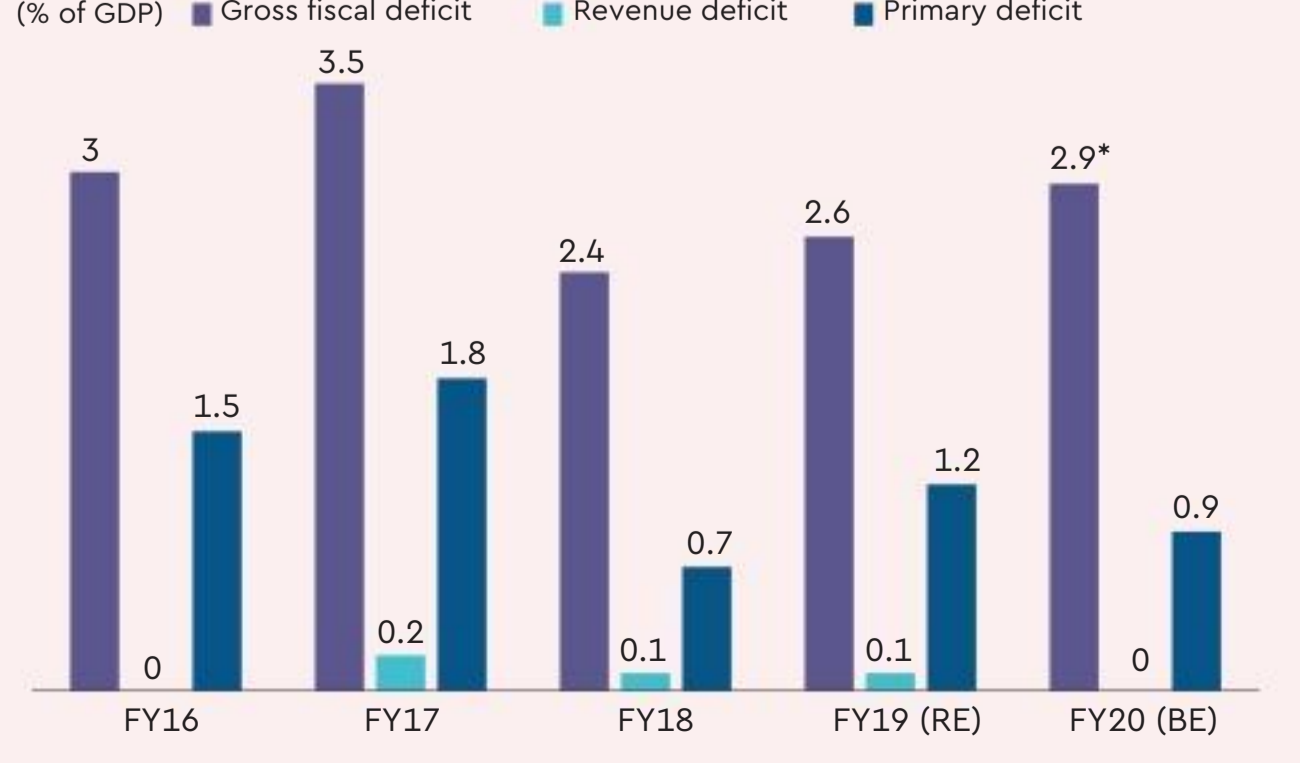
Meanwhile, own tax revenues have not grown substantially



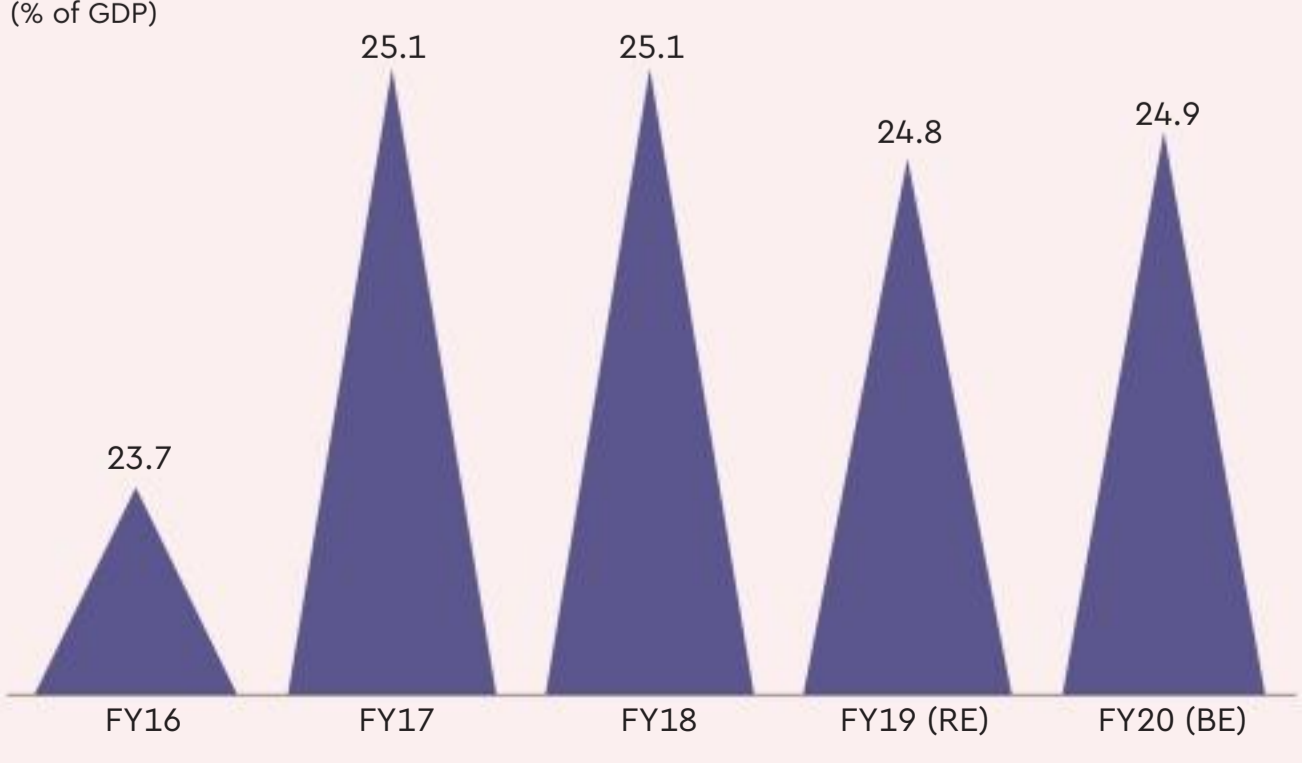
Non-tax revenues have remained flat



While fiscal deficit of states is contained...



...debt is still high



Development revenue expenditure has been rising, but so has non-development revenue expenditure

