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**THESIS**

**A SYSTEMS THINKING APPROACH TO  
UNDERSTANDING CHINESE FOREIGN POLICY**

by

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June 2018

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**A SYSTEMS THINKING APPROACH TO UNDERSTANDING CHINESE  
FOREIGN POLICY**

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## **ABSTRACT**

The foreign policy system of any state is complex and dynamic. Dynamic complexity arises because of multiple feedbacks, non-linearity, multiple interconnections and strong interactions, time delay, and the ability of the agents within the system to adapt. Although there is a tendency to rely on reductionist approaches to establish causal relationships, reductionist approaches tend to provide one-dimensional perspectives and are ill-suited for complex problems with multiple interrelated components.

This thesis shows how adopting a systems thinking approach to examining the Chinese foreign policy system may result in a better understanding of the overall system and its specific subsystems. By converting the variables into a causal loop diagram (CLD), the policy-maker can consider developments through a more holistic perspective and gain insights on feedback, hidden interdependencies, and multiple interrelated components.

The CLDs developed provide illustrations of the complex, multi-dimensional interactive effects of key variables that affect the foreign policy decision-making process in China. With the identification of reinforcing and balancing loops, the policy-maker can gain a better understanding of how system effects can ultimately have an impact on policy outcomes, and perhaps make better-informed decisions.

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## **LIST OF ACRONYMS AND ABBREVIATIONS**

AIIB	Asian Infrastructure Investment Bank
CCP	Chinese Communist Party
CLD	causal loop diagram
CSP	Comprehensive Strategic Partnership
FTA	Free Trade Agreement
IMF	International Monetary Fund
IR	international relations
RAM	Rational Actor Model
RMB	Renminbi
SCS	South China Sea
SDR	Special Drawing Right
UN	United Nations

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## I. INTRODUCTION

Since the People's Republic of China (henceforth China) was established in 1949, China has grown in its strategic weight, economic success and participation at the international level. For China, the secrecy surrounding its political objectives, structures and processes, apparatus and objectives extends to its foreign policy system and to the drivers of its foreign policies.<sup>1</sup> China's foreign relations, together with its foreign policy apparatus, process and concerns have risen in scope and complexity.<sup>2</sup> Besides having official diplomatic relations with more than 170 countries, China is a member of the United Nations (UN), one of the five permanent members of the UN Security Council, and a member of key political and economic organizations at the international and regional levels. China's trade and economic dealings with the world have also increased.

With the rapid growth of China and its rising international influence, China's foreign policy enterprise is significant both in its number of stakeholders as well as its diverse interests; and this has been the focus of increasing research by the international community in recent years.<sup>3</sup> Less attention, however, has been paid to the variables within the system, their interdependencies, and feedback which impact the creation and implementation of Chinese foreign policy.

### A. BACKGROUND

The foreign policy system of any state is a complex and dynamic social system. Dynamic complexity arises because of multiple feedback, non-linearity, multiple interconnections and strong interactions, time delay as well as adaptiveness of agents

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<sup>1</sup> Sun Yun, "Chinese National Security Decision-Making: Processes and Challenges" (working paper, Brookings Institution, 2013), 2, <https://www.brookings.edu/wp-content/uploads/2016/06/chinese-national-security-decisionmaking-sun-paper.pdf>.

<sup>2</sup> Linda Jakobson and Dean Knox, *New Foreign Policy Actors in China*, Policy Paper no. 26 (Sweden: Stockholm International Peace Research Institute, 2010): 1–3, <https://www.sipri.org/publications/2010/sipri-policy-papers/new-foreign-policy-actors-china>.

<sup>3</sup> Jakobson and Knox, 2.

within the system.<sup>4</sup> Carlsnaes defines foreign policy as “those actions which, expressed in the form of explicitly stated goals, commitments and/or directives, and pursued by governmental representatives acting on behalf of their sovereign communities, are directed towards objectives, conditions and actors—both governmental and non-governmental—which they want to affect and which lie beyond their territorial legitimacy.”<sup>5</sup> Hence, foreign policy actors include formal and informal organizations and people who are either officially authorized to formulate foreign policy decisions, involved in the development or implementation process, or are trying to influence foreign policies in some way or another.<sup>6</sup>

Therefore, the foreign policy system is multi-dimensional and complex—made up of multiple entities with diverse interests, varied considerations, differing cultural, organizational or cognitive perceptions, constantly engaged in a cyclical decision-making process that interact non-linearly through dynamic feedback mechanisms. The foreign policy system moreover, does not operate in a vacuum.<sup>7</sup> As Morin and Paquin note, an analyst of foreign policy must be cognizant of and understand the “continuous interaction between actors and the environment..., where the distribution of power between countries and the influence of international stakeholders and intergovernmental organizations partially determine foreign policy.”<sup>8</sup>

The theories of international relations (IR) and foreign policy are generally paradigmatic; and have proven to be largely ineffective in recognizing or predicting the complex behavioral outcomes that result from the complex systems of systems, these

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<sup>4</sup> John D. Sterman, *Business Dynamics: Systems Thinking and Modeling for a Complex World* (Boston: Irwin McGraw-Hill, 2010), 21–28.

<sup>5</sup> Walter Carlsnaes, “Foreign Policy,” in *Handbook of International Relations*, eds. Walter Carlsnaes, Thomas Risse and Beth A. Simmons (London: Sage Publications, 2002), 335.

<sup>6</sup> Jakobson and Knox, 2.

<sup>7</sup> Michael Clarke, “The Foreign Policy System: A Framework for Analysis,” in *Understanding Foreign Policy: The Foreign Policy Systems Approach*, ed. Michael Clarke and Brian White (Cheltenham, UK: Edward Elgar Publishing, 1989), 27.

<sup>8</sup> Jean-Frédéric Morin and Jonathan Paquin, *Foreign Policy Analysis: A Toolbox* (New York: Springer, 2018), Kindle loc. 345–361 of 8456.

nation states represent.<sup>9</sup> Although many IR scholars move beyond the constraints of applying linear thinking and analysis to the behavior of states, Jervis highlights the need to pay more attention to non-linearities, feedback and complex interactions in this field of study.<sup>10</sup>

The reductionist approach essentially involves “seeking to understand the system by looking only at the units and their relations with one another.”<sup>11</sup> Under the approach, the analyst tries to understand how the overall system functions from the understanding of separate component behavior but may neglect wider system complexities and interactions.<sup>12</sup> Furthermore, breaking down a large problem may lead to the crafting of oversimplified strategies because the analyst is prone to examining the components of the system by itself, separate from international or macro processes.<sup>13</sup> As Ackoff asserts, systems in the real world are overwhelmingly non-linear, and reductionism and linear analysis can only provide poor approximations of what we see around us. Hence, he argues for the application of synthetic versus analytic thinking to address system behavior.<sup>14</sup>

In addition, there is an increasing awareness that these approaches do not provide adequate solutions to addressing the complex and probabilistic nature of problems created by human populations.<sup>15</sup> Moreover, the reductionist approach often involves making assumptions which may not be realistic and are instead counter-productive to resolving the issue, such as assuming that the relationship between analysis, intervention and results

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<sup>9</sup> Nuno P. Monteiro, “We Can Never Study Merely One Thing: Reflections on Systems Thinking and IR,” *Critical Review* 24, no. 3 (2012), 345; See also David Shambaugh, “China Engages Asia, Reshaping the Regional Order,” *International Security* 29, No. 3 (Winter 2004/2005), 99.

<sup>10</sup> Robert Jervis, *System Effects: Complexity in Political and Social Life* (Princeton, NJ: Princeton University Press, 1997).

<sup>11</sup> Jervis, 13.

<sup>12</sup> Jake Chapman, *System Failure: Why Governments Must Learn to Think Differently* (London: Demos, 2004), 27.

<sup>13</sup> Chapman, 35.

<sup>14</sup> Russell L. Ackoff, “Systems Thinking and Thinking Systems,” *System Dynamics Review* 10, no. 2-3 (1994): 175–188.

<sup>15</sup> Wayne N. Porter, “The Value of System Dynamics Modeling in Policy Analytics and Planning,” in *Policy Analytics, Modelling, and Informatics*, ed. J. Ramon Gil-Garcia, Theresa A. Pardo, and Luis F. Luna-Reyes (Cham, Switzerland: Springer, 2018), 123.

would be fairly straightforward and linear.<sup>16</sup> Kurtz and Snowden highlighted three other dangerous assumptions which are often made when analysts are faced with complex social systems. First, that order would be present and hence there would be clearly defined causal links. Second, that key stakeholders would make decisions in a rational manner. Lastly, that the actions of adversaries or competitors would be made intentionally.<sup>17</sup>

Twenty years after Robert Jervis wrote his book on *System Effects: Complexity in Political and Social Life*, the use of systems analysis in the examination of international relations and foreign policy issues has not significantly increased.<sup>18</sup> Jervis points out that despite the pertinence of non-linear systems effects to the domain of public policy, the systems approach is under-appreciated and infrequently utilized by officials dealing with foreign policy.<sup>19</sup> In a review of the application of systems thinking to IR, Monteiro believes that systems thinking has not been embraced due to widespread academic preference for causal identification. This has resulted in a tendency to look to reductionist or deterministic approaches to establish the reasons for why events occur. Notwithstanding this observation, he believes in the value of the systems approach and advocates for its application.<sup>20</sup>

## **B. PURPOSE**

This thesis aims to show that there is a need to examine the Chinese foreign policy enterprise through systems thinking. As Sterman describes, systems thinking is “the ability to see the world as a complex system, to understand how everything is connected to everything else. With a holistic worldview, it is argued, we would be able to learn faster

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<sup>16</sup> Chapman, *System Failure*, 64–67.

<sup>17</sup> Cynthia F. Kurtz, and David J. Snowden, “The New Dynamics of Strategy: Sense-Making in a Complex and Complicated World,” *IBM systems journal* 42, no. 3 (2003): 462–483.

<sup>18</sup> Robert Jervis, “System Effects Revisited,” *Critical Review* 24, no. 3 (2012): 393–415.

<sup>19</sup> Jervis, *System Effects*, 394.

<sup>20</sup> Monteiro, “We Can Never Study Merely One Thing,” 343–366.

and more effectively, identify high leverage points, avoid policy resistance and make decisions consistent with our long-term best interests”<sup>21</sup>

Instead of focusing on narrow, monocausal effects and linear relationships, systems thinking trains the analyst to improve the skills to envision the bigger picture and to consider phenomena through a wider lens. As such, this thesis focuses on using the principles of systems thinking to examine the Chinese foreign policy system in an exploratory manner. Through a systems analysis, this thesis will show how the components, interactions and constraints of the Chinese foreign policy system impact its decision-making process and foreign policies.

The goal is to create a framework to better understand Chinese foreign policy. Establishing a framework through which policy-makers or strategic planners can examine the (overarching) components of a system will aid in analyzing the complex interactions between the components and visualizing how the components and its elements may impact policy formulation.<sup>22</sup> Hence, it is expected to yield different perspectives of the interdependencies within the system and allow for greater sensitivity to the critical linkages and interactions within the Chinese apparatus. This should provide a more holistic and better understanding of the Chinese foreign policy system.

### **C. THESIS STRUCTURE**

This thesis is an exploratory study. It considers whether applying systems thinking principles to examining foreign policy will provide greater insights into the system of systems that result in nation state behavior. Since foreign policy resides at the crossroads with theories of IR and an investigation of the foreign policy of a state necessitates synthesis at different levels, the second chapter is a literature review of the key IR theories as well as the use of a systems approach in the field of international affairs. In the third chapter, the systems thinking approach together with some principles which will be applied in later chapters are introduced. The fourth chapter provides a narrative of the key IR

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<sup>21</sup> John D. Sterman, *Business Dynamics: Systems Thinking and Modeling for a Complex World* (Boston: Irwin McGraw-Hill, 2010), 4.

<sup>22</sup> Porter, “The Value of System Dynamics Modeling,” 123–125.

theories which have been used to explain China's behavior in the international system, China's foreign policy drivers, as well as the main bureaucratic politics within the system. In this chapter, the author also identifies the relationships between key variables which are then illustrated using causal loop diagrams. The fifth chapter applies the systems thinking approach to two areas: (1) China's economic reform and its strategy for Renminbi (RMB) internationalization; and (2) China's foreign policy behavior towards Australia. The first area is chosen because of the centrality of economic growth to China's foreign policy; while the second area is chosen because of the significant Sino-Australian economic relationship which is at the same time impacted by many other political, security, and sovereignty issues. The Sino-Australian study also strikes a balance between simplicity and complexity to illustrate the importance of taking a systems approach to examine such bilateral relations. The last chapter summarizes the findings and makes recommendations based on the outcomes of the analysis.

## II. LITERATURE REVIEW

The domain of IR is filled with a multitude of paradigmatic theories explaining the behavior of states in the international system. These include the traditional theories of idealism and realism to the theories of neorealism popularized by Kenneth Waltz and liberalism under Immanuel Kant and Robert Keohane.<sup>23</sup> Idealism, with its strong normative components, asserts that a stable political order requires states to agree to a set of universal values such as human rights and international justice; while realism views the world as anarchic and focuses on the goal of self-interested states to gain power, with states constantly attentive to achieving balance of power.<sup>24</sup> Under neorealism, the key objective of states is to achieve security rather than to pursue power; while liberalism believes that the world would slowly but gradually move towards democracy as trade and finance interdependencies amongst states increase and democratic norms spread.<sup>25</sup>

According to Walt, modern political discourse and analysis is heavily influenced by realism, liberalism and constructivism.<sup>26</sup> In his description, constructivism is an “extension” of idealism. Advocates of constructivism do not discount the relevance of power, but they believe it “emphasizes how ideas and identities are created, how they evolve, and how they shape the way states understand and respond to their situation.”<sup>27</sup>

While these key schools of thought are inadequate in comprehensively elucidating the mechanics of international relations, they are, as Snyder asserts, “useful in providing a vocabulary and conceptual framework.”<sup>28</sup> Other theories which focus on different levels

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<sup>23</sup> James E. Daugherty and Robert L. Pfaltzgraff Jr, *Contending Theories of International Relations*, 5th ed. (Boston: Addison Wesley Longman, 2001).

<sup>24</sup> Stephen M. Walt, “International Relations: One World, Many Theories,” *Foreign Policy*, no. 110 (Spring 1998): 31–41; See also Jack Snyder, “One World: Rival Theories,” *Foreign Policy*, no. 145 (Nov.-Dec. 2004): 52–62.

<sup>25</sup> Snyder, “One World: Rival Theories,” 60–61.

<sup>26</sup> Walt, “International Relations,” 29–31.

<sup>27</sup> Walt, 41.

<sup>28</sup> Snyder, “One World: Rival Theories,” 62.

of analyses, such as state characteristics, behavior of entities within the government apparatus, or different leaders have also been found to be useful and complementary.<sup>29</sup>

The Rational Actor Model (RAM) is based upon rational choice theory and continues to be a major approach used to model inter-state behavior. As Allison alludes to in his book *Essence of Decision*, the reliance on RAM to explain foreign policy events in the international arena is pervasive.<sup>30</sup> The foreign policy actions of states are often assumed to be the products of rational decision making, where the government assesses the issue vis-à-vis its goals, evaluates the available actions according to their utility, then selects the course of action which will provide the highest “payoff.”<sup>31</sup> Despite the utility of this model, it neglects the existence of conflicting bureaucratic priorities within the state.

In contrast, the decision-maker in the organizational behavior model is not a single amorphous entity; but “acts” or “choices” are seen “less as deliberate choices and more as outputs of large organizations, functioning according to standard patterns of behavior.”<sup>32</sup> Each unit in the government usually has predetermined responsibilities but is unlikely to have sole authority to deal with an important issue. Uncertainty is avoided as government entities work on resolving urgent problems “within a framework of familiar rules and routines.”<sup>33</sup>

Under the model of bureaucratic politics, the government bureaucracy is composed of many individuals with different interests and positions of power who bargain among themselves to determine policy outcomes. These individual actors may not share a consistent view on national strategic goals. Hence, foreign policy choices are dependent on

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<sup>29</sup> Walt, “International Relations,” 34.

<sup>30</sup> Graham T. Allison and Philip Zelikow, *Essence of Decision: Explaining the Cuban Missile Crisis*, 2<sup>nd</sup> edition. (New York: Longman, 1999).

<sup>31</sup> Allison and Zelikow, 13.

<sup>32</sup> Allison and Zelikow, 143.

<sup>33</sup> Daugherty and Pfaltzgraff Jr, *Contending Theories of International Relations*, 5th ed., 571–572.

the interaction of these actors who hold different notions of national, organizational, domestic and personal interests.<sup>34</sup>

Furthermore, there exists a hierarchy of power to which these individual actors belong. Besides a group of senior actors who wield much decision-making authority, there will also be junior actors who bear less influence. Senior actors typically include major political appointment holders, heads of national entities and top military leaders, while junior actors would include large interest groups and mainstream media.<sup>35</sup>

The domain of IR and foreign policy separates the study of state's behavior into three levels of analyses—the system, state, and individual levels. Although Waltz draws a clear delineation between international politics and foreign policy,<sup>36</sup> other scholars highlight the need to study all levels of analysis to better understand state behavior; especially since a foreign policy system is embedded within the larger state system, which also exists as a subsystem within the larger international system.<sup>37</sup>

To Waltz, a systemic approach to IR involves determining the “structure” which is created when states interact on the international level.<sup>38</sup> This “bounded system” limits the behavior of states within the international system and essentially “constrains them from taking certain actions and disposes them towards taking others.”<sup>39</sup> In addition, one of the key goals of the theory is to “explain how the variations in conditions external to states push or pull them in various directions.”<sup>40</sup>

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<sup>34</sup> Graham T. Allison and Morton H. Halperin, “Bureaucratic Politics: A Paradigm and some Policy Implications,” *World Politics* 24, no. S1 (1972), 40–79.

<sup>35</sup> Allison and Halperin, 47.

<sup>36</sup> Kenneth N. Waltz, “International Politics is not Foreign Policy,” *Security Studies* 6, no. 1 (1996): 54–57.

<sup>37</sup> Michael Clarke, “The Foreign Policy System: A Framework for Analysis,” in *Understanding Foreign Policy: The Foreign Policy Systems Approach*, ed. Michael Clarke and Brian White (Cheltenham, UK: Edward Elgar Publishing, 1989), 27.

<sup>38</sup> Kenneth N. Waltz, *Theory of International Relations* (Reading, Mass.: Addison-Wesley, 1979), 40.

<sup>39</sup> Waltz, “International Politics is not Foreign Policy,” 54.

<sup>40</sup> Waltz, 54.

On the other hand, a foreign policy theory would “explain why states similarly placed in a system behave in different ways,” and variances in actions are a result of distinctions in internal composition.<sup>41</sup> The key targets to be examined would be the government or the decision-making entities and any effort to examine IR at the unit level constitutes a reductionist approach.<sup>42</sup>

The various theories and decision-making models in literature all have merit. Apart from these theories, Daugherty and Pfaltzgraff highlight that systems theory and the systems approach has been in existence since Bertalanffy developed his general systems theory.<sup>43</sup>

As early proponents of the general systems theory and systems approach respectively, Bertalanffy and Churchman have both reiterated the importance of studying problems as a whole rather than examining processes and their components in isolation. As Bertalanffy notes, “the essential problems are the organizing relations that result from dynamic interaction and make the behavior of parts different when studied in isolation or within the whole;”<sup>44</sup> while Churchman affirms that “systems are made up of sets of components that work together for the overall objective of the whole.”<sup>45</sup>

Authors such as Easton have applied systems analysis to political life and advocated treating political life as a goal-seeking system.<sup>46</sup> Furthermore, Jervis argues that system effects are highly prevalent in political and social life because of the dynamic complexities of such systems; and demonstrates how systems cannot be fully comprehended if analysts

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<sup>41</sup> Waltz, “International Politics is not Foreign Policy,” 54.

<sup>42</sup> Waltz, *Theory of International Relations*, 40.

<sup>43</sup> James E. Daugherty and Robert L. Pfaltzgraff Jr, *Contending Theories of International Relations*, 2nd ed. (NY: Harper & Row Publishers, 1981), 138.

<sup>44</sup> Ludwig Von Bertalanffy, “General Systems Theory,” in *General Systems, I* (1956), 1–10; reprinted in *Human Behavior and International Politics: Contributions from the Social-Psychological Sciences* (Chicago, Illinois: McNally, 1965), 21; quoted in James E. Daugherty and Robert L. Pfaltzgraff Jr, *Contending Theories of International Relations*, 2nd ed. (NY: Harper & Row Publishers, 1981), 138.

<sup>45</sup> Charles W. Churchman, *The Systems Approach* (NY: Dell Publishing Co., 1968), 12.

<sup>46</sup> Easton, David. *A Systems Analysis of Political Life* (New York: John Wiley, 1965).

are focused only on studying the features and objectives of each component.<sup>47</sup> He advocates considering the dynamics within a system, specifically the interconnections and interactions (feedback) among the different components that make up the system. Since causation is complex and not easily attributable, the standard comparative method does not allow us to understand systems adequately.<sup>48</sup> According to Jervis, the complexities of a system could include nonlinearities, feedback effects, indirect effects, contingencies, interaction effects, as well as unintended consequences.<sup>49</sup>

Systems effects are especially prevalent in social systems. Furthermore, individuals in the system will be influenced by their own mental models and expectations about system effects.<sup>50</sup> Jervis also suggests that the concept of co-evolution binds different actors within a system, which in turn influences their behaviors.<sup>51</sup> The system is also affected by changes in actors' relationships because these can cause third parties' powers to change in response.<sup>52</sup>

One should be careful to differentiate between Waltz's definition of a systemic approach to IR and taking a system thinking approach to examining the foreign policy system holistically. As Monteiro emphasizes, systemic theorizing is one key approach that should also be leveraged to examine and understand the different system effects Jervis describes.<sup>53</sup> In his review, besides noting that systems thinking has not been widely used; Monteiro also cautions that correlation is often mistaken for causation in complex systems, making the use of fixed rules to determine causal relations both challenging and risky. Nonetheless, Monteiro believes in the value of the systems approach and suggests that

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<sup>47</sup> Jervis, *System Effects*.

<sup>48</sup> Jervis, "System Effects Revisited," 412.

<sup>49</sup> Jervis, 393.

<sup>50</sup> Amos Tversky and Daniel Kahneman, "Judgment under Uncertainty: Heuristics and Biases," *Science* 185, no. 4157 (1974), 1124–1131.

<sup>51</sup> Jervis, "System Effects Revisited," 399.

<sup>52</sup> Jervis, 407.

<sup>53</sup> Monteiro, "We Can Never Study Merely One Thing," 351.

academics should move away from a focus on isolated cause and effect, as it forces IR scholars to give up on approaches which have systems dimensions.<sup>54</sup>

The disorganized nature of policy-making has led Clarke to characterize the domain of foreign policy as complex. He goes on to describe the domain as comprising “a mixture of political decisions, non-political decisions, bureaucratic procedures, continuations of previous policy, and sheer accident.”<sup>55</sup> Moreover, the foreign policy system is “constantly in operation, reacting to stimuli, changing and adapting,” where the “components of the system, the variables, are obviously interdependent and so will react continuously with each other.”<sup>56</sup>

In the same book, White concludes that the utility of the systems approach lies in helping researchers to determine the scope of relevant variables, identify the potential relationships, and finally developing explanations for foreign policy.<sup>57</sup> Furthermore, it enables the development of a framework that is wide-ranging and adaptable enough to incorporate the key variables and complexities involved in foreign policy development.<sup>58</sup>

System Dynamics Modeling has been applied in the area of policy analytics and modeling and has been found to be a valuable tool in assisting “policy and planning analysts in order to better inform decision makers and, ultimately, to overcome the pitfalls of policy resistance, cognitive biases, and dissonance among communities of interest seeking to find common analytic ground.”<sup>59</sup>

Of note, the use of a systems thinking approach in analyzing U.S.-China relations by Whitcomb et. al. was reported to have enabled analysts to break existing mindsets to

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<sup>54</sup> Monteiro, “We Can Never Study Merely One Thing,” 364–366.

<sup>55</sup> Clarke, “The Foreign Policy System,” 27.

<sup>56</sup> Clarke, 31.

<sup>57</sup> Brian White, “Analyzing Foreign Policy: Problems and Approaches,” in *Understanding Foreign Policy: The Foreign Policy Systems Approach*, ed. Michael Clarke and Brian White (Vermont: Edward Elgar Publishing, 1989), 18.

<sup>58</sup> White, 18.

<sup>59</sup> Porter, “The Value of System Dynamics Modeling,” 123.

offer different perspectives and deliver new insights.<sup>60</sup> In addition, the concepts of systems thinking have also been applied to examine the U.S. national security enterprise as a system and uncover the non-obvious relations between elements which are often overlooked by policy-makers when formulating policies.<sup>61</sup>

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<sup>60</sup> Clifford A. Whitcomb, et. al, *A Systems Approach to Modeling Drivers of Conflict and Convergence in the Asia-Pacific Region in the next 5–25 years*, NPS Technical Report SE-15-001 (Monterey, CA: Naval Postgraduate School, 2015), <http://hdl.handle.net/10945/45531>.

<sup>61</sup> Daniel H. McCauley, “Failing with Single-Point Solutions: Systems Thinking for National Security,” *Small Wars Journal* (Oct 2015), <http://smallwarsjournal.com/jrnl/art/failing-with-single-point-solutions-systems-thinking-for-national-security>.

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### III. SYSTEMS THINKING AND THE SYSTEMS APPROACH

Systems thinking is not meant to replace the reductionist approach. In reality, most problems would require some combination of systems and reductionist thinking approaches to develop better solutions.<sup>62</sup> Several scholars agree that reductionist approaches are effective for analyzing separate sections of an often immense and complicated problem but often only provide one-dimensional solutions for complex problems with multiple interrelated components; while holistic system thinking allows for the synthesis of different aspects to form a whole-of-systems approach.<sup>63</sup> In this chapter, various systems thinking principles to aid in the development of a framework to examine Chinese foreign policy are introduced.

#### A. SENSE-MAKING FRAMEWORK

In their development of a sense-making framework known as the Cynefin Framework (CF), Kurtz and Snowden argued that the widely accepted assumptions of “order, rationality and intentional capability” do not always hold true for social systems.<sup>64</sup> This is because humans can have more than one identity at any one time, can take on different identities based on the roles an individual finds him- or herself in, and do not always act within the boundaries of established rules.<sup>65</sup> Instead, humans exhibit “free will and complex intentionality such as retrospective elaboration, duplicity and internal conflict, amongst others.”<sup>66</sup> In such systems, order and un-order coexist, interconnect and interact with each other—an example of which is the co-existence of official bureaucratic structures and unofficial trust networks in organizations which support yet compete with one another.<sup>67</sup>

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<sup>62</sup> Chapman, *System Failure*, 37.

<sup>63</sup> Chapman, 54; See also McCauley, “Failing with Single-Point Solutions.”

<sup>64</sup> Kurtz and Snowden, “The New Dynamics of Strategy,” 462–463.

<sup>65</sup> Kurtz and Snowden, 462–463.

<sup>66</sup> Kurtz and Snowden, 462–465.

<sup>67</sup> Kurtz and Snowden, 466.

Kurtz and Snowden describe five domains with distinguishing characteristics which systems may be categorized into at any given time.<sup>68</sup> The five domains are: known, knowable, complex, chaos, and disorder. The framework is a visualization aid which enables analysts to picture and achieve a deeper appreciation into how systems function in different domains.<sup>69</sup> See Figure 1. By identifying the domain or domains in which a system is operating, decision makers would be better positioned to adopt the types of tools, processes, or solutions which are more likely to be effective for that particular system.<sup>70</sup>

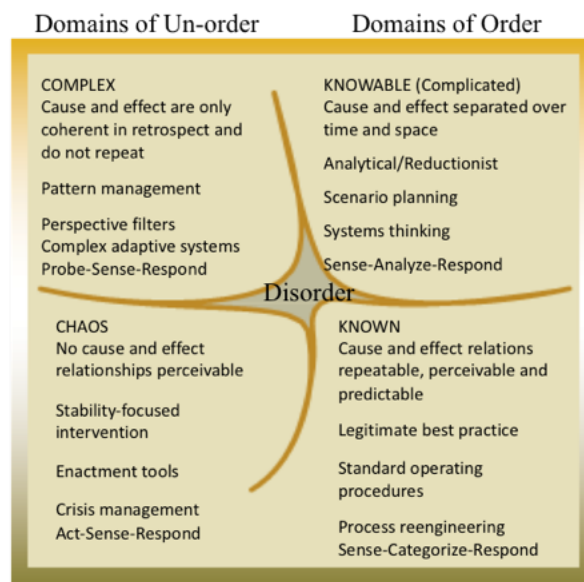


Figure 1. Cynefin framework<sup>71</sup>

Reductionist or analytic approaches are generally effective for systems in the known and knowable domains, typically described as ordered.<sup>72</sup> In the known domain, associations between cause and effect are usually straightforward and causal relationships

<sup>68</sup> Kurtz and Snowden, “The New Dynamics of Strategy,” 468.

<sup>69</sup> William H. Dettmer, “Systems Thinking and the Cynefin Framework-A Strategic Approach to Managing Complex Systems,” (Port Angeles, WA: Goal Systems International, 2011): 9.

<sup>70</sup> Dettmer, 10.

<sup>71</sup> Source: Kurtz and Snowden, “The New Dynamics of Strategy,” 468.

<sup>72</sup> Kurtz and Snowden, 466.

are “repeatable, perceivable and predictable.”<sup>73</sup> Since the outcomes of known systems are usually highly predictable with less uncertainty, answers can be determined with a higher degree of accuracy using available data or facts.<sup>74</sup>

For systems in the knowable domain, the outcomes require more effort to determine since causes and their effects are likely to be separated temporally and spatially; with problems becoming more ambiguous and answers having greater variability.<sup>75</sup> In the knowable domain, knowledge about the causal factors and their consequences is “difficult to fully understand,” especially since it “may be known only by a limited group of people,” and would probably have to be provided by specialists in the particular field.<sup>76</sup>

When applying systems thinking to the ordered domains, the key assumption made is that a body of knowledge can be formed after the rules or hypotheses from the examination of observable conditions are proven using empirical data; Kurtz and Snowden assert that this assumption is not valid when studying systems in the domain of un-order.<sup>77</sup>

The Cynefin framework illustrates that systems which are complex or chaotic exhibit “unorder,” where there is no clear and easily discernable structure, organization or linkage between cause and effect.<sup>78</sup> In complex systems, many entities may interact in a non-linear fashion.<sup>79</sup> For complex systems such as stock markets and organizations dealing with international relations, one may observe emergent patterns but will not be able to develop predictions, since the patterns may recur for a period of time but may not necessarily be repeated.<sup>80</sup>

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<sup>73</sup> Kurtz and Snowden, “The New Dynamics of Strategy,” 468.

<sup>74</sup> Dettmer, “Systems Thinking,” 9–10, 18.

<sup>75</sup> Kurtz and Snowden, “The New Dynamics of Strategy,” 468; See also Dettmer, 11–12.

<sup>76</sup> Kurtz and Snowden, 468.

<sup>77</sup> Kurtz and Snowden, 466.

<sup>78</sup> Dettmer, “Systems Thinking,” 13–14.

<sup>79</sup> Kurtz and Snowden, “The New Dynamics of Strategy,” 464.

<sup>80</sup> Dettmer, “Systems Thinking,” 13–14.

The chaotic domain is turbulent with high uncertainty—the realm of the “unknown unknowns;” while the domain of disorder is described as a “breakdown of the system.”<sup>81</sup> A system in the chaotic domain constantly changes and there is unlikely to be perceivable relations between cause and effect or any observable patterns.<sup>82</sup>

While the ordered part of the framework can be adequately addressed through standard operating procedures or methods of analysis, the reductionist approach does not work well for complex and chaotic systems which reside on the unordered end of the spectrum, hence necessitating the application of a systems thinking approach.<sup>83</sup>

## **B. IMPORTANT FEATURES OF COMPLEX SYSTEMS**

In complex systems, there will be many elements that dynamically interact with one another in a non-linear fashion, affecting not only those directly involved in the interaction but also, ultimately, system behavior.<sup>84</sup> They are also characterized by “self-organization, resilience and hierarchy,” where components will organize into learning structures, adapt to challenges and in the process cause the wider system to change, and form subsystems within bigger systems for maximum efficiency.<sup>85</sup> In addition, Churchman emphasizes that emergent behavior is often a feature of complex systems, in which developments may progress in unanticipated ways.<sup>86</sup> In complex systems, besides having diverse interconnections and feedbacks, events and their causes may be temporally and spatially separated, making it challenging to predict the detailed consequences of interventions.<sup>87</sup>

Jervis also asserts that features of complex systems also extend to complex social systems in domains such as international relations and foreign policy, where consequences

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<sup>81</sup> Kurtz and Snowden, “The New Dynamics of Strategy,” 469–470.

<sup>82</sup> Kurtz and Snowden, 469.

<sup>83</sup> Kurtz and Snowden, 466–469.

<sup>84</sup> Sterman, *Business Dynamics*, 21–23.

<sup>85</sup> Donella H. Meadows, *Thinking in Systems: A Primer* (London: Earthscan, 2008), 76–85.

<sup>86</sup> Churchman, *The Systems Approach*, 12.

<sup>87</sup> Sterman, *Business Dynamics*, 189–190.

are often found to be “counter-intuitive.”<sup>88</sup> With the complex interdependence of behavior in the global system, interactions are often not bilaterally determined; and effects on the overall system cannot be predicted by adding results from separate actions.<sup>89</sup>

Policy actions do not take place in isolation, often having both direct and indirect effects, and the strategy a stakeholder takes may depend on the strategies of others within the wider system.<sup>90</sup> Behavior within the system may also result in changes to the external environment and structure of the system.<sup>91</sup> Moreover, the phenomenon of bounded rationality is also prevalent, in which actors use incomplete or imperfect information that bounds the apparently rational decisions they make.<sup>92</sup> Ultimately, complex interactions can also create other unforeseen “indirect, mediated and delayed effects.”<sup>93</sup> This could result in new forms of behavior which would not have been expected.

Sterman warns about the prevalence of compensating feedback in complex systems which leads to failures in policies or actions taken to resolve the problem.<sup>94</sup> He describes that policies directed at alleviating the problem trigger feedback from actors with other goals who respond in ways which offset the intended effects of the policy. This undermines the original anticipated effects of the policy applied and often leads to policy resistance towards future action.<sup>95</sup>

When the causal structure is depicted in a visual diagram, it is clearer how compensating feedback can lead to policy resistance in complex systems. While the effect from each separate loop may be weak, the combination of separate effects may completely

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<sup>88</sup> Jervis, *System Effects*, 7, 29–91.

<sup>89</sup> Jervis, 32–39.

<sup>90</sup> Jervis, 48.

<sup>91</sup> Jervis, 48.

<sup>92</sup> Meadows, *Thinking in Systems*, 105–110.

<sup>93</sup> Jervis, *System Effects*, 29.

<sup>94</sup> Sterman, *Business Dynamics*, 189.

<sup>95</sup> Sterman, 189.

undermine the original policy intentions.<sup>96</sup> Ultimately, actions do not always produce the intended outcomes.

### C. APPLYING A SYSTEMS THINKING APPROACH

The Cynefin framework illustrates the importance of applying a systems approach to political and foreign policy systems, which can be classified as complex.

The world is accustomed to the reporting of events and state behavior in the media. The most visible and immediate outcomes or occurrences often take center stage, with many assuming that the individuals or groups who are featured at the forefront are responsible for the event. But as Sterman notes, “the event-oriented worldview leads to an event-oriented approach to problem solving;” but the issues arising from complex systems cannot be resolved using a symptom-focused or event-focused mindset.<sup>97</sup> Despite recognizing that the world is complex and often-times chaotic, most people continue to find comfort in thinking in non-systemic terms.<sup>98</sup>

Systems theory is defined as “a series of statements about relationships among independent and dependent variables in which changes in one or more variables are accompanied, or followed, by changes in other variables or combinations of variables.”<sup>99</sup> Systems thinking is a way of approaching issues to determine how interactions and feedback within a system’s structure result in observable behavioral outcomes. Rather than trying to respond to individual problems which arise, a systems thinker will examine the “patterns of behavior, supporting structures, and mental models that underlie a particular event.”<sup>100</sup> The structure includes organizations, policies, regulations, constraints, and even

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<sup>96</sup> Sterman, 189.

<sup>97</sup> Sterman, 10.

<sup>98</sup> Chapman, *The Systems Approach*, 72.

<sup>99</sup> Daugherty and Pfaltzgraff Jr., *Contending Theories of International Relations*, 2nd ed., 135.

<sup>100</sup> Original information published by Michael Goodman in 2002; “The Iceberg Model,” ASCD, accessed May 24, 2018, [http://www.ascd.org/ASCD/pdf/journals/ed\\_lead/el200910\\_kohm\\_iceberg.pdf](http://www.ascd.org/ASCD/pdf/journals/ed_lead/el200910_kohm_iceberg.pdf).

culture; while mental models are the deeply held (often subconscious) beliefs, attitudes, values and expectations of individuals and organizations.<sup>101</sup>

As Sterman cautions, “the heuristics we use to judge causal relations lead systematically to cognitive maps that ignore feedbacks, multiple interconnections, time delays, and the other elements of dynamic complexity.”<sup>102</sup> Therefore, those seeking to apply systems thinking must acknowledge that the world is a complex system where everything is interconnected and where feedback loops shape behavior. Systems thinkers would try to incorporate the influence of “all stakeholders, factors, interactions and outcomes that led to and resulted from the action.”<sup>103</sup>

### **1. Single-Loop versus Double-Loop Learning**

In single-loop learning, the feedback of information from the real world causes the decision-maker to modify choices made based on prevailing frames of reference and decision-making principles.<sup>104</sup> In double loop learning however, Sterman highlights there is an added dimension where the feedback also causes existing mental models to change, and the modified system structure essentially results in a change in behavioral patterns. In his explanation, Sterman states that with a variation in mental models, the decision-maker would usually modify his system structure, leading to the establishment of new decision rules and strategies. At this point, the information which was previously processed under the old mental construct is now processed and evaluated using the revised decision rule, possibly resulting in a different choice.<sup>105</sup> See Figure 2 for the differences between single-loop learning on the left and double-loop learning on the right.

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<sup>101</sup> ASCD, “The Iceberg Model.”

<sup>102</sup> Sterman, *Business Dynamics*, 28.

<sup>103</sup> Kristen N. Wood, “Covert Action: a Systems Approach” (Master’s thesis, Naval Postgraduate School, 2014), 21, <http://hdl.handle.net/10945/44692>.

<sup>104</sup> Sterman, *Business Dynamics*, 18–19, 25.

<sup>105</sup> Sterman, 18–19, 25.

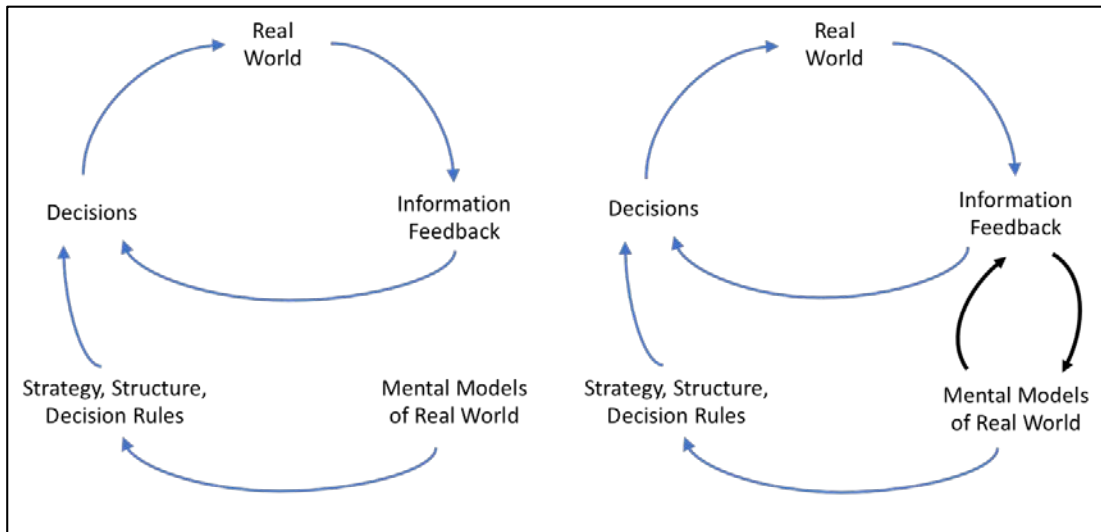


Figure 2. Single-loop versus double-loop learning<sup>106</sup>

## 2. Causal Loop Diagram

A causal loop diagram (CLD) is used to reflect the causal relationships among variables with arrows and is useful as a visualization tool to illustrate how the different system components interact within the context of the issue being examined.<sup>107</sup> The CLD also aids in “the identification of the behavior of feedback structures at play within bounded systems and subsystems,” showing the relationships and interconnectivity amongst the components (various facets of the problem) in a systemic rather than a linear manner.<sup>108</sup> The arrow begins from the independent causal variable and ends at the dependent variable where the effect is reflected; and every link reflects what the analyst believes to be causal relationships between the variables.<sup>109</sup>

Sterman describes that the polarity between dependent and independent variable should be determined using individual links. This is accomplished by assuming that all other variables are constant while focusing on one cause and its effect. The arrows will be

<sup>106</sup> Source: Sterman, 18–19.

<sup>107</sup> Sterman, 102.

<sup>108</sup> Porter, “The Value of System Dynamics Modeling,” 146.

<sup>109</sup> Sterman, *Business Dynamics*, 18–19, 141.

marked with notations of polarity to signify positive or negative feedback between the variables. If the relationship is positive, an increase/decrease in the independent causal variable will lead to an increase/decrease in the dependent variable to which it is connected. If the feedback is negative, an increase/decrease in the independent causal variable will lead to a decrease/increase in the dependent variable in the dependent variable to which it is connected.<sup>110</sup>

As Sterman emphasizes, when one causal variable rises, it does not mean that the dependent variable will definitely increase, as a variable may have more than one causal variable which affects it simultaneously. Hence, the overall behavior of the system in reality will be a result of the simultaneous interaction of all the variables.<sup>111</sup> In addition, short and long run policy effects may differ greatly due to delays in the effect of a causal factor on its dependent variable, hence resulting in system inertia. As such, delays which are significant relative to the time period of a hypothesis should be incorporated.<sup>112</sup>

To verify the loop's overall polarity, track the propagation of a change in one variable around the loop.<sup>113</sup> According to Meadows, a feedback loop where the polarities between variables are all positive can either be a vicious or virtuous circle which will result in uncontrolled destruction or healthy growth. Since it exhibits reinforcing behavior, it is termed a reinforcing feedback loop, and the loop will be labelled with an "R" in the CLD.<sup>114</sup> On the other hand, a feedback loop where there are both negative and positive polarities between variables tends to lead to a regulating or stabilizing circle. Since it exhibits balancing behavior, it is termed a balancing feedback loop, and the loop will be labelled with a "B" in the CLD.<sup>115</sup>

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<sup>110</sup> Sterman, 137–156.

<sup>111</sup> Sterman, 139–140.

<sup>112</sup> Sterman, 150.

<sup>113</sup> Sterman, 144.

<sup>114</sup> Meadows, *Thinking in Systems*, 28.

<sup>115</sup> Meadows, 28.

An example of corruption is used to illustrate how the causal relations are determined. The United Nations Office on Drugs and Crime (UNODC) links corruption to the erosion of public trust in law and order within the government.<sup>116</sup> When the level of corruption within the government increases, it causes a decrease in law and order which, if unchecked, will lead to greater levels of corruption. However, in a larger system, it is noted that increasing levels of corruption are likely to lead to a decrease in population support for the government. As population support for the government drops, it would lead to more calls for anti-corruption measures. In a democratic country where population support matters, it may lead to increasing law and order. See Figure 3. From this CLD, it is more apparent that two factors can have an impact on law and order. In addition, tracing the polarities of the different links along the loops reveal a reinforcing loop (denoted by R) as well as a balancing loop (denoted by B).

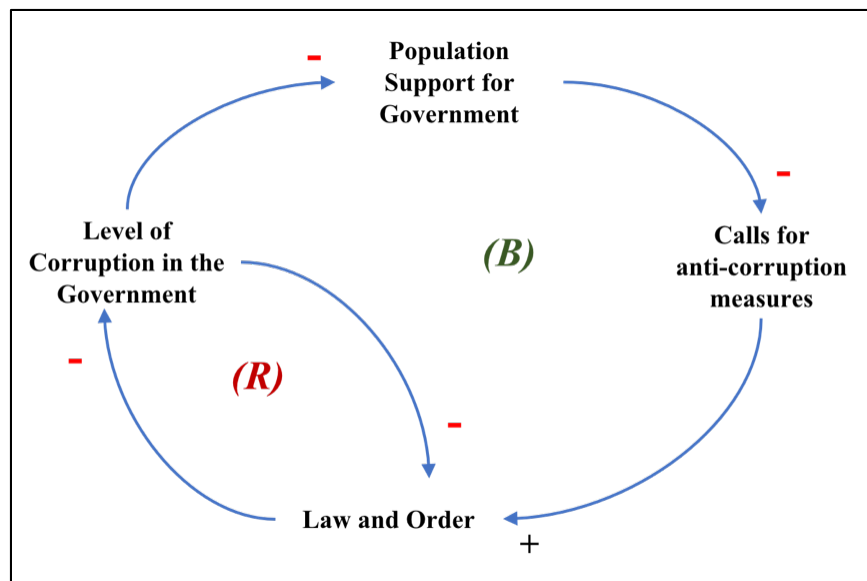


Figure 3. Illustration of a CLD using an example on corruption

<sup>116</sup>“UNODC’s Action against Corruption and Economic Crime,” United Nations Office on Drugs and Crime, accessed May 15, 2018, <http://www.unodc.org/unodc/en/corruption/index.html>.

In the next chapter, a qualitative CLD of the Chinese foreign policy system is developed based on information from the literature review and qualitative data gathered from recognized sources. The CLD also serves as a tool for different stakeholders to express their implicit assumptions concerning causal relations, and thus achieve a shared perspective to aid in policy decisions.

The primary task is to construct the CLD using the key variables of the system and major feedback loops identified. Although the system boundaries drawn for the systems and subsystems examined are artificial, it is a necessary step which allows problems to be more easily analyzed.<sup>117</sup>

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<sup>117</sup> Sterman, *Business Dynamics*, 89, 222.

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## IV. FOREIGN POLICY IN CHINA

Adopting a systems thinking approach to the Chinese foreign policy enterprise is not meant to yield a predictive model. A systems thinking approach attempts to consider key factors from different perspectives and then organize the factors identified and map the relationships between them in a CLD. The CLD is a visualization tool to aid analysts in uncovering hidden relationships and feedback loops that may cause unanticipated effects. By converting a discussion or written narrative into a CLD, a “more disciplined approach to a deeper and broader understanding of the actors, formal and informal rules, endogenous and exogenous factors, and drivers of change is developed.”<sup>118</sup>

For a country such as China with such a large geographical mass and diverse interests, it is challenging to map out the entire universe of variables which would affect its foreign policy. As such, from the wealth of literature that examines separate components of the Chinese foreign policy system, this chapter identifies key variables which are deemed to have a significant impact on Chinese foreign policy and captures them in a framework.<sup>119</sup> In subsequent chapters, systems thinking will be used to analyze separate subsystems in a more holistic manner to illustrate the usefulness of a systems thinking approach.

### A. A SYSTEM WITHIN THE WIDER INTERNATIONAL SYSTEM

As emphasized previously, the foreign policy system does not exist within a vacuum but is driven and impacted by external conditions as well as internal factors. A

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<sup>118</sup> McCauley, “Failing with Single-Point Solutions,” 3.

<sup>119</sup> Other notable works on Chinese foreign policy include *China Goes Global: The Partial Power* (New York: Oxford University Press, 2013), where David Shambaugh recognizes how China’s global ambitions are expressed through its growing status in international institutions, its far-reaching business developments, rising military capabilities, and enhancements in soft power capabilities; but balances his assessments by highlighting China’s limited influence as a major power. In *The Hundred-Year Marathon: China’s Secret Strategy to Replace America as the Global Superpower* (New York: Henry Holt and Company, 2015), Michael Pillsbury depicts an aggressive China with a covert long-term strategy to usurp the U.S. as the current world leader and establish a new global order. Finally, in *Interpreting China’s Grand Strategy: Past, Present, and Future* (Santa Monica, CA: RAND, 2000), Michael D. Swaine and Ashley J. Tellis examines China’s current pragmatic security strategy and also discusses possible future developments in China’s grand strategies.

perceived gap(s) between the external condition and the desired end-state motivates the state to establish a foreign policy direction or action in order to achieve a favorable outcome.

This section considers the “environment” China is in through the lens of IR. The use of different IR theories to explain China’s actions in the international domain is extensive. Although each theory has its own strengths and specificities, this thesis chooses to focus on the key aspects of realism and liberal institutionalism to show how the hierarchy and structure of the system will influence and constrain China’s foreign policy actions.

## 1. Realism

China’s ambitions are widely debated. Those who subscribe to realist thought generally believe in the “China Threat” theory, where China would pursue a rise to power and eventually threaten the U.S. politically and militarily.<sup>120</sup> It is argued that once China has achieved a certain level of power, it may act like the great powers once did and begin to oppose existing norms in the international system which have been established by the West.<sup>121</sup>

Some scholars believe that China wants to dominate the Asia Pacific and will establish control over the South China Sea to safeguard its interests.<sup>122</sup> To achieve this, China will have to enhance its broad national power in order to shape the security environment and protect its core interests.<sup>123</sup> However, since its level of power is currently inadequate, China would resort to measures to limit the influence of external powers until it has sufficient capability to dominate the region.<sup>124</sup> Using the lens of offensive realism,

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<sup>120</sup> John J. Mearsheimer, “The Gathering Storm: China’s Challenge to U.S. Power in Asia,” *The Chinese Journal of International Politics* 3, no. 4 (2010), 381–396.

<sup>121</sup> Marc Lanteigne, *Chinese Foreign Policy: an Introduction*, 3rd ed. (New York: Routledge 2015), 42.

<sup>122</sup> Robert D. Kaplan, “The Geography of Chinese Power,” *Foreign Affairs* 89, no. 3 (May/June 2010): 22–41. <http://www.jstor.org/stable/25680913>.

<sup>123</sup> Kristien Bergerson, *China Countering U.S. Military presence in Asia* (Staff Research Report, U.S.-China Economic and Security Review Commission, 2016).

<sup>124</sup> Li Xiaoting, “Applying Offensive Realism to the Rise of China: Structural Incentives and Chinese Diplomacy toward the Neighboring States,” *International Relations of the Asia-Pacific* 16, no. 2 (2016): 241–271.

Li asserts that Chinese foreign policy employs both restraint and assertiveness against other states in the region to achieve the purpose of countering the influence of adversaries in its neighborhood.<sup>125</sup>

Realists tend to neglect the role of international institutions, economic interdependence and mutual interests in reducing the likelihood or impact of a clash between great powers as they struggle for dominance.<sup>126</sup>

## 2. Liberalism

In contrast, the world through the lens of liberals is more optimistic; where liberal institutionalists believe that the rise of international organizations and regimes coupled with an increase in trade and economic interdependencies would constrain the actions of states within the international system and lead to more regulated behavior.<sup>127</sup> Since international institutions would encourage cooperation and a focus on absolute gains, it would consequently reduce the likelihood of conflict.<sup>128</sup>

China's engagement with the different international institutions and regimes has grown significantly since the 1980s. With China's commitment to the rules and norms of international regimes in its effort to receive membership benefits, it is believed that membership has a restraining effect on China's potentially revisionist behavior.<sup>129</sup> Moreover, as China gains benefits such as goods and information from being part of international regimes, it should theoretically lessen the need for China to employ coercive techniques to achieve its desired goals.<sup>130</sup> The Kantian peace theory<sup>131</sup> applied to China

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<sup>125</sup> Li, "Applying Offensive Realism to the Rise of China," 241–271.

<sup>126</sup> Aaron Friedberg, *A Contest for Supremacy: China, America, and the Struggle for Mastery in Asia* (New York: W. W. Norton & Company, Inc., 2011).

<sup>127</sup> Walt, "International Relations," 32.

<sup>128</sup> Powell, Robert, "Absolute and Relative Gains in International Relations Theory," *American Political Science Review* 85, no. 4 (1991): 1303–1320.

<sup>129</sup> Lanteigne, *Chinese Foreign Policy*, 40.

<sup>130</sup> Lanteigne, 40.

<sup>131</sup> According to Suri V. Manik, Immanuel Kant in his essay "To Perpetual Peace: A Philosophical Sketch" written in 1795, posits that "republican constitutions, a commercial spirit of international trade, and a federation of interdependent republics" would provide the basis for a "perpetual peace" among states."

functions along similar lines—that China’s rising participation in the global economy increases its dependence on exports, foreign investments, technology imports and natural resources, hence making it more inclined to adopt a peaceful approach in its interactions with other states.<sup>132</sup>

Wilson argues that the restraining effect of the international system on Chinese actions can be observed in the creation of the Asian Infrastructure Investment Bank (AIIB).<sup>133</sup> With its original demands for Chinese dominated decision making, he notes that the AIIB was described as a possible Chinese effort to counter U.S. dominance by overturning the existing Western institutional and rule-based order of the Bretton Woods monetary system. However, Wilson goes on to write that in an effort to convince states to support the initiative, China moderated its contentious initial plans and agreed to changes introduced during negotiations. These included instituting oversight by the international board, removal of demands for Renminbi (RMB)-denominated loans and removal of demands for loans to be tied to Chinese firms.<sup>134</sup> Moreover, China has not established its own set of standards but has borrowed environmental and labor standards from traditional development banks.<sup>135</sup>

At this point, a cause and effect diagram using the factors identified from the IR theories above is presented in Figure 4. The positive sign denotes that an increase in the causal factor is likely to lead to an increase in the dependent variable, while the negative sign denotes that increase in the causal factor is likely to lead to a decrease in the dependent variable. It is assumed that the pursuit of power generally causes a rise in aggressive foreign-directed behavior from China.

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<sup>132</sup> Suri, V. Manik, “Conceptualizing China within the Kantian Peace,” *Harvard International Law Journal* 54, no. 1 (2013): 219, <http://www.harvardilj.org/wp-content/uploads/2013/06/HLI103.pdf>.

<sup>133</sup> Jeffrey D. Wilson, “The Evolution of China’s Asian Infrastructure Investment Bank: from a Revisionist to Status-Seeking Agenda,” *International Relations of the Asia-Pacific* 00 (September 2017), 1–30.

<sup>134</sup> Wilson, 15–18.

<sup>135</sup> Wilson, 16.

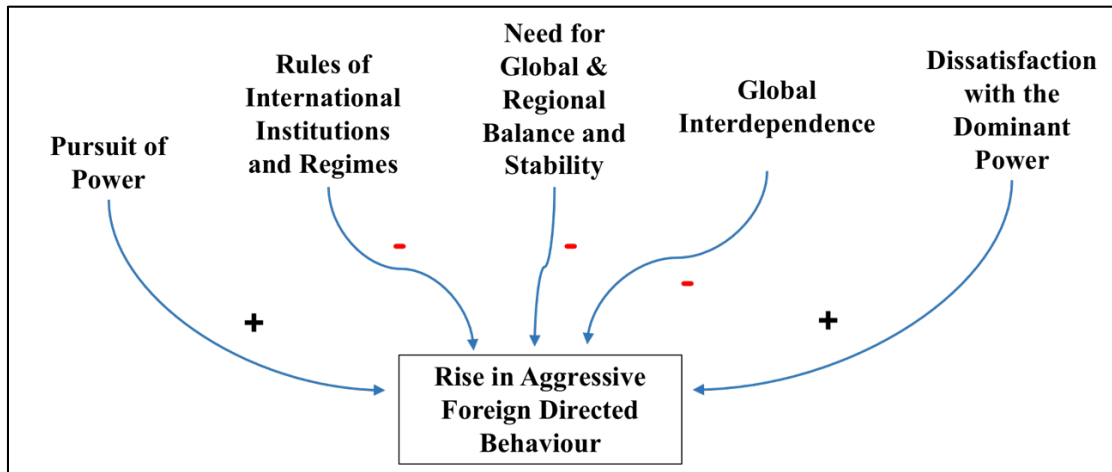


Figure 4. Cause and effect diagram of factors identified from the IR theories

At a surface level, an interpretation of China’s rise based solely on either theory seems to suffice. But China today exists in an international system where states experience high interdependence, including economic interdependence. It is also an international system whose structure is shaped by the large number of international organizations and regimes such as the World Trade Organization and the International Monetary Fund (IMF). China is extremely concerned with balance and stability, both within its own geographic borders and in such a “fractured region as Asia.”<sup>136</sup> As such, it is keenly aware of the negative impact of its aggressive actions towards countries along its periphery, which includes South East Asia and Australia, and how its growing power alone is still insufficient to achieve its goals. At the same time, the theories do not account for the effect of internal factors on foreign policy decisions. These would include the influence of different entities such as the PLA, as well as the Chinese leadership’s preoccupation with domestic issues and public opinion. Hence, one would have to agree with scholars like Shambaugh that analyses of China's rise based solely on individual theories are unlikely to offer satisfactory explanations for its behavior.<sup>137</sup>

<sup>136</sup> David M. Lampton, *Following the Leader: Ruling China, from Deng Xiaoping to Xi Jinping* (University of California Press, 2014), 126.

<sup>137</sup> David Shambaugh, “China Engages Asia, Reshaping the Regional Order,” *International Security* 29, No. 3 (Winter 2004/2005), 64–99. (page 99)

## B. CHINA'S NATIONAL OBJECTIVES

The 2011 Whitepaper on China's peaceful development defines China's core interests as: (1) stability of the Chinese Communist Party (CCP) system and overall social stability; (2) state sovereignty, territorial integrity, national security and national reunification; and, (3) sustainable economic and social development.<sup>138</sup>

The term "Chinese Dream" has been used by the current Chinese leadership to encapsulate its vision of national development and revitalization for the State, as well as ensuring that its citizens achieve economic wealth, social stability and a better quality of life.<sup>139</sup> As part of this vision, the leadership also desires to "restore national prestige and assure China's rise as a prosperous and powerful nation."<sup>140</sup>

Domestically, the State has also established policies in line with this focus. These include: "economic goals to raise per capita income, political goals to ensure continuity of CCP rule, social welfare goals to encourage internal stability, cultural goals to promote the CCP's morals and values, and environmental goals to improve environmental conditions."<sup>141</sup> In China's most recent 13<sup>th</sup> Five-Year Plan, economic growth continues to be a key imperative for the future.<sup>142</sup>

From the most recent 19<sup>th</sup> Congress report, key elements in China's strategic national objectives are identified. These include: (1) political stability; (2) economic prosperity and the need to meet development interests in the area of emerging industries (e.g. digital economy), infrastructure developments, agricultural modernization, urbanization as well as science and technology advancement; (3) internal social stability;

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<sup>138</sup> The State Council of the People's Republic of China, *China's Peaceful Development 2011 Whitepaper* (Beijing, China: The State Council, 2011), [http://english.gov.cn/archive/white\\_paper/2014/09/09/content\\_28147498\\_6284646.htm](http://english.gov.cn/archive/white_paper/2014/09/09/content_28147498_6284646.htm).

<sup>139</sup> Timothy R. Heath et al., *The PLA and China's Rejuvenation: National Security and Military Strategies, Deterrence Concepts, and Combat Capabilities* (Santa Monica, CA: RAND, 2016), viii. [https://www.rand.org/content/dam/rand/pubs/research.../RR1402/RAND\\_RR1402.pdf](https://www.rand.org/content/dam/rand/pubs/research.../RR1402/RAND_RR1402.pdf).

<sup>140</sup> Heath et al., viii.

<sup>141</sup> Heath et al., viii.

<sup>142</sup> Katherine Koleski. *The 13th Five-Year Plan*. Staff Research Report, U.S.-China Economic and Security Review Commission, 2017.

(4) the need to safeguard state sovereignty and territorial integrity with regards to Taiwan, Tibet, as well as the East and South China seas; and, (5) the need to increase national prestige and international influence.<sup>143</sup>

### C. CHINA'S FOREIGN POLICY

Since President Xi Jinping took the helm in 2012, the new leadership has accorded more weight to foreign relations, and Chinese foreign policy has undergone major changes.<sup>144</sup> Zhang posits that while Beijing continues to emphasize its commitment to peaceful development, a notable change in the Chinese diplomacy is the “greater determination to forcefully protect China’s national interests;” with Beijing turning “even more proactive, if not assertive, in international affairs than in the previous decades.”<sup>145</sup>

In addition, the Chinese leadership has reportedly initiated new measures to reform the foreign-policy development and implementation system since the 2012 National Party Congress.<sup>146</sup> To establish a consolidated approach towards issues of diplomacy, efforts have been made to centralize the planning and policy-making process and to coordinate the various stakeholders involved in the implementation in order to make it more efficient. The stakeholders are wide-ranging and include state and non-state institutions, amongst others.<sup>147</sup>

China’s outlook and foreign policy actions are influenced by the key drivers of: (1) domestic politics and local factors such as public opinion which constrain leadership actions; (2) global interdependence in the areas of financial markets, trade and employment; and, (3) realist thinking with regards to the acquisition of power and the maintenance of

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<sup>143</sup> Xi Jinping, *Secure a Decisive Victory in Building a Moderately Prosperous Society in All Respects and Strive for the Great Success of Socialism with Chinese Characteristics for a New Era*, 19th Communist Party of China (CPC) National Congress Report (Beijing, China: Xinhua, 2017). [http://www.xinhuanet.com/english/special/2017-11/03/c\\_136725942.htm](http://www.xinhuanet.com/english/special/2017-11/03/c_136725942.htm).

<sup>144</sup> Zhang Jian, “China’s New Foreign Policy under Xi Jinping: Towards ‘Peaceful Rise 2.0’?” *Global Change* 27, no. 1 (February 2015): 7–8. <http://dx.doi.org/10.1080/14781158.2015.993958>

<sup>145</sup> Zhang Jian, 6, 9.

<sup>146</sup> Zhang Jian, 9–11.

<sup>147</sup> Zhang Jian, 11.

balance and stability in the world, the region and at home.<sup>148</sup> In addition to the above, Lampton also believes that “technology-driven action-reaction dynamics” (similar to a technological “arms race”) with the U.S. and peripheral countries also affect China’s actions.<sup>149</sup>

## **1. Domestic Politics and Local Factors**

### ***a. Leadership Legitimacy***

Shirk explains that the significant transformations which have taken place in China over the last forty years have led to a constant struggle by its communist leaders to preserve political control.<sup>150</sup> The legitimacy of the Chinese Communist Party has become heavily dependent on the “performance” of current leaders to “deliver” economic growth, social stability, and a widening scope of opportunities for Chinese citizens.<sup>151</sup> These actions are also tied to the need to safeguard Chinese interests in the international domain.<sup>152</sup>

It is widely believed that with its authoritarian governance system, Chinese leaders have less accountability to their citizens with regards to foreign policy decisions.<sup>153</sup> This may have been true under the Mao and Deng eras where the population was less educated and more insular. However, the “national self-confidence” of the public as a whole has grown together with the rising educational levels and access to information.<sup>154</sup> Chinese citizens have become increasingly aware of international events and the impact of foreign policy decisions on their lives. With rising linkages between local issues and foreign policy, the policymaking elite have become more deliberate in their choice of foreign policy

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<sup>148</sup> Lampton, *Following the Leader*, 109, 128; See also Susan L. Shirk, *China: Fragile Superpower* (New York: Oxford University Press, 2007).

<sup>149</sup> Lampton, 109.

<sup>150</sup> Shirk, *China: Fragile Superpower*, 5.

<sup>151</sup> Lampton, *Following the Leader*, 30; See also Lanteigne, *Chinese Foreign Policy*, 43.

<sup>152</sup> Lanteigne, 43.

<sup>153</sup> Lanteigne, 41.

<sup>154</sup> Lampton, 73.

actions to minimize the negative effects faulty decisions may have on the country's internal stability.<sup>155</sup>

These developments unfortunately, have also exacerbated the Chinese leadership's perceptions of its own political vulnerability, and have led the state to adopt a tougher foreign policy stance during periods of tension with its neighbors even while the political space to do so lessened.<sup>156</sup>

For example, Taiwan does not pose a threat to China's national security per se but is a domestic political issue.<sup>157</sup> Taiwan's pursuit of political status as an independent nation-state is considered an existential threat to the regime because Party propaganda in the media and education has instilled strong sensitivities in the public over Taiwan's claims of de jure sovereignty.<sup>158</sup>

#### ***b. Public Opinion***

According to Jakobson and Knox, there is no consensus about the extent to which public opinion impacts China's foreign policy.<sup>159</sup> Although there have been many examples in which the opinion of the population has directly affected domestic policy, it is challenging to clearly identify a causal relation between public opinion and foreign policy.<sup>160</sup>

Nevertheless, it is generally agreed that the popular opinion of the population has become a significant concern of the leadership. Since the start of the 21st century, Chinese diplomats and economic representatives have repeatedly used the reason of "public opinion" to explain foreign policy decisions regarding cross-strait relations, relations with Japan and

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<sup>155</sup> Lanteigne, *Chinese Foreign Policy*, 41.

<sup>156</sup> Lampton, *Following the Leader*, 73. For example, during the 2012 disputes with Japan over the Senkaku islands.

<sup>157</sup> Shirk, *China: Fragile Superpower*, 185.

<sup>158</sup> Shirk, 182–185.

<sup>159</sup> Jakobson and Knox, *New Foreign Policy Actors in China*, 41.

<sup>160</sup> Jakobson and Knox, 41.

the U.S., the exchange rate, and disputes over maritime sovereignty.<sup>161</sup> Public opposition has also been used to justify changes regarding domestic issues such as taxation policies on agricultural and gasoline, as well as cancellation of previously planned industrial and infrastructure projects.<sup>162</sup>

Lampton also highlights that several domestic issues have developed into fears that impact the decisions of the CCP. These include immense population numbers, food security, rural-urban migration, rising discontent among workers and issues in the urban industries, growth and stability of the economy, and responses to natural and man-made disasters.<sup>163</sup>

*c. Nationalism*

Scholars like Lanteigne and Shirk draw attention to the view that the CCP leverages nationalism to bolster its legitimacy both internally and abroad because the traditional communist ideology that shaped China's early years seem to have gradually grown irrelevant.<sup>164</sup> As Lanteigne notes however, the notion of nationalism in Chinese thinking is fluid and dependent on how the Party chooses to interpret history to support the needs of the leaders. Of the various interpretations, the most notable is “pragmatic nationalism,” which focuses more on “loyalty to the state and the need for stability to promote prosperity and continued development.”<sup>165</sup>

Furthermore, a central aspect of the Chinese leadership’s legitimacy is to protect the sovereignty and dignity of the state and to ensure China is never bullied again.<sup>166</sup> As such, any foreign policy strategies or actions that are perceived by the Chinese public as a capitulation to foreign pressure will cast doubts on the strength of the leadership and lead

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<sup>161</sup> Lampton, *Following the Leader*, 73.

<sup>162</sup> Lampton, 73.

<sup>163</sup> Lampton, 142–153.

<sup>164</sup> Lanteigne, *Chinese Foreign Policy*, 42–43, See also Shirk, *China: Fragile Superpower*, 62–63.

<sup>165</sup> Lanteigne, 42–43.

<sup>166</sup> Lampton, *Following the Leader*, 161.

to a decrease in support for the leadership.<sup>167</sup> Displays of “hypernationalism” which have occurred multiple times in the past<sup>168</sup> have negatively constrained Chinese foreign policy behavior and have hurt China’s efforts to develop better relations with other states.<sup>169</sup>

## 2. Global Interdependence

China’s increasing assertiveness on the world stage and vocalization of its opinions and views reflect a China that desires a greater say in world affairs. With China’s rising participation on the global stage, the Chinese leadership and population have begun to gain a sense that they have the ability and need to influence developments in the international arena in order to both safeguard and advance China’s interests.<sup>170</sup> Amongst its political leaders and citizens, there are also many who believe that the balance of power has shifted away from the U.S., the European Union, Japan, and Russia, and China has “gained sufficient strength to be less deferential to the preexisting international power hierarchy.”<sup>171</sup>

But China’s actions also reflect utter pragmatism in their foreign policy actions. Not unlike other states, China’s focus is on maximizing benefits and therefore how it “acts globally depends on context and its own interests.”<sup>172</sup>

China’s immense population and growing food, energy and commodity needs have added to the financial, trade and employment flows across its borders and has led to the country’s significant reliance on world markets.<sup>173</sup> China has also stressed the need to acquire technological expertise from abroad to enhance its innovation base; this would consequently elevate China's technical capabilities, contribute to its progress up the

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<sup>167</sup> Lampton, 160–164.

<sup>168</sup> This included widespread expressions of anti-American sentiments and protests after the Belgrade and Hainan incidents, as well as anti-Japanese tensions in 2012.

<sup>169</sup> Lanteigne, *Chinese Foreign Policy*, 43; See also Shirk, *China: Fragile Superpower*, 104.

<sup>170</sup> Lampton, *Following the Leader*, 43; See also Lanteigne, 41.

<sup>171</sup> Lampton, 229.

<sup>172</sup> Lampton, 110.

<sup>173</sup> Lampton, 121–126.

industrial value chain, ensure continued economic growth and sharpen its competitive edge in the global economy.<sup>174</sup>

Recognizing this interdependence, China has focused on boosting its influence and image through an emphasis on “complementary economic interests” and soft power diplomacy.<sup>175</sup> This has been supported by increasing diplomatic initiatives, funding infrastructure developments, and investing in economic projects in developing countries.<sup>176</sup> Notwithstanding these efforts, Beijing has also been accused of actively employed information operations to directly influence the process and outcome in areas of competition to their advantage.<sup>177</sup>

Mindful of its growing strategic weight and national power, China wants to ensure that it is accorded its “rightful place” in international institutions.<sup>178</sup> At the same time, its leaders have an existential fear of being entangled in conflict between other states, and at various times in its history has modified its alignment within the Sino-Soviet-U.S. triangle depending on its geostrategic concerns.<sup>179</sup>

### 3. Technology-Driven Action-Reaction Dynamics

In a security dilemma-type situation, Lampton believes that China is caught up in an action-reaction dynamic with the U.S. and its neighbors.<sup>180</sup> Essentially, the developments of one state’s military technology and capabilities lead to additional technological countermeasures by other states who are uncertain of its intentions. Lampton

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<sup>174</sup>Lampton, 121–126.

<sup>175</sup>Thomas Lum et al., *Comparing Global Influence: China’s and U.S. Diplomacy, Foreign Aid, Trade, and Investment in the Developing World*, CRS Report no. RL34620 (Washington, DC: Congressional Research Service, 2008), i.

<sup>176</sup>Lum et al., i.

<sup>177</sup>Anne-Marie Brady, “China’s Foreign Propaganda Machine,” *Journal of Democracy* 26, no. 4 (2015): 51–59.

<sup>178</sup>Lampton, *Following the Leader*, 197.

<sup>179</sup>James Mann, *About Face: A History of America’s Curious Relationship with China, from Nixon to Clinton* (New York: Alfred A. Knopf, 1999), 130–131. See also Lampton, 128. For example, one of Xi’s first actions taken in response to the U.S. “pivot” to Asia in late 2011 was to better Sino-Russian relations.

<sup>180</sup>Lampton, *Following the Leader*, 132.



In this thesis, the middle loop which is also known as the tension sub-model in the technical study, is used as the starting point to illustrate the technology-drive action-reaction dynamics. A China with a more aggressive foreign policy stance would likely be caught up in a technology-driven action-reaction dynamic. This would drive it to increase its defense spending to enhance its military capabilities to counter what it perceives to be threatening technology advancements by other states. Rising regional tensions would then follow, which would potentially force China to adopt a more aggressive foreign policy behavior due to the need to maintain a strong façade in front of Chinese civilians. This is presented in the Figure 6. It is also clear that the action-reaction dynamic is a reinforcing loop.

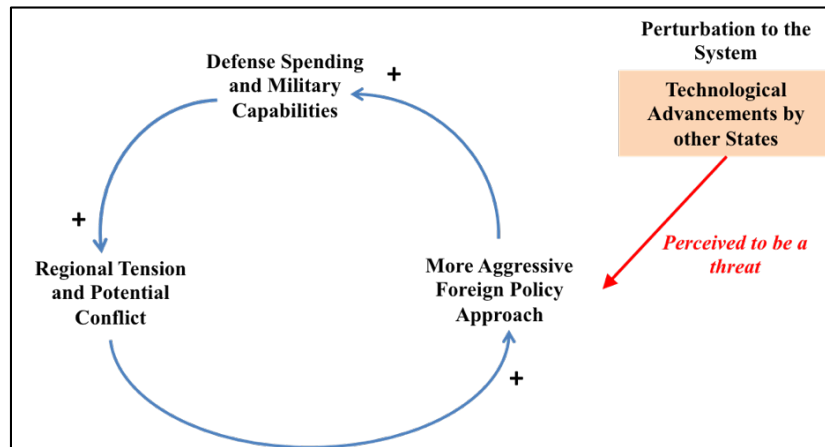


Figure 6. CLD of technology-driven action-reaction dynamics<sup>185</sup>

Using the tension sub-model as a reference, a CLD representing the Chinese system is formulated using the variables identified from the sections above. See Figure 7.

<sup>185</sup> Adapted from Whitcomb et. al, 2015, 11.

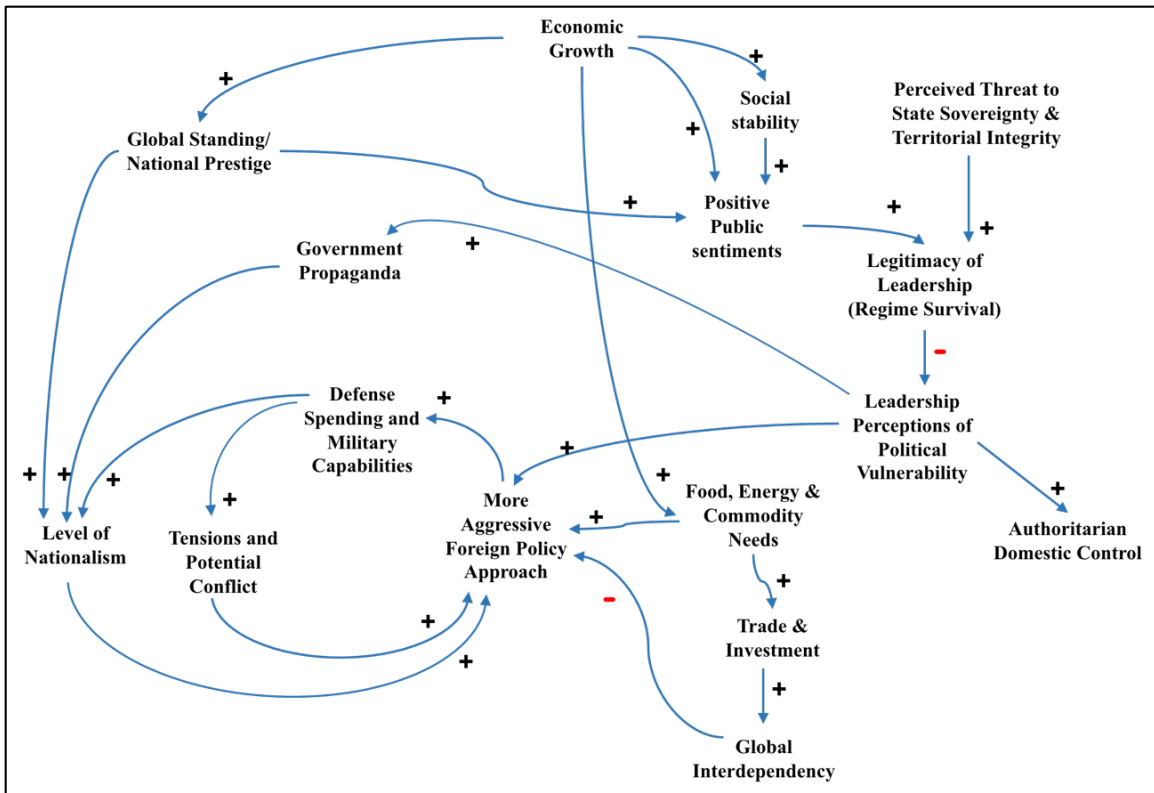


Figure 7. CLD formulated from China's national objectives and drivers of foreign policy

#### 4. Bureaucratic Politics

Unlike conventional opinions that China is a monolithic entity whose decision-making is centralized within the Party General Secretary, many scholars are aware that the leadership system in China is a collective one, based on consensus of decisions.<sup>186</sup> This consensus is said to be especially important within the Politburo Standing Committee, which is the uppermost decision-making entity in China on vital matters of foreign policy.<sup>187</sup> The policy-making process is highly complex and isn't dominated by any

<sup>186</sup> Shirk, *China: Fragile Superpower*.

<sup>187</sup> Shirk.

individual leader but is instead influenced by an expanding pool of governmental and non-governmental actors with both direct and indirect influence on foreign policy decisions.<sup>188</sup>

Zhang argues that since Deng Xiaoping handed over control, the process of foreign policy-making in China has developed from “ideology-based ‘line battles’ to personal relationship (guanxi)-based in-party competition, and from factional competition under one paramount leader to government politics wherein many participants vie for different policies.”<sup>189</sup>

Although this seemed to be the trend for a while, incumbent President Xi Jinping has in recent years positioned himself as the ultimate decision maker on foreign policy matters and has taken over command of all the entities in charge of foreign policy.<sup>190</sup> Despite his efforts to consolidate control, it remains to be seen if Xi is truly capable of centralizing the foreign policy-making process and coordinating its implementation.

At the same time, China’s diplomatic system has transformed and is likely to continue developing. As foreign relations expand, every ministry of the Central Government and every level of local government have created “international cooperation or international affairs organizations,” and have begun to contend for control of specific portfolios.<sup>191</sup>

With China’s diverse interests and expanding reach into numerous domains, stakeholders from almost every ministry, military and security forces, growing business sectors, and academics have developed some form of interest in foreign affairs.<sup>192</sup> There are also stakeholders within the Chinese media and online community seeking to influence

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<sup>188</sup> Linda Jakobson and Ryan Manuel, *How Are Foreign Policy Decisions Made in China?* Asia & the Pacific Policy Studies 3, no. 1 (January 2016): 101–10. <https://doi.org/10.1002/app5.121>; See also Lanteigne, *Chinese Foreign Policy*, 43–44.

<sup>189</sup> Qingmin, Zhang, “Bureaucratic Politics and Chinese Foreign Policy-making,” *The Chinese Journal of International Politics* 9, no. 4, (2016): 435–458.

<sup>190</sup> Jakobson and Manuel, *How Are Foreign Policy Decisions Made in China?* 108–109.

<sup>191</sup> Qingmin, Zhang, “Bureaucratic Politics,” 452.

<sup>192</sup> Jakobson and Knox, *New Foreign Policy Actors in China*, 43–44.

foreign policy developments.<sup>193</sup> The following sections only highlight other key stakeholders who have been identified.

**a. Ministry of Foreign Affairs (MoFA)**

Despite being China's leading foreign policy body, there are divergent opinions regarding the ability of the MoFA to influence foreign policy decision making in China, especially since the Chinese Foreign Minister has not had a seat in the Politburo in the past twenty years.<sup>194</sup> Nevertheless, the MoFA's role in providing information to Chinese policymakers has definitely risen as the country's foreign relations widen in both breadth, depth, and complexity.<sup>195</sup>

States that are considered highly important to Beijing include the U.S., Russia, nations within the European Union and Japan, as well as China's immediate neighbors. The CCP's central decision-makers are responsible for developing foreign policy to engage these states, while the MoFA is responsible for the routine, tactical decision-making and policies towards less important nations.<sup>196</sup>

**b. People's Liberation Army (PLA)**

For foreign policy, the PLA has previously been, and to date remains, a stakeholder. According to Zhang, the CCP-PLA relationship has progressed from one of mutually beneficial interaction to one of shared vital interests.<sup>197</sup> Although Zhang argues that professionalization has allowed the armed forces to gain more independence in their administration and operations, including foreign affairs with a security dimension, Jakobson and Knox believes that its role has significantly narrowed over the years of

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<sup>193</sup> Jakobson and Knox, 41. Qingmin, Zhang, "Bureaucratic Politics," 452.

<sup>194</sup> Weixing, Hu, "Xi Jinping's 'Big Power Diplomacy' and China's Central National Security Commission (CNSC)," *Journal of Contemporary China* 25, no. 98 (December 2015): 163–177, <https://doi.org/10.1080/10670564.2015.1075716>; See also Jakobson and Knox, *New Foreign Policy Actors in China*, 8;

<sup>195</sup> Jakobson and Knox, *New Foreign Policy Actors in China*, 8.

<sup>196</sup> Jakobson and Knox, 8.

<sup>197</sup> Qingmin, Zhang, "Bureaucratic Politics," 454.

institutional reform and has increased the distance of military leaders from the decision-making processes on the civilian side.<sup>198</sup>

The Party Central Military Commission which is chaired by Xi along with the current vice-Chairmen who are both in the Politburo, is an important avenue through which the PLA influences foreign policy. Despite the existence of a Ministry of National Defense, the CMC has command and control of the PLA and manages defense policy and military strategy.<sup>199</sup>

For Chinese leaders with little military experience or expertise, advice and support from the PLA is of key importance.<sup>200</sup> In certain areas with direct foreign policy implications such as arms control and non-proliferation, the PLA previously had almost full, unquestioned authority; although its authority now has been diluted by other state and business entities in these areas.<sup>201</sup> Nevertheless, the PLA still has significant clout “with regards to other defense-related foreign policy issues such as strategic arms, territorial disputes and national security towards countries such as the India, Japan, North Korea, Pakistan, Russia and the U.S.”<sup>202</sup>

*c. Other Government Entities*

With rising activities in the international domain, almost every ministry has developed some form of interest at the foreign affairs level. In a recent report on maritime affairs, it was found that there were at least 12 stakeholders with interests. These included the Ministry of Public Security, the Ministry of Defense, and the Fishing Administration under the Ministry of Agriculture, amongst others. The National Development and Reform Commission responsible for economic development and resources as well as the State Asset and Supervision Administration Commission, which oversees state-owned

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<sup>198</sup> Jakobson and Knox, *New Foreign Policy Actors in China*, 12; See also Qingmin, Zhang, 454.

<sup>199</sup> Jakobson and Knox, 13.

<sup>200</sup> Jakobson and Knox, 13.

<sup>201</sup> Jakobson and Knox, 12–13.

<sup>202</sup> Jakobson and Knox, 13.

enterprises such as oil firms, were also listed.<sup>203</sup> Hence, the government entities who will have a stake will differ depending on the context. At this point, a CLD consolidating relationships among the factors identified in the chapter is presented in Figure 8. In Figure 9, the major reinforcing and balancing loops are identified.

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<sup>203</sup> Jakobson and Manuel, *How Are Foreign Policy Decisions Made in China?* 105.



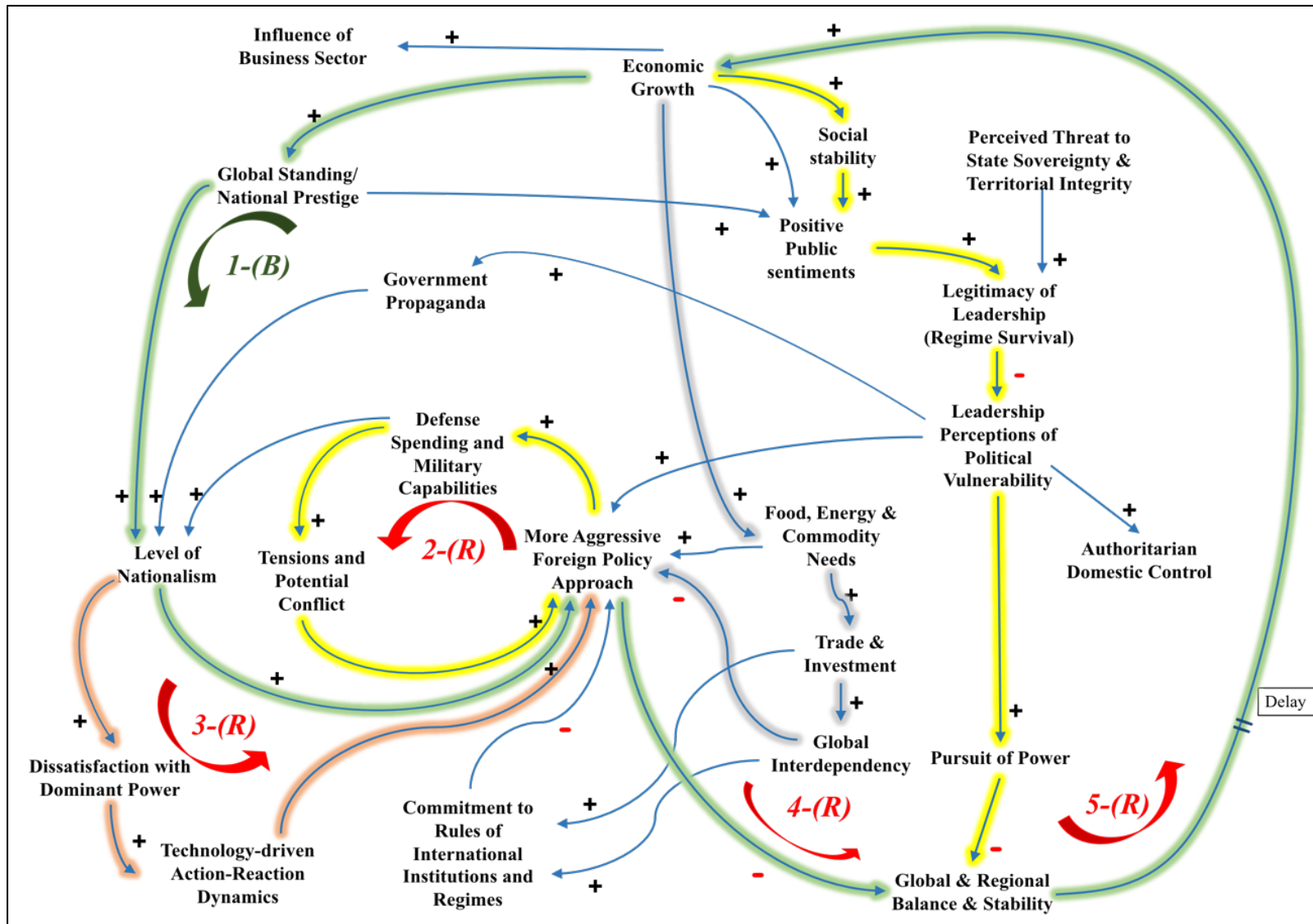


Figure 9. Consolidated CLD (with reinforcing and balancing loops)

In Figure 9, the balancing loop 1-(B) appears to be the overall loop in the system. In this balancing loop, the increase in economic growth leads to a rise in (perceived) global standing/national prestige which causes a rise in the level of nationalism. The rising levels of nationalism lead to more aggressive foreign policy behavior towards foreigners which then reduces regional and global balance and stability. Instability in the global and regional balance is likely to have a negative effect on the growth of the economy at home.

Loop 2-(R) on the left (in yellow) is a vicious<sup>204</sup> reinforcing loop, where a more aggressive foreign policy approach essentially drives the state to increase its defense spending and develop its military capabilities. This causes a rise in tensions and the potential for conflict between states which is likely to lead to more aggressive behavior.

In the case of China, one observes in Loop 3-(R) on the left (in brown), another vicious reinforcing loop. In this loop, the rise in defense spending and military capabilities leads to higher levels of nationalism. Heightened nationalism causes dissatisfaction with the dominant power to increase. This then feeds the technology-driven action-reaction dynamics which is once again likely to lead to more aggressive behavior.

Unfortunately, these two loops appear to be mutually reinforcing, adding to the vicious growth of more aggressive foreign policy behavior. However, these two vicious reinforcing loops can also be said to be affected by the bigger balancing loop 1-(B) which passes through economic growth, where a higher growth rate is expected to result in a less aggressive foreign policy approach.

On the right, there are another two reinforcing loops. The reinforcing loop 4-(R) in grey and green reflects how economic growth leads to increasing food, energy and commodity needs and causes trade and investments to increase, which ultimately causes a rise in global interdependency. When this occurs, China has to tone down its aggressive foreign policy approach which then contributes to global and regional balance and stability and thereafter economic growth.

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<sup>204</sup> As mentioned in Chapter III, in a feedback loop where the polarities between variables are all positive, Meadows uses the term vicious to describe behavior which can result in uncontrolled destruction and the term virtuous to describe behavior which can result in healthy growth.

Finally, loop 5-(R) in yellow and green reflects how positive public sentiments leads to a rise in leadership legitimacy, which causes a drop in the perception of political vulnerability. This reduces China's pursuit of power and hence leads to a rise in regional and global balance and stability and thereafter aids in economic growth.

Under positive global economic conditions, the two reinforcing loops on the right are virtuous cycles because they result in sustained economic growth and help to balance the two vicious reinforcing loops on the left. However, should there be a global economic downturn, the two reinforcing loops become vicious cycles as the reduced economic growth may result in more aggressive foreign policy behavior, hence reinforcing the vicious loops on the left.

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## V. APPLICATION OF SYSTEMS THINKING: SUBSYSTEMS ANALYSIS

In this chapter, the principles of systems thinking are applied to various subsystems within the Chinese foreign policy system. In order to better understand China's behavior towards currency issues and the IMF, there is a need to first look at China's economic growth and reforms since the Deng era.

### A. ECONOMIC GROWTH AND REFORMS

The push for economic reform in China began under Deng Xiaoping. Naughton explains that in the 1980s and 1990s, fundamental economic reforms were driven by the budgetary crisis which heightened leadership will and determination to reform, resulting in China “constantly remaking itself in order to adapt to new challenges.”<sup>205</sup> Reform curbed the massive losses which were being incurred by State-controlled sectors, while restructured state-owned enterprises which began to make money became a financial resource for national leaders to access.<sup>206</sup>

In general, the developments which resulted from economic reform were: (1) market expansion and rise in competitiveness; and, (2) quality enhancement of economic institutions.<sup>207</sup> Naughton also describes how the Party lost bureaucratic and political control as a result of reforms; economic reform led to progress in the pace of productivity; while the gradual opening of the economy attracted greater amounts of foreign investment and increased trade.<sup>208</sup> During the 2008 financial crisis, China's GDP growth was sustained by domestic investments resulting from an injection of funds from the government, even as contributions from net trade exports towards China's GDP fell.<sup>209</sup>

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<sup>205</sup> Barry Naughton, “The Challenges of Economic Growth and Reform,” in *China in the Era of Xi Jinping: Domestic and Foreign Policy Challenges*, ed. Robert S. Ross and Jo Inge Bekkevold (Washington, DC: Georgetown University Press, 2016), 68–70, 84.

<sup>206</sup> Naughton, 68–69.

<sup>207</sup> Naughton, 71, 77.

<sup>208</sup> Naughton, 66–91.

<sup>209</sup> Naughton, 72.

In all, Naughton concludes that the rapid growth of the economy led to increasing per capita incomes and a rise in the living standards of Chinese citizens, although he also highlights that rising levels of wealth contributed to the increase in “vested interests,” which are benefits experienced by “well-connected families; corrupt officials; or even criminal gangs.”<sup>210</sup> Furthermore, the issue of vested interests is exacerbated by the stabilization of an economic and governmental system which is fully dominated by the CCP.<sup>211</sup> These developments have led to a reduced desire to implement widespread reforms which may affect the interests of stakeholders as well as the stability of a working system.<sup>212</sup>

According to Naughton, the pro-reformers assert there is a need for the state to continue implementing “major institutional changes” such as liberalization of its capital account to “make the economy more open, competitive, and rules-bound.”<sup>213</sup> From the systems analysis of China's foreign policy system in Chapter Four, it was found that the increase in living standards of the population will cause a rise in population support for the leadership, and hence contribute to the legitimacy of the leadership. This relationship is included in the CLD developed using the narrative above. See Figure 10. In Figure 11, the reinforcing and balancing loops are identified.

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<sup>210</sup> Naughton, 68.

<sup>211</sup> Naughton, 68.

<sup>212</sup> Naughton, 70.

<sup>213</sup> Naughton, 88.

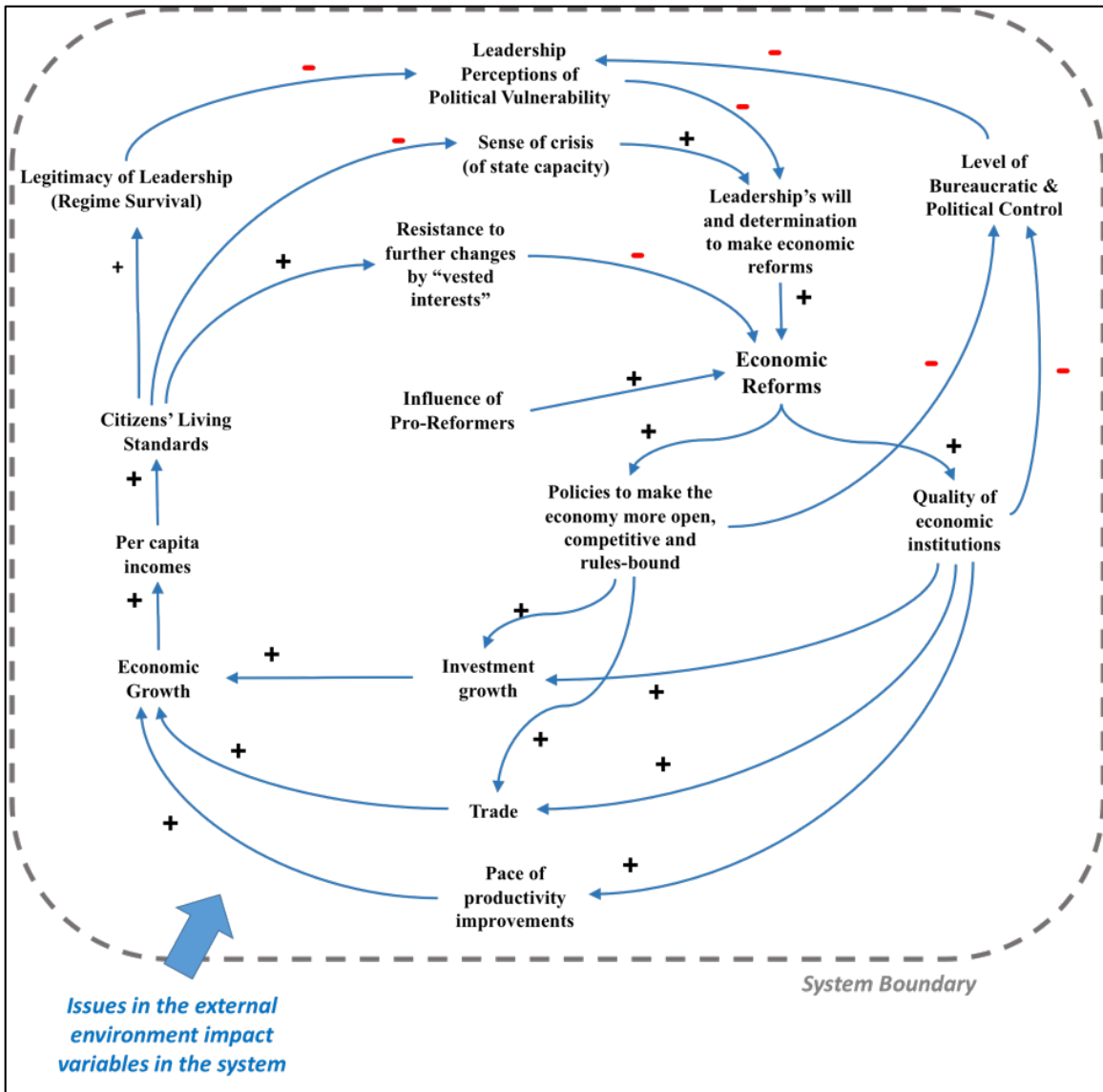


Figure 10. CLD of economic growth and reforms in China

It should be noted that the CLD does not represent a closed system. CLDs attempt to draw artificial boundaries around a system in order to better illustrate the key dynamics that create the behavior of interest.<sup>214</sup> It is recognized that developments or issues which arise in the external environment such as a global economic downturn could have an impact on variables within the system. The variables could include economic growth, trade, or

<sup>214</sup> Sterman, *Business Dynamics*, 89.



Based on the analysis of the balancing and reinforcing loops in Figure 11, the success of RMB internationalization as well as China's continued economic growth are potentially threatened by (1) the “vested interests” of those who fear the loss of financial benefits from further economic reforms; and (2) a CCP leadership fearful of political vulnerability.

## **B. CHINA’S APPROACH TOWARD RMB INTERNATIONALIZATION**

As China developed from the 1980s to the early 2000s, it generally adopted a cooperative attitude and abided by institutional rules of the established global institutions.<sup>215</sup> Although it has periodically proposed changes to existing institutionalized practices, it has worked within the bounds of the existing international system with its established rules and practices, and seems relatively committed to the financial reporting rules of the IMF and the Basel II accords.<sup>216</sup> Regarding the Special Drawing Right (SDR)<sup>217</sup>, China proposed changes such as greater SDR allocation to help developing countries safeguard against liquidity crises, and redistribution of SDRs among IMF member nations to better benefit developing countries.<sup>218</sup> China also recommended expanding the role of the SDR in 1986, but only began actively pushing for it in 2009.<sup>219</sup>

China succeeded in getting the RMB included into the SDR's basket of currencies in 2016.<sup>220</sup> However, since China became a significant exporter with a large trade surplus and huge currency reserves of the dollar, it has become more of an economic liability to

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<sup>215</sup> Helge Hveem, and T.J. Pempel, “China’s Rise and Economic Interdependence,” in *China in the Era of Xi Jinping: Domestic and Foreign Policy Challenges*, ed. Robert S. Ross and Jo Inge Bekkevold (Washington, DC: Georgetown University Press, 2016), 214–215.

<sup>216</sup> Hongying, Wang, “China and the International Monetary System,” *Foreign Affairs*, December 19, 2017, 2; See also Hveem and Pempel, 200.

<sup>217</sup> According to the IMF, the SDR is an “international reserve asset created by the IMF in 1969 to supplement its member countries’ official reserves.” It comprises “a basket of currencies that reflects the relative importance of currencies in the world’s trading and financial systems.”

<sup>218</sup> Wang, “China and the International Monetary System,” 2.

<sup>219</sup> Wang, 1.

<sup>220</sup> “Special Drawing Right,” International Monetary Fund, April 19, 2018, <http://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/14/51/Special-Drawing-Right-SDR>

push for the RMB to be the chosen currency.<sup>221</sup> Furthermore, Hveem and Pempel posit that the SDR development may constrain Chinese authorities in managing the RMB exchange rate and expose the RMB to market forces.<sup>222</sup> Hence, Wang argues that China wants to portray itself as a responsible power and a leader of the developing world and has essentially prioritized national prestige and consequently global influence over economic interests and domestic stability.<sup>223</sup>

China does not have an official policy towards currency matters but is believed to have committed to the internationalization of the RMB—an undertaking which is expected to enhance China’s geopolitical influence and the RMB’s competitiveness while reducing China's dependence on the dollar.<sup>224</sup> Cohen argues that China clearly intends to compete with the dollar and lessen U.S. financial dominance by establishing the RMB as “an instrument of international influence.”<sup>225</sup>

With a keen interest to attain the benefits from RMB internationalization, China has made significant efforts to drive the use of the RMB overseas.<sup>226</sup> China's strategy to achieve this includes increasing the use of RMB for trade finance, for investments, and eventually as a reserve currency.<sup>227</sup> China has gained ground in raising the percentage of trade being settled in RMB and has utilized Hong Kong as an offshore financial center to develop markets for RMB deposits and the “dim sum bonds.”<sup>228</sup> Getting the RMB into the

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<sup>221</sup> Wang, “China and the International Monetary System,” 4–5.

<sup>222</sup> Hveem and Pempel, “China’s Rise and Economic Interdependence,” 200.

<sup>223</sup> Wang, “China and the International Monetary System,” 3–5.

<sup>224</sup> Benjamin Cohen, “Renminbi Internationalization: A Conflict of Statecrafts” (paper presented at International Studies Association International Conference, Hong Kong, June 2017), 4; See also Hveem and Pempel, 200.

<sup>225</sup> Cohen, 7.

<sup>226</sup> Cohen, 16.

<sup>227</sup> “The Rise of the Redback: A Guide to Renminbi Internationalization,” The Hongkong and Shanghai Banking Corporation, July, 2011, [https://www.personal.hsbc.com.hk/1/PA\\_esf-ca-app-content/content/greaterchina/pdf/20110706currency\\_pfs.pdf](https://www.personal.hsbc.com.hk/1/PA_esf-ca-app-content/content/greaterchina/pdf/20110706currency_pfs.pdf).

<sup>228</sup> Cohen, “Renminbi Internationalization,” 6.

SDR basket of the IMF may also increase its use as a reserve asset and raise its demand in the long term.<sup>229</sup>

To persuade countries to use the RMB, China has to implement more reforms that directly oppose its authoritarian domestic governance structure, revise the financial sector and restrain nationalistic outcries which have damaged China's foreign relations; but Cohen notes that these changes may reduce the government's domestic authoritarian control.<sup>230</sup> Nevertheless, Cohen recognizes China's implementation of policy measures to smooth the use of the RMB in capital transactions. These include raising the appeal of the RMB for foreign governments by developing a “network of currency swaps and designated clearing banks” and at the private level, encouraging the use of RMB for investments via programs to increase capital flow through the domestic financial sector.<sup>231</sup>

In addition, domestic politics and institutions interact with, and have an impact on, China's approach to economic and financial developments.<sup>232</sup> Within China, there is still a conflict between groups who are pushing for more liberal financial reform to drive economic growth, and producer and banking institutions who want continued government financial controls.<sup>233</sup> RMB internationalization may also “increase the probability of asset bubbles and financial instability,” consequently leading to domestic instability.<sup>234</sup>

Despite progress in these areas, China is still highly cautious when revising monetary policies as Beijing has long controlled the RMB to achieve financial stability and minimize currency fluctuations. Financial control continues to be a tool in its political authoritarianism and used to manipulate the domestic market.<sup>235</sup> Yet, authoritarian control

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<sup>229</sup> The Hongkong and Shanghai Banking Corporation, “The Rise of the Redback.”

<sup>230</sup> Cohen, “Renminbi Internationalization,” 16.

<sup>231</sup> Cohen, 15.

<sup>232</sup> Hveem and Pempel, “China's Rise and Economic Interdependence,” 201.

<sup>233</sup> Cohen, “Renminbi Internationalization,” 45.

<sup>234</sup> Liqing, Zhang, and Kunyu Tao, “The Benefits and Costs of Renminbi Internationalization” (working paper 481, Asian Development Bank Institute, 2014), 24, <http://www.adbi.org/working-paper/2014/05/19/6266.benefits.costs.renminbi.internationalization/>

<sup>235</sup> Cohen, “Renminbi Internationalization,” 15–16.

of monetary policies and domestic financial conditions translates into a “closed capital account and managed exchange rate” which will continue to lower the appeal of the RMB to international markets.<sup>236</sup>

Integrating analyses of China’s domestic economic situation and its approach towards RMB internationalization reveals a fairly complicated CLD with a significant level of interconnectivity among the elements. See Figure 12. In Figure 13, the reinforcing and balancing loops are identified.

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<sup>236</sup> Cohen, 16.



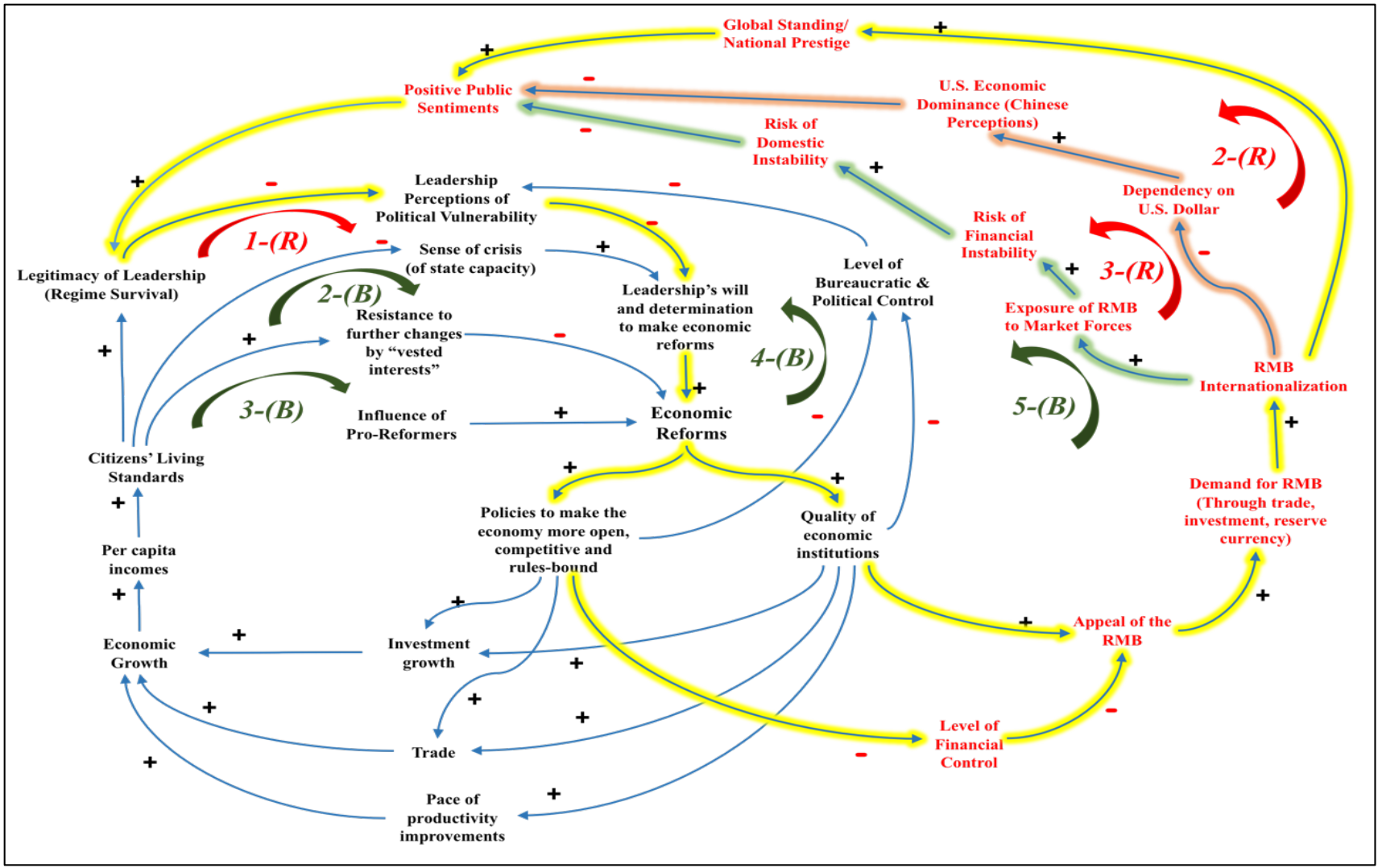


Figure 13. Economic reform and RMB internationalization (with reinforcing and balancing loops)

Figure 13 combines the loops seen in Figure 12 together with the additional loops identified from China's approach towards RMB internationalization. An analysis of the two reinforcing loops 2-(R) and 3-(R) on the right of Figure 13 shows that the loops appear to be virtuous as long as economic reforms are sustained to drive RMB internationalization. However, the balancing loops on the left may cause a further slowing down in economic reform.

If economic reform slows down or reverses, it could lead to the two reinforcing loops on the right turning into vicious reinforcing loops.

### C. CHINA'S FOREIGN POLICY BEHAVIOR TOWARD AUSTRALIA

Ties between Australia and China in the diplomatic, economic, and security domains have developed considerably since official relations were established in 1972.<sup>237</sup> China's foreign policy towards Australia is influenced by several factors: (1) Beijing's "peripheral diplomacy;" (2) Australia's supply of critical resources for China's economic growth; (3) Australia's geopolitical and security influence in Asia-Pacific; (4) the U.S.-Australia alliance; and, (5) the sizeable Chinese community in Australia.

"Peripheral diplomacy" is a key aspect of China's strategy towards cultivating a friendly external environment to facilitate China's growth and to "accommodate China's interlinked economic, political and security interests."<sup>238</sup> In Oct 2013, Xi called for a focus on "peripheral diplomacy" efforts, with Australia understood to be part of the "greater periphery."<sup>239</sup>

Australia's importance to China lies not only in its ability to supply China with its much-needed resources for continued economic growth, but also in Australia's geopolitical

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<sup>237</sup> Wilson Au-Yeung, et al., *Australia-China: Not Just 40 Years*, Issue 4 of the 2012 Economic Roundup (Canberra, Australia: The Treasury, 2012), <https://treasury.gov.au/publication/economic-roundup-issue-4-2012/>.

<sup>238</sup> Neil Thomas, "Rhetoric and Reality — Xi Jinping's Australia Policy," *The China Story Journal* (March 2015), <https://www.thechinastory.org/2015/03/rhetoric-and-reality-xi-jinpings-australia-policy/>; See also Yu, Lei, "China–Australia strategic partnership in the context of China's grand peripheral diplomacy," *Cambridge Review of International Affairs* 29, no. 2 (January 2016): 740–760.

<sup>239</sup> Thomas, "Rhetoric and Reality — Xi Jinping's Australia Policy."

and security influence in the Asia-Pacific region and long-standing alliance with the U.S.<sup>240</sup> China may perceive Australia to be more easily won over as it has no territorial disputes or competing strategic interests with China and has repeatedly pushed to “deepen mutual political trust.”<sup>241</sup> According to Yuan, Australia is perceived by Chinese analysts to be an important and proactive middle power regionally and internationally; and Canberra’s diplomatic actions in areas such as human rights and maritime disputes which may impact Chinese interests are also of concern to Beijing.<sup>242</sup>

China has adopted a charm offensive in many areas reinforced by aggressive economic diplomacy to strengthen ties with Australia. As Kurlantzick states, “China has aggressively wooed Australia, sending its finest diplomats, building up cultural exchanges, offering a strategic partnership, and aggressively promoting the importance of China’s demand for natural resources to the Australian economy.”<sup>243</sup> To fulfil China’s strategy of enhancing its soft power and political leverage in states on its periphery, Beijing has actively used promises of economic gains.<sup>244</sup> The Chinese government has consistently used economic incentives and threats to push Australia toward alignment on matters seen as threatening to China’s core interests.<sup>245</sup>

Australia is also a target of China’s diplomatic offensives to undermine U.S. leadership in Asia-Pacific region. Huisken asserts that China wants its relations with Australia to be “as strong as those between U.S. and Australia” such that Australia would

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<sup>240</sup> Jingdong, Yuan, *A Rising Power Looks Down Under, Chinese Perspectives on Australia*, Strategy Report, (Barton, Australia: Australian Strategic Policy Institute, March 2014), 9, <https://www.aspi.org.au/report/rising-power-looks-down-under-chinese-perspectives-australia>.

<sup>241</sup> Rowan Callick, “Delegates Find Consensus on Australia-China Ties,” *The Australian*, November 25, 2016, <https://www.theaustralian.com.au/news/world/delegates-find-consensus-on-australiachina-ties/news-story/b918ab5593d92743c521007866c2a13e>.

<sup>242</sup> Yuan, *A Rising Power Looks Down Under*, 5–9.

<sup>243</sup> Joshua Kurlantzick, *Charm Offensive: How China’s Soft Power Is Transforming the World* (New Haven: Yale University Press, 2007), 214.

<sup>244</sup> Yu, Lei, “China–Australia Strategic Partnership,” 740–760.

<sup>245</sup> Joel Atkinson, *Australia and Taiwan: Bilateral Relations, China, the United States, and the South Pacific* (Boston: Brill, 2013), 78–79.

“instinctively look first to Beijing for guidance, support and validation.”<sup>246</sup> Liu and Hao also conclude that China’s grand strategy involves fostering closer Sino-Australian ties to make Australia less inclined to side with the U.S. should a U.S.-led challenge occur.<sup>247</sup>

China’s interest in Australia also stems in part from the influence Australia has on the South Pacific nations, as many South Pacific island states are believed to closely follow Australia’s foreign policies.<sup>248</sup> However, these states’ attitudes towards China are also greatly influenced by China’s aid packages and other inducements in what is known as “checkbook diplomacy.”<sup>249</sup> This has been in contrast with Australia’s strategy of employing funding packages as a means to drive the South Pacific states towards reform.<sup>250</sup>

Finally, the Chinese government has also purportedly kept a watchful eye on the sizeable Chinese community in Australia.<sup>251</sup> <sup>252</sup> Besides acquiring some Chinese-language media agencies in Australia, the CCP has been accused of influencing academic discourse through its control over Chinese associations in educational institutes as well as through academic partnerships with universities.<sup>253</sup> These, together with issues over politically-driven donations by Chinese sources and the infiltration of Australian political circles by CCP elements, have led many to believe that Australia is the target of a large

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<sup>246</sup> Ron Huiskens, “How to Think about Australia’s Relationship with China,” *Australian Journal of International Affairs* 71, no. 6 (November 2017): 563–567, <https://doi.org/10.1080/10357718.2017.1328>

<sup>247</sup> Weihua, Liu, and Hao Yufan, “Australia in China’s Grand Strategy,” *Asian Survey* 54, no. 2 (April 2014): 373, <https://doi.org/10.1525/AS.2014.54.2.367>.

<sup>248</sup> Atkinson, *Australia and Taiwan*, 185.

<sup>249</sup> Atkinson, 182–183.

<sup>250</sup> Atkinson, 163–181.

<sup>251</sup> The Chinese population in Australia grew 2000% from 26k to 526k between the period 1981 to 2016; and currently makes up almost 2.2% of the total population.

<sup>252</sup> Ien Ang, “Engaging Australia’s Chinese Diaspora,” *East Asia Forum Quarterly*, March 7, 2018, <http://www.eastasiaforum.org/2018/03/07/engaging-australias-chinese-diaspora/>.

<sup>253</sup> Anne-Marie Brady, “Magic Weapons: China’s Political Influence Activities under Xi Jinping” (paper presented at the conference on “The Corrosion of Democracy under China’s Global Influence, Arlington, Virginia, September 2017).

scale Chinese political influence campaign.<sup>254</sup> This is exacerbated by reports of the CCP employing propaganda and coercive techniques to influence the Australian-Chinese community.<sup>255</sup>

### **1. Diplomatic Engagements**

Australia has generally adopted an approach of “quiet diplomacy” and accommodation towards China and has been unwilling to let diplomatic and human rights issues affect economic developments.<sup>256</sup> Based on Atkinson’s examination of historical records, there is evidence of Canberra’s desire to avoid antagonizing Beijing on issues pertaining to Taiwan or the Dalai Lama.<sup>257</sup> At the same time, because of the ‘democratic nature’ of Australian politics, opposition politicians and government officials have often conducted activities which are perceived negatively by Chinese leaders. Atkinson notes however, that during periods where ties with China have not been deemed to be as important, Australia has also chosen not to succumb to pressure from the Chinese government.<sup>258</sup>

Despite the episodic setbacks, Yuan characterizes the 46 years of diplomatic relations between China and Australia as “good and stable.”<sup>259</sup> Different levels of government meet regularly through bilateral engagements or on the sidelines of multilateral fora such as the East Asia Summit; with the annual number of high-level visits having roughly doubled between 2007 and 2017.<sup>260</sup> Bilateral ties are also believed to have strengthened with the establishment of new high-level bilateral platforms such as the

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<sup>254</sup> Joshua Kurlantzick, *Australia, New Zealand Face China’s Influence*, (New York: Council on Foreign Relations, 2017), <https://www.cfr.org/expert-brief/australia-new-zealand-face-chinas-influence>.

<sup>255</sup> Ang, “Engaging Australia’s Chinese Diaspora.”

<sup>256</sup> Linda Jakobson, *Australia-China Ties - In Search of Political Trust*, Policy brief, (Sydney, Australia: Lowy Institute for International Policy, 2012): 4, [http://lindajakobson.com/wp-content/uploads/2014/10/jakobson\\_australia\\_china\\_ties.pdf](http://lindajakobson.com/wp-content/uploads/2014/10/jakobson_australia_china_ties.pdf).

<sup>257</sup> Atkinson, *Australia and Taiwan*, 70, 103–115.

<sup>258</sup> Atkinson, 50.

<sup>259</sup> Yuan, *A Rising Power Looks Down Under*, 9–10.

<sup>260</sup> “Australia-China Relationship Overview,” Australian Embassy in China, accessed Mar 25, 2018, <http://china.embassy.gov.au/bjng/relations1.html>.

Strategic Economic Dialogue as well as the Foreign and Strategic Dialogue; and when the Comprehensive Strategic Partnership (CSP) and negotiations over the Free Trade Agreement (FTA) were finalized in 2014.<sup>261</sup>

That said, recent developments suggest that bilateral relations may be cooling.<sup>262</sup> This could be the result of serious concerns over China's efforts to increase its influence across Australia's political, education, and business spheres,<sup>263</sup> as well as China's displeasure at Australia's criticisms of Chinese activities in the South China Sea (SCS).<sup>264</sup>

## 2. Security Engagements

Security engagements between Australia and China have increased since military-to-military relations were introduced in 1978. Today, there are regular "senior-level dialogues, educational exchanges, reciprocal naval ship visits, and humanitarian assistance and disaster relief exercises," as well as "regular bilateral exchanges between the Australian Defence Force and the PLA."<sup>265</sup>

Just as with diplomatic relations, the Australia-China security relationship has seemingly strengthened in recent years since the 2014 CSP was formalized. Efforts have been made to introduce trust-building measures and the Australia-China High-Level Security Dialogue was launched in 2017 to increase cooperation in the area of law enforcement and to deepen dialogue on cyber and terrorism issues. According to a study on Chinese military diplomacy from 2003-2016, Australia has had 16 military exercises,

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<sup>261</sup> "China Country Brief," Australian Department of Foreign Affairs and Trade, accessed Mar 25, 2018, <http://dfat.gov.au/geo/china/pages/china-country-brief.aspx>.

<sup>262</sup> Colin Packham, "Australian PM says Foreign Interference Bill has Soured Ties with China," *Reuters.com*, April 11, 2018, <https://www.reuters.com/article/us-australia-china/australian-pm-says-foreign-interference-bill-has-soured-ties-with-china-idUSKBN1HJ07Y>.

<sup>263</sup> Michael McGowan, "Chinese government exerts influence across Australian society, MPs told," *The Guardian*, Jan 30, 2018, <https://www.theguardian.com/australia-news/2018/jan/31/chinese-government-exerts-influence-across-australian-society-mps-told>.

<sup>264</sup> Gavin Fernando, "Australia is facing a 'diplomatic deep freeze' from China," *News.com.au.*, Mar 10, 2018, <http://www.news.com.au/finance/work/leaders/australia-is-facing-a-diplomatic-deep-freeze-from-china/news-story/9f406cfd45f8df5d29a4e4fd9d47ea5c>.

<sup>265</sup> "Defense and Strategic Relations," Australian Centre on China in the World, accessed Mar 25, 2018, <http://aus.thechinastory.org/archive/defence-and-strategic-relations/>.

eight port calls and 59 senior-level meetings with China. Australia ranks 5<sup>th</sup> in terms of the PLA's top 10 most frequent military diplomatic partners.<sup>266</sup> However, critics describe the relationship as “perfunctory” with “hardly any substantial military dimension.”<sup>267</sup> This is unsurprising considering Australia's mistrust over China's growing military capabilities which has led to political constraints on conducting joint combat exercises with the PLA and reluctance to help the PLA develop its combat capabilities.<sup>268</sup>

Australia's alliance with the U.S. as well as ties with Japan and India continue to be viewed negatively by China in light of its long-standing misgivings towards these countries.<sup>269</sup> China's increasing assertiveness has also purportedly sparked the resurrection of an abandoned security arrangement between the U.S., Japan, Australia, and India known as the “Quadrilateral Security Dialogue (Quad).”<sup>270</sup> Although originally established in 2007 amidst security concerns about China, the Quad ceased in 2008 when Australia left in response to pressure from China. Similar to a decade ago, China has raised concerns that the Quad is an attempt to contain China.<sup>271</sup>

### 3. Economic Developments

Economic ties between Australia and China have grown significantly over the past 46 years from a “mutually beneficial relationship to interdependence” over an expansive range of industries including energy supplies, education and tourism.<sup>272</sup> Nevertheless, each nation's dependency on the other varies substantially in some areas. For example, Chinese students and tourists are important sources of foreign income for Australia, while

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<sup>266</sup> Kenneth Allen, et al., *Chinese Military Diplomacy, 2003–2016: Trends and Implications*, China Strategic Perspectives 11, (Washington, DC: Institute for National Strategic Studies, National Defense University Press, 2017), 45, <http://www.ssri-j.com/MediaReport/DocumentUS/INSSreportChinaPerspectives.pdf>

<sup>267</sup> Australian Centre on China in the World, “Defense and Strategic Relations.”

<sup>268</sup> Allen et al., *Chinese Military Diplomacy, 2003–2016*, 52–53.

<sup>269</sup> Yuan, *A Rising Power Looks Down Under*, 5.

<sup>270</sup> Tan Ming Hui, and Nazia Hussain, “Quad 2.0: Facing China's Belt and Road?” RSIS Commentaries, No. 033 (February, 2018).

<sup>271</sup> Tan, and Hussain.

<sup>272</sup> Yuan, *A Rising Power Looks Down Under*, 26.

China is heavily dependent on Australia for critical raw materials like iron ore, coal and liquefied natural gas.<sup>273</sup>

It is noteworthy that China has been Australia's top trading partner since 2007, with forecasts of potential for continued growth. In contrast, Australia is China's 6<sup>th</sup> biggest trading partner.<sup>274</sup> From 2016-2017, Chinese-Australian goods and services trade (both exports and imports) accounted for A\$174.7 billion; and in comparison, Australia's bilateral trade with its second biggest trading partner Japan only accounted for approximately A\$68.6 billion.<sup>275</sup>

The aggregate amount of Chinese investments in Australia by state-owned enterprises and private enterprises stands at A\$87.2 million and is similar to Australia's total investment of A\$87.9 million in China.<sup>276</sup> Despite the significant and growing number of Chinese investments in Australia, China was only Australia's 7<sup>th</sup> largest source of foreign investments and its 5<sup>th</sup> largest source of Foreign Direct Investments<sup>277</sup> in 2016.<sup>278</sup>

In the economic realm, significant milestones include the formalization of the CSP in 2014, the 2015 China-Australia FTA which materialized after 10 years of negotiations, and creation of high-level bilateral platforms such as the Strategic Economic Dialogue. In addition, Australia supported China's launch of the AIIB from its early stages and became its 6<sup>th</sup> largest stakeholder.<sup>279</sup>

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<sup>273</sup> Lanteigne, *Chinese Foreign Policy*, 175.

<sup>274</sup> Anne Holmes, *Australia's Economic Relationships with China* (Canberra, Australia: Parliament of Australia), accessed March 28, 2018. [https://www.aph.gov.au/About\\_Parliament/Parliamentary\\_Departments/Parliamentary\\_Library/pubs/BriefingBook44p/China](https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/BriefingBook44p/China).

<sup>275</sup> "Trade and Investment at a Glance 2017," Australian Department of Foreign Affairs and Trade, February 27, 2018, 12, <http://china.embassy.gov.au/bjng/130724overview.html>.

<sup>276</sup> Australian Department of Foreign Affairs and Trade, 34.

<sup>277</sup> FDI occurs when an individual or entity from outside Australia establishes a new business or acquires ten per cent or more of an Australian enterprise and has some control over its operations.

<sup>278</sup> Australian Department of Foreign Affairs and Trade, 34.

<sup>279</sup> Wilson, "The Evolution of China's Asian Infrastructure Investment Bank," 15–17.

On investment issues however, China has repeatedly shown its displeasure at what it considers biased practices against Chinese investments in Australia's resources and agricultural sectors.<sup>280</sup> China has demanded that limitations to Chinese investments be removed and be accorded similar terms to those of the U.S. under the U.S.-Australia FTA.<sup>281</sup> As Yuan highlights, the economic relationship is significant because China is the first major trading partner Australia has had "that isn't at the same time an ally that also offers an important security guarantee."<sup>282</sup> Nevertheless, Australia has continued to hedge against China's rise while engaging with China to gain economic benefits; and hopes that China will gradually be "persuaded to accept the regional status quo."<sup>283</sup>

#### 4. Key Issues

Australia's security alliance and close relations with the U.S. continue to hamper progress in Sino-Australian ties.<sup>284</sup> The ill-feelings are worsened by China's belief that its security environment is affected by the U.S. rebalance towards Asia, Australia's increased support for U.S. deployments on Australian soil, and the U.S. approach to maritime disputes in the SCS.<sup>285</sup>

China continues to be wary of Australia's likely assistance to the U.S. in the event of a Sino-U.S. conflict and has repeatedly tried to weaken the U.S.-Australian alliance. For example, after China's 2005 Anti-Secession law, a Chinese official pointedly noted that it was probably in Australia's interests to reevaluate its 1951 Australia, New Zealand, U.S.

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<sup>280</sup> Yuan, *A Rising Power Looks Down Under*, 26.

<sup>281</sup> Jiang, Yang, "Australia-China FTA: China's Domestic Politics and the Roots of Different National Approaches to FTAs," *Australian Journal of International Affairs* 62, no. 2 (June 2008), 181, <https://doi.org/10.1080/10357710802060543>.

<sup>282</sup> Yuan, *A Rising Power Looks Down Under*, 6-7.

<sup>283</sup> Atkinson, *Australia and Taiwan*, 134.

<sup>284</sup> Huisken, "How to Think about Australia's Relationship with China," 563-567.

<sup>285</sup> Australian Department of Defense, *Defense White Paper 2016* (Canberra, Australia: Australian Government, 2016), <http://www.defence.gov.au/WhitePaper/>.

treaty obligations.<sup>286</sup> Australia has also been cautioned to remain neutral amidst growing Sino-U.S. animosity.<sup>287</sup>

With the basis of Australia's One-China policy resting on a 1972 Communique between China and Australia, Australia's relations with Taiwan remain of concern to the Chinese.<sup>288</sup> Atkinson argues that similar to the 1972 U.S.-China communique, Australia chose to introduce deliberate ambiguity into the agreement through its acknowledgement of China's position on Taiwan's status. Notably, Australia still today has not endorsed China's claim that Taiwan is its province and has not accepted China's assertions of its rights to retake Taiwan through force.<sup>289</sup>

China has frequently used its growing economic weight and influence to shape Australia's approach to Taiwan, employing diplomatic protests or withholding high-level visits to signal displeasure at Australia's activities with Taiwan.<sup>290</sup> While Chinese efforts have managed to minimize any inclinations on Australia's part to engage in formal relations with Taiwan, China has periodically shown displeasure at what Australia terms as informal and semiformal interactions with Taiwanese officials on trade and less visible areas.<sup>291</sup> Moreover, China perceives the Australian government and non-governmental organizations to have an ambiguous attitude toward Taiwan.<sup>292</sup> Despite Australia's regular "assurances" to China of its commitment to the one-China policy, Atkinson posits that Australia has "sought to both engage with, and balance against, China through Taiwan" because it distrusts China's intentions.<sup>293</sup>

China's foreign policy towards Australia is illustrated in a CLD in Figure 14. In Figure 15, the reinforcing and balancing loops in the system are identified.

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<sup>286</sup> Atkinson, *Australia and Taiwan*, 87.

<sup>287</sup> Huisken, "How to Think about Australia's Relationship with China." 563–567.

<sup>288</sup> Au-Yeung et al., *Australia-China: Not Just 40 Years*.

<sup>289</sup> Atkinson, *Australia and Taiwan*, 38–39.

<sup>290</sup> Atkinson, 41–57.

<sup>291</sup> Atkinson, 137–145.

<sup>292</sup> Atkinson, 71–72.

<sup>293</sup> Atkinson, 134.





In a big system with multiple variables, there are bound to be many feedback loops. In this discussion, major loops are identified to highlight the interactions between variables and feedback loops. Based on the analysis of Figure 15, either the yellow reinforcing loop 1-(R) or yellow and brown balancing loop 2-(B) may be the overall loop in the system.

The diagram illustrates how the rise in U.S. influence in the Asia Pacific region which is perceived by China to be a threat to claims over the SCS may lead either to China increasing its peripheral diplomacy efforts or increasing assertiveness towards its claims in the SCS. In the reinforcing loop 1-(R), greater levels of trade between China and Australia lead to greater interdependency but unfortunately contributes to the rising influence of the Chinese in Australia which is viewed as a threat by the U.S. and its allies. As a result of this perceived threat, it leads to an increase in security initiatives and engagements to counter China's actions which feed U.S.-China tensions.

Interestingly, the balancing loop 2-(B) may actually restrain the vicious effect observed in the reinforcing loop 1-(R), because China's aggressiveness negatively impacts balance and stability in the region which eventually affects China's economic growth and slows down trade between China and Australia.

The centrality of U.S.-China tensions and its impact on relations between China and Australia is also more apparent from the CLD in Figure 15. In the green and yellow loop 3-(R), perceptions of China's actions as a threat result in more security engagements, a heightening in U.S. influence in the region, which in turn leads to China's dissatisfaction with U.S. influence in the region and subsequent efforts by China to gain greater influence and protect its interests. Unfortunately, this loop adds to the vicious reinforcing behavior in loop 1-(R).

Loop 4-(R) on the right (in brown) is a vicious reinforcing loop, where mistrust leads to actions by both states that then generate greater mistrust. Moreover, this vicious loop is exacerbated by Sino-Australian tensions as well as China's further actions to gain more influence and protect its interests.

## VI. CONCLUSION

Systems thinking does not take the place of traditional paradigmatic and reductionist approaches. A combination of systems and reductionist thinking approaches is still needed to better understand a complex dynamic system. In this thesis, it has been shown that reductionist approaches tend to provide one-dimensional perspectives and are ill-suited for complex problems with multiple interrelated components. Moreover, the research in this thesis has shown the need to move away from focusing on narrow, monocausal effects and linear relationships, to visualizing the bigger picture and considering developments through a more holistic perspective. In addition, the systems thinking approach is important for helping policy makers shift from a reliance on paradigmatic cause and effect models which often form the basis of IR theories.

Foreign policy systems are complex and dynamic. Applying the systems thinking approach to examining China's complex and dynamic foreign policy system has been useful in providing insights on feedback, hidden interdependencies and multiple interrelated components. Essentially, it can be leveraged to develop a greater sense-making framework which allows for the value of the feedback and interactions within the system to be more greatly appreciated. This thesis has also shown how the constraints of the larger system, as well as the components and interactions of the Chinese foreign policy system affect its decision-making process and foreign policy behavior.

There is always a fine balance between trying to provide the policy-maker with enough details to make an informed decision and providing a holistic picture with a focus on the interactions which result in multi-causal relationships rather than monocausal effects and linear relationships. The CLDs in this thesis have attempted to capture the complex, multi-dimensional interactive effects of key variables which affect the foreign policy decision-making process in China; yet, present them simply enough for the policy maker dealing with China to grasp the intricacies of the dynamics within the China foreign policy system. Although there are limitations to the utility of the diagrams, the identification of different loops within the system and its subsystems has been effective in providing a better

understanding of how the reinforcing and balancing effects can ultimately have an impact on desired outcomes.

## A. RECOMMENDATIONS

This thesis has only provided a glimpse of the possible analyses which can result from applying systems thinking principles to examining foreign policy. At this point, the CLDs that have been developed provide a preliminary conceptual framework that could be enhanced with further research and higher fidelity information and modelling. Specifically on China, there are other subsystems which can be examined to provide a better understanding of how each subsystem may interact to impact the wider foreign policy system. This includes China's concerns with energy security as well as China's preoccupation with social stability and its developments in the public security and information domains for social control. In addition, the systems thinking approach can also be applied by researchers who wish to better understand how wider systems effects and multiple feedback loops may impact bilateral relations between China and other states.

Ultimately, CLDs aid in qualitative understanding of the system, but are not quantitative models. As noted previously, the rise in one causal variable may not definitively result in the increase of the dependent variable, as there may be more than one causal variable which contributes to the change in the dependent variable. Hence, to understand “the accumulations of resources in a system and the rates of change that alter those resources,” there could be value in examining whether the conceptual framework can be used to create a systems dynamics model which can be tested with statistical data and simulations.<sup>294</sup> This would help in the identification and determination of which key variables and dominant feedback loops have the greatest effect on system behavior and desired policy outcomes.

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<sup>294</sup> Sterman, *Business Dynamics*, 37–39, 140.

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