

KNIFE BEHIND THE SMILE: CHINA AND THE LIBERAL INTERNATIONAL
ORDER

BY

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APPROVAL PAGE

The undersigned certify that this thesis meets master's-level standard of research, argumentation, and expression.

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DISCLAIMER

The conclusion and opinions expressed in this document are those of the author. They do not reflect the official position of the US Government, Department of Defense, the United States Air Force, or Air University.



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ABSTRACT

The purpose of this research is to identify which of the major prevailing IR theories best predicts the rise of China. Realists and liberals tend to take a very different approach and have very different predictions when it comes to the rise of China as the next great superpower who appears on track to supersede the United States. Through presenting the prevailing theories and their predictions and comparing to three major contemporary case studies, this analysis seeks to provide an early indication of which direction, and which prediction, appears to be correct.



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Chapter 1:

Introduction

The growth of China with its increasingly powerful economy and military is changing the balance of power in the world.¹ Military leaders from the United States have declared that China is a threat and in the 2018 National Defense Strategy (NDS) China is a central figure in the perceived resurgence of great power competition.² The NDS also highlights that the United States' capability to counter near-peer competitors in inter-state conflict has atrophied during the last 17 years of the war in the Middle East. Meanwhile, China has focused on increasing its strength and limiting the ability of the United States and its allies to project power in the Pacific region.³ There are many theories to address China's rise and there is a common awareness that the power is shifting in China's favor. However, few can agree on the best way forward to address China's rise. Some believe that power balancing in the traditional realist school of thought is required, while others think that the world of today is unique and that globalization provides an answer not available to strategists in history.

This thesis assesses the stability and durability of the current international order and China's current behaviors within it to inform strategists and to provide evidence that may predict China's future behavior. In order to select an informed strategy to deal with China's rise, strategists must answer several key questions. First, what indications has China given that can predict its future intent in regard to the current liberal international order (LIO)? Is China's behavior

¹ David L. Shambaugh, *Tangled Titans: The United States and China* (Rowman & Littlefield, 2013), 57.

² Jim Mattis, "Summary of the 2018 National Defense Strategy," 1-3.

³ Mattis, 2.

consistent with a power seeking to challenge the existing order? Alternatively, is their behavior akin to a state acting from within the current system and does it indicate they are merely striving for a more prominent seat at the existing table of international institutions? Has the international system become so entrenched and complex that no one country can overturn it?⁴ This thesis seeks to determine if China's participation in and interaction with liberal international order give any indication as to the answers to these questions? If so, what indications are there and what implications does this have for U.S. strategy.

A prevailing strategy to address the rise of China is to encourage it to rise within the existing liberal international order.⁵ This popular notion and strategy of successive U.S. administrations believes that the rise of China will inevitably occur through the international order and the laws, institutions, and relations that exist within it. This school of thought claims that while American dominance over the international system may be ending, the system itself will live on. Therefore the rules and norms to which the United States and its Western allies instituted and adhere, will survive as well.⁶ Rather than viewing China in opposition to the LIO, this strategy proposes that the growth of China will provide benefits for all nations and that it will inevitably become a responsible stakeholder in, rather than a challenger to, the current order.⁷

This thesis and the evidence it uncovers points to a very different trajectory for China. Instead of growing within the current order, China more closely resembles a revisionist state and moderating influence of

⁴ Shambaugh, 57.

⁵ Robert D Blackwill and Ashley J Tellis, "Revising U.S. Grand Strategy Toward China," *Council on Foreign Relations*, Council Special Report, 72 (March 2015), 20.

⁶ Shambaugh, 55.

⁷ Blackwill and Tellis, 20.

the LIO appears limited at this time. China's rise in recent years is full of examples in which it bucks the current order. While it may not be building a new order to supplant the current system, China's behavior indicates a portentous future intent for the LIO. China appears to do what is in its best interests and that is its guiding principle. If those interests align with the norms and laws of the LIO then China will adhere to them; if not, China will break norms and laws with impunity. However, when the order and its rules and norms do not benefit China, especially when it is in a position of relative power, China goes against the system and breaks many of its rules and norms. Its actions as the cases show, are not consistent with a state that will grow peaceably within the current international system. Instead, China's behavior is consistent with a state guided only by its own interests. This means either bucking the systems entirely or attempting to remake it in a manner that favors its interests.

This thesis pits the two prevailing paradigms most commonly used to interpret China against one another: realism and liberalism. The remainder of Chapter 1 explains each of these theories and their predictions vis a vis the international order and state behavior as pertains primarily to China. Chapter 2 comprises a series of three case study analyses. These cases compare the two prevailing theories against China's current behavior in the South and East China Seas, the World Trade Organization (WTO), and the Belt Road Initiative (BRI). Each case study analysis concludes with the theories and their predicted behaviors graded against China's actual behavior to assess which theory appears to be most aligned with China's actions. Finally, Chapter 3 concludes with the major takeaways and an overall assessment of the tack China seems to be taking based on the case studies along with future implications for US strategy.

Theories We'll Test

Structural realists believe that anarchy forms the ordering principle of the world. Because of this anarchy, states have only themselves to rely on for their own safety. Therefore, states trust only their own power to ensure their survival as Waltz explained when he first introduced the concept in 1979.⁸ Consequently, this anarchic condition of the world gives way to the security dilemma or spiral model in which states must provide their own safety. The security dilemma results in states taking actions that others perceive as threatening which creates tension, instability, and even conflict.

Graham Allison contributes to this theory with a historical case study analysis, which focuses on power dynamics and the resulting security dilemma that he calls the Thucydides Trap. In the trap, Allison outlines sixteen case studies from the past 500 years in which a rising power threatened to displace a ruling one.⁹ Twelve of the sixteen cases shown in Figure 1 ended in war. Allison however, goes even further into history with the original inspiration for the trap dating all the way back to Athens and Sparta in the Peloponnesian War. In a perfect example of the security dilemma, Thucydides states that the war between the ancient empires was inevitable due to the growth of Athenian power and the fear it caused in Sparta.¹⁰ Graham and other structural realists apply these same notions to the China and U.S. scenario currently

⁸ Kenneth N. Waltz, *Theory of International Politics* (Waveland Press, 2010), 88-97.

⁹ Graham Allison, "The Thucydides Trap: Are the U.S. and China Headed for War?," *The Atlantic*, September 24, 2015.

¹⁰ Robert B. Strassler, *The Landmark Thucydides: A Comprehensive Guide to the Peloponnesian War* (Simon and Schuster, 1998), 5.89.1.

unfolding. The friction that is currently on display is the result of a potential, maybe even inevitable, change in the balance of power. Realists claim that the ascendance of China is a potential or even likely source of hostilities as has been the case throughout human history.

	Period		Ruling Power	Rising Power		Result
1	First half of 16th century		France	Hapsburgs		War
2	16th–17th centuries		Hapsburgs	Ottoman Empire		War
3	17th century		Hapsburgs	Sweden		War
4	17th century		Dutch Republic	England		War
5	Late 17th–early 18th centuries		France	Great Britain		War
6	Late 18th–early 19th centuries		United Kingdom	France		War
7	Mid-19th century		United Kingdom, France	Russia		War
8	19th century		France	Germany		War
9	Late 19th–early 20th centuries		Russia, China	Japan		War
10	Early 20th century		United Kingdom	United States		No war
11	Early 20th century		Russia, U.K., France	Germany		War
12	Mid-20th century		Soviet Union, U.K. France	Germany		War
13	Mid-20th century		United States	Japan		War
14	1970s–1980s		Soviet Union	Japan		No war
15	1940s–1980s		United States	Soviet Union		No war
16	1990s–present		United Kingdom, France	Germany		No war

Figure 1: Thucydides Trap Case Studies on Power Transitions

Source: Harvard Belfer Center for Science and International Affairs

The root cause for conflict is that states rightfully fear one another. John Mearsheimer argued that states not only possess an offensive military capability to harm on another, but also have unknown long-term intentions in regard to other states. The one long-term intention states do have is that they seek whatever is in their own best interest. As a

result, states cannot truly trust one another over the long-term and their only guarantee of safety is power. Ultimately, states seek enough power to ensure their safety, which usually means that they seek as much power as possible and even hegemony if it is within their reach. This power not only assures their survival, but also allows states to dictate terms to other states to attain what is in their own interests. States seek their own interests even through aggressive action if need be, especially against states with inferior capabilities.¹¹ This push for power and safety, the theory generally claims, is why the rise of China is not benign and is ultimately uncontrollable by the LIO.¹²

As a result of this fundamental underpinning of the international system, structural realists predict that China is likely to attempt to become as powerful as it can in the Pacific region. As it gains power, it will inevitably exert this power to dominate other states in the region in much the same way the United States dominated the western hemisphere as it gained the power to extend its influence.¹³ This increasingly powerful China will attempt to dictate behavior to other weaker states and will attempt force out competitors. As this power differential between China and its neighbor's increases, this bellicose behavior will accelerate until either a conflict erupts which resets the

¹¹ John J. Mearsheimer, *The Tragedy of Great Power Politics* (W. W. Norton & Company, 2003), "Three features of the international system combine to cause states to fear one another: 1) The absence of a central authority that sits above states and can protect them from each other (anarchy), 2) the fact that states always have some offensive military capability, and 3) the fact that states can never be certain about other states' intentions. Given this fear - which can never be wholly eliminated - states recognize that the more powerful they are relative to their rivals, the better their chances of survival," 184.

¹² John Mearsheimer, "China's Unpeaceful Rise," *Current History*, no. April 2006 (April 2006), 160-62.

¹³ Blackwill and Tellis, 3.

international order or the order changes significantly over time. This pattern of conflict-to-change has been the case in the majority of great power transitions as Allison's work proves.¹⁴ This is all but certain according to realists unless the United States can match China's power growth into order maintain balance.

In stark contrast, liberal institutionalists believe that China's rise is likely to be peaceful. The believers in liberal institutionalism, particularly John Ikenberry, do not think that the rise of China will trigger war or radical change in the world order. They argue that the U.S.-Chinese power transition will be distinctive from other power transitions in history due to the nature of the current LIO.¹⁵ Liberal institutionalism rejects the realist's assumption that international politics is a struggle for power. They disagree that a clear hierarchy of issues exists and believe that force is an ineffective instrument of policy.¹⁶ The modern world, they claim, is distinct from any other in history due to globalization, international institutions, and democracy. The perpetual peace theory often espoused by liberals stresses that the economic interdependence between states is a deterrence of conflict and the existence of robust international institutions binds states and their interests together.¹⁷ While China is not a democracy, liberals point to the latter two differences as key distinguishers between the current great power rivalries from those of the past that will negate the likelihood of modern conflict between the two great powers.

¹⁴ Allison, "The Thucydides Trap: Are the U.S. and China Headed for War?"

¹⁵ John Ikenberry, "The Rise of China and the Future of the West," *Foreign Affairs*, January 1, 2008.

¹⁶ Robert O. Keohane and Joseph S. Nye Jr, *Power & Interdependence* (Pearson Higher Ed, 2011), 24.

¹⁷ G. John Ikenberry, "Liberalism in a Realist World," *International Studies* 46, no. 1-2 (January 2009): 203-19.

Rather than seeing the conflict as China versus the United States, liberal institutionalists see China facing a Western-style liberal international order with rules and norms that will dictate a peaceful rise to regional hegemony. The Western order established by the United States and its allies, liberals argue, is going to prove too difficult for China to overturn or radically change. In fact, liberals believe China already believes that the incentives to join and participate in the liberal order are greater than the benefits of operating outside of it. This belief makes integration the far more likely outcome as China's power increases.¹⁸

However, liberals do not claim China and the United States will not compete or that there will not be friction. Liberals differ from realists however, in the behaviors they expect from China. As opposed to confrontational power politics and competition driven by selfish interests of the spiral model, liberals believe the only real option China has is to work from within the LIO to influence existing institutions to better serve its interests. Proponents of liberal institutionalism argue that due to the robustness of the LIO it is not in China's interests to radically change the order or to completely go against it, particularly since it has served its interests well in recent decades. At worst, China may seek to change the order from within to create rules and norms that favor its interests, but that radical change is all but impossible at this point.

The starkest contrast between the liberal and realist schools of thought pertains the liberal view of war. While the realists view large, hegemonic wars as a very real threat, the liberals believe that military confrontation between great powers, namely the United States and China, is very unlikely, if not impossible. This is due to their belief that

¹⁸ Ikenberry, "The Rise of China and the Future of the West."

the existing order prevents overtly hostile actions between states through the enforcement of rules and norms. In addition, the stability-instability paradox ultimately prevents states from going to war due to the costs of war in the modern world being too high for any great power to bear. This paradox caused by the nature of the modern order results in war being a virtual impossibility to the liberal theorists and the rise of China being something to manage within the existing liberal order and institutions rather than something to be fear and counter.

Instead of counterbalancing China's power, liberal theory argues for integrating China into the LIO even further through strategic bargaining while offering China a status and position within the LIO commensurate with its power. Liberals argue for accommodating and restraining China's rise by strengthening those liberal institutions that can dictate favorable terms for the United States and its allies while binding China to the LIO even further.¹⁹ This can only be accomplished by embracing the current order even further. The United States must protect the institutions founded around rules and norms including nondiscrimination, market openness, and benefits for all participants while allowing China to have full access to those institutions but shape the terms of its inclusion.

While there is some notable overlap between these two theories, the core tenet of each concept stands in glaring contrast to the other. The question is, as it relates to China, which theory is correct? Is China a revisionist power seeking to gain power at the expense of other states? Alternatively, is China accepting of the rules and norms and seeking to integrate into the existing world order?

How Extant Theory Applies to China

¹⁹ Ikenberry, "The Rise of China and the Future of the West."

Between the realist and liberal theories for China's rise, this thesis argues for the former. China is not a state demonstrating a propensity for integration into the LIO. Rather, China behaves much more consistently as a revisionist state, particularly when it comes to the LIO and its rules and norms.²⁰ China is forging a new way forward for itself as a regional hegemon with a new set of rules that are distinctive from those in the current LIO.

Rather than a free and open system of liberal values that makes up the current world order, China is creating a hierarchical power-based system based on state control. The following cases outline instances in which China is interfering with the free market and the guiding principles for the LIO established at the end of WWII. In particular, the cases focus on behavior seen from China in the last 18 years in which their increase in their economic and military power parallels actions that run counter to the LIO rules and norms. Furthermore, Chinese leaders are proposing new institutions to supplant existing ones drawing from China's history as a future roadmap to erase the century of humiliation.²¹

An important point to note in that this thesis does not argue that China is a malicious state with a specific and portentous future intent for the United States or other western states. However, China's actions run counter to the liberal hypothesis that the LIO will restrict China's actions. Rather, China's actions demonstrate that if the United States allows the balance of power to shift in China's favor even further, it is unlikely that that any moderating influence within the LIO will have any substantial effect when China's interests run contrary to LIO rules and

²⁰ Mercy Kuo, "The End of American World Order," *The Diplomat*, November 10, 2016.

²¹ Kuo, "The End of American World Order."

norms. Rather than conforming to the LIO, this thesis and the case studies analyzed suggest that China is on a trajectory that will have them more likely to abandon the LIO altogether.

As noted earlier, this thesis utilizes three contemporary case studies in which to examine China's behavior. The cases selected focus on China's behavior in the LIO as it relates directly to their relative power. The criteria for the case selection required that first; China had to have some level of relative power to compare to their behavior in each case to determine the influence power had on their actions. Second, the LIO had to have some degree of jurisdiction over the matter in question. Lastly, China had to have clear intentions or goals in the cases in order to determine if its interests overrode LIO norms of behavior.

After examining each case, the key predictions of each theory are used to assess which of the two prevailing theories appears to be most applicable to China's current behavior. For example, structural realists predict that China is likely to take actions in the SCS to increase its relative power to the detriment of other states. If correct, the actions of China will have mirrored that of a state trying to dominate the South China Sea region with the use of military expansion, defying liberal rules and norms, dictating behavior to rival states, forcing out competitors, and gaining control of more territory.

The Liberal Institutionalists predict that China will not confront other states or vie for power; rather, it will work from within the existing order to serve their interests, even as its power increases. Liberals place an emphasis on the role of international organizations and an international society on state behavior. As a result, China should continue the expected behavior or even increase cooperation with the LIO as their power increases rather than going against existing norms or international laws. Liberals predict that China will relinquish some sovereignty in order to gain the most benefit in economic and

international security issues.²² The focus of action for a China in adhering to this theory centers on international organizations such as the United Nations, World Trade Organization, World Bank, or the Association of Southeast Asian Nations (ASEAN) in the case of Pacific nations.²³ Furthermore, institutionalists believe that multilateralism or a regional community is the best method to deal with policy issues so one would expect either strengthening of existing institutions or creation of new ones in line with LIO norms rather than the singular state power plays focusing on power politics or defying the norms of the existing order as realists predict.

To simplify the analysis of the following cases, a table of behaviors that are specific to each theory is used throughout the thesis in order to grade which one appears to be the most applicable to each case as seen in Table 1.



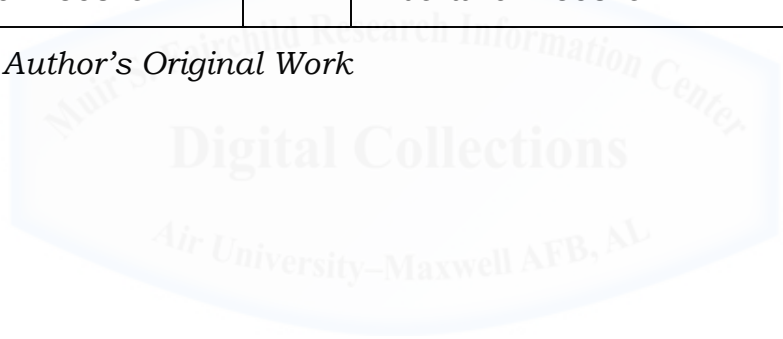
²² Ikenberry, "Liberalism in a Realist World," 429-444.

²³ Joseph S. Nye and John D. Donahue, *Governance in a Globalizing World* (Brookings Institution Press, 2000).

Table 1: Sample Case Study Scoring Sheet

Structural Realism		Liberal Institutionalism	
Military Build Up		No Military Build Up	
Breaking LIO Rules, Laws, or Norms		Adhering to LIO Rules, Laws, or Norms	
Dictating Behavior to Other States		Respecting States Self Determination	
Forcing out Competitors		Working with States for Mutual Gain	
Territorial Expansion		Respecting Existing Borders	
Realism Score		Liberalism Score	

Source: Author's Original Work



Chapter 2:

Empirical Cases

South and East China Seas

The South China Sea dispute involves the sovereign states of Brunei, China (PRC), Taiwan, Malaysia, Indonesia, the Philippines, and Vietnam directly. Indirectly, the United States and other nations in the LIO have an interest in the region due to the global trade that passes through the Straits of Malacca. Of primary concern in the dispute are the Spratly and Paracel Island chains as well as other various reefs. In whole, the disputed territory stretches from as far north as the Senkaku Islands southwest of Japan to the waters and islands just north of the Philippines as can be seen in Figure 2. Interests of the various nations directly involved in the dispute include rights to fishing, natural resources to include oil and natural gas, as well as key shipping lanes.

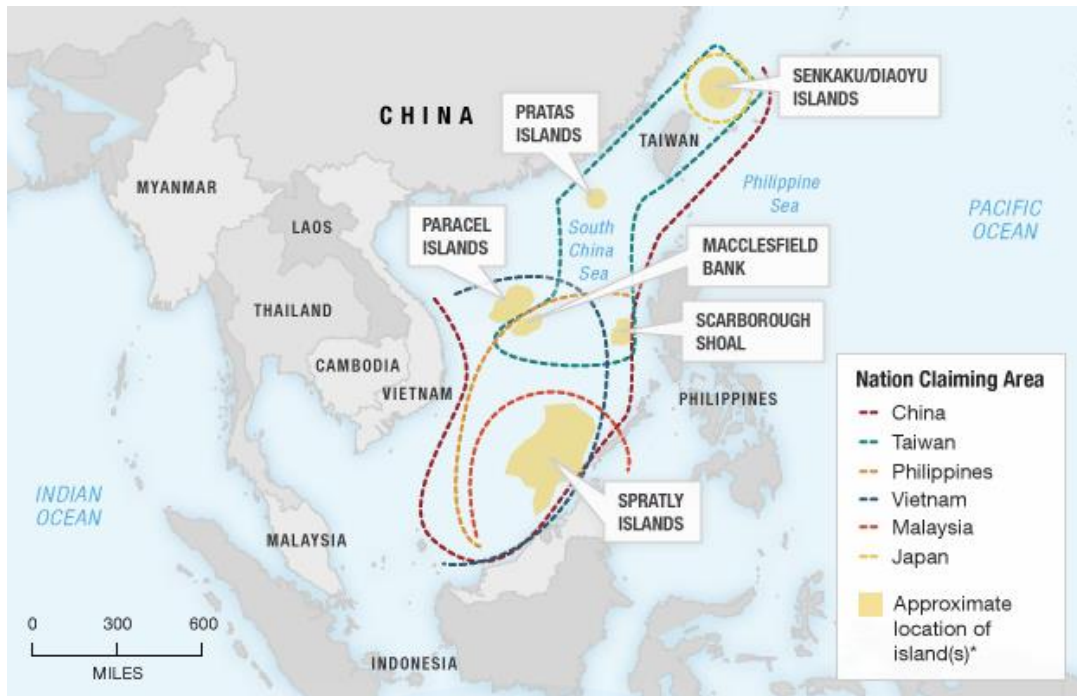


Figure 2: South China Sea Regional Claims

Source: Stephanie d'Otreppe/NPR

This is not the first time this area has been embroiled with tension. The region has been a source of contested claims for decades if not longer. After WWII in 1946, China established a claim on Woody Island in the Paracel Island chain, countered with claims made by both France and Vietnam on nearby Pattle Island. Friction simmered throughout the 1950's China, Taiwan, and the Philippines made claims on several key islands. Then in the 1970's with indications of oil under the ocean floor, China invaded several islands within the Paracel Island chain including areas that were already under South Vietnam's control. During the ensuing battle, dozens of Vietnamese troops died, and a South Vietnamese ship sank.

What followed this violence was a period of relative quiet, interrupted when China invaded the Spratly Islands in 1988 and forcibly took Johnson Reef that again resulted in the deaths of dozens of Vietnamese. Later, in 1995, the PRC started a military build-up on the Mischief Reef that preceded a lengthy stalemate which lasted until 2002.

At which time, ASEAN and China signed the Declaration of the Conduct of Parties in the South China Sea. This agreement sought to end the battles that had taken place in the South China Sea and encouraged the signatories to refrain from inhabiting islands and other features and to handle disputes through dialogue.

Suffice to say that prior to 2001, power politics and a certain level of anarchy were at play in the region. Military conflict was fairly common but very little international interest from states outside the region focused on the area so the LIO was not really a critical player. Furthermore, China did not integrate into the LIO to a significant degree before 2001. The events before 2001 provide the backdrop which shows that the region has a deep and contentious history. The Chinese integrated into the LIO to a larger degree starting in 2001 with signing the Declaration of the Conduct of Parties in the South China Sea. That same year they also joined the WTO, which signified a deeper integration into the World Economy and is a clear commitment to multilateralism.¹ The WTO is in detail as a dedicated case study in Chapter 3. 2001 provides a good point to delineate a more anarchic and realist regional political framework with the introduction of the LIO to see what behavior changes China demonstrates from that point on that would signify the impact of the LIO.

However, in 2009 China reasserted its claims in response to territorial claims of Vietnam and Malaysia to the Commission on the Limits of the Continental Shelf. Visible in Chinese maps from as early as 1947 produced by the then Republic of China (ROC), the former 11-dash line was a territorial claim that extended into South China Sea encompassing the currently disputed areas. The PRCs claims have

¹ Schumpeter, "An Enormous Multilateral Achievement," *The Economist*, December 5, 2011.

mirrored many of the ROCs as was the case in 2009 when it submitted a map with the new "nine-dash line" in a formal presentation to the UN as seen in Figure 3. China extended the nine dashes to ten in 2010, extending the dash line towards the waters off Taiwan. In whole, China has reasserted its historical claims to territorial waters that extend hundreds of miles to the south and overlap with the claims of many regional states of which a number are important allies of the United States.



Figure 3: Chinese Nine-Dash Line

Source: Institute for China-America Studies

While China has yet to signify what the line means in terms of its official policy and actions, in the spring of 2010 it declared its interests in the South China Sea were on a level of importance equal with its interests in Taiwan and Tibet.² By 2011, incidents in the region

² Bonnie Glaser, "Armed Clash in the South China Sea," Council on Foreign Relations, accessed April 19, 2018.

heightened tensions even further with the first notable incident occurring in July when an Indian amphibious assault vessel on a trip to Vietnam entered the SCS and was confronted by a People Liberation Army (PLA) Navy vessel. The PLA Navy declared the Indian vessel was entering PRC waters but the INS Airavat of the Indian Navy proceeded on course undeterred. The Indian Navy later claimed that it was executing its right to the freedom of navigation in international waters in essence refuting the claims of Chinese sovereignty over the area in dispute. Furthering the conflict, in September India's state-run Oil and Natural Gas Corporation signed a three-year deal with the Vietnamese company, PetroVietnam, to develop a long-term plan for oil exploration in the region with rights to specific areas of the SCS in direct contradiction with PRC territorial claims.

In response, the PRC released a statement through Foreign Ministry spokesperson Jiang Yu stating:

"China enjoys indisputable sovereignty over the South China Sea and the island. China's stand is based on historical facts and international law. China's sovereign rights and positions are formed in the course of history and this position has been held by Chinese Government for long. On the basis of this China is ready to engage in peaceful negotiations and friendly consultations to peacefully solve the disputes over territorial sovereignty and maritime rights so as to positively contribute to peace and tranquility in the South China Sea area. We hope that the relevant countries respect China's position and refrain from taking unilateral action to complicate and expand the issue. We hope they will respect and support countries in the region to solve the bilateral disputes through bilateral channels. As for oil and gas exploration activities, our consistent position is that we are opposed to any country engaging in oil and gas exploration and development activities in waters under China's jurisdiction. We hope the foreign countries do not get involved in South China Sea dispute."³

³ B Raman, "South China Sea: India Should Avoid Rushing in Where Even US Exercises Caution," South Asia Analysis Group, September 24, 2011.

From the statement it appears that China is set to adhere to international law, respect sovereign rights, contribute to peace, and avoid unilateral actions in the region as it seeks to settle disputes. This statement and the behavior it espouses are consistent with liberal values and liberal theorists' predictions. However, this thesis puts weight not in words but in actions as a means to predicts the future behavior of China.

As of 2014, open source satellite imagery analyzed by *Jane's Defense Weekly* suggested that China was building an island at Fiery Cross Reef that was big enough to support an airstrip.⁴ In just 4 months, updated imagery exposed new Chinese structures at five different sites in the Spratly Islands and their expansion shows no signs of abating. This expansion continues while tensions in the region are increasing. Confrontations between China, regional states, and the United States are becoming all too common. Worryingly, as the United States stresses the importance of and tests the right to freedom of navigation in the region, these moves elicit increasingly hostile objections from an increasingly militarized PRC.

In response to pressures from the United States and ASEAN nations, China appears to be increasing its own military with the development of advanced fighter aircraft and cruise missiles capable of offensive action across the entire region. All while China continues with the militarization of its newly built islands and implementation of a highly robust defensive network of land and sea-based missile systems. This militarization was most evident in the 2016 deployment of surface to

⁴ James Hardy and Sean O'Connor, "China building airstrip-capable island on Fiery Cross Reef," *IHS Janes Defence Weekly*, 20 November 2014.

air missiles and fighter aircraft to Woody Island in the Paracel Island chain.⁵

As regard military expansion, the first question for evaluating which theory is most applicable to China, in the SCS the answer is clear. The robust and aggressive nature of Chinese militarization of the region has led the United States and other regional allies to file their grievances with international organizations to stop China using international law and pressure. Liberal strategists argue that using the LIO is the method of choice to curb Chinese aggression. International diplomacy, many strategists and international relations theorists argue, provides the solution to the problem rather than the more realist approach of countering China's military buildup a corresponding capability.⁶

Unfortunately, these grievances have thus far failed to curb China's actions. In the case of the Philippines vs. China, the Permanent Court of Arbitration case ruled in favor of the Philippines on 12 July 2016. In broad terms, the court ruled China's claims surrounding the "nine-dash line" and its build up in the South China Sea go against the United Nations Convention on the Law of the Sea (UNCLOS), which China signed in 1982.⁷ It ruled that China had violated international law and infringed upon the Sovereignty of the Philippines and should abide by the rules of the UNCLOS. This compliance includes clear definitions of the maritime borders of nations China has sought to redefine to justify its actions in the region. The court roundly rejected China's position and determined the UNCLOS superseded any historic rights or other

⁵ Katie Hunt and Kathy Quiano, "South China Sea: China Building More Islands? - CNN," September 8, 2016.

⁶ Eric Shiraev and Vladislav M. Zubok, *International Relations* (Oxford University Press, 2015), 86.

⁷ "PCA Press Release: The South China Sea Arbitration (The Republic of the Philippines v. The People's Republic of China) | PCA-CPA," 117.

sovereign rights in excess of the limits it imposed.⁸ However, China has refused to acknowledge the UNCLOS and the court decision against it in the SCO even though it ratified the convention in 1996 and agreed to its terms. Instead, China continues to violate international law. Liberals found their principles on the idea that liberal republics will respect other liberal republics as well as their respective and collective international organizations, neither of which is currently the case in the South China Sea dispute.⁹

A large number of states including the United States have also been urging China to abide by international law. They have taken steps within the liberal order in an attempt to get China to back off its military build-up. While not a full signatory to the treaty only having signed an updated agreement in 1994, a matter which China has been notably silent, the U.S. Senate passed a measure supporting the 2002 declaration of conduct of parties in the South China Sea and reaffirmed its commitment to assist states in the region to remain strong and independent. In response to United States' involvement in the region, the PRC has expressed concerns and stated repeatedly that non-claimants and countries outside the region not get involved in regional disputes. This goes against the liberal principle of international institutions and cooperation and is clear evidence that China is trying to force out competitors.

China needs oil and raw materials for their growing economy and large population. As it just so happens, the South China Sea is full of resources that are essential to fuel continued its growth. The disputants in the area believe it to be rich in oil with estimates ranging from just

⁸ "PCA Press Release: The South China Sea Arbitration," 117.

⁹ Michael W. Doyle, "Kant, Liberal Legacies, and Foreign Affairs," *Philosophy & Public Affairs* 12, no. 3 (1983): 227-227.

over 10 billion barrels of oil to 125 billion barrels; China believes the highest estimates are accurate.¹⁰ In any case, China views the region as strategically critical is spending billions of dollars to stake its claim and as Doyle argues, economic and offensive realism supplement one another. What is occurring in the South China Sea is what Doyle describes as mistrusts between nations with China taking steps to prevent what it views as attempts to cut it off from the resources it needs. This mistrust, Doyle argues, is what can spiral out of control and lead to conflict.

So, China's expansion is likely driven by economics, with the associated military build-up and territorial expansion being secondary to the resources and freedom of navigation China is seeking to secure. In order to guarantee access, it appears China is continuing to hedge against the United States and other allies while it strengthens its position without making any drastic moves for the time being. Realism cautions that when reached, the point at which the costs of action no longer outweigh the costs of inaction, a state will seek to change the balance of power, often by force. What should concern the international community is that the calculus of China is changing at a rapid pace. Every island built, each component of military power projection brought online, each bilateral trade agreement, and each defiance of the international community without steps to counterbalance changes the cost to benefit calculation for China.

Liberal IR theory can certainly contribute to the discussion and inform strategists to help develop a fuller understanding of all the dynamics at play. However, as Table 2 shows, the behaviors outlined in this thesis align China exclusively with the predictions of structural

¹⁰ "South China Sea - International - Analysis - U.S. Energy Information Administration (EIA)."

realism in the SCS and ECS and thus realist theory provides much a better tool to predict China’s future behavior.

Table 2: South China Sea Scoring Sheet

Structural Realism		Liberal Institutionalism	
Military Build Up	X	No Military Build Up	
Breaking LIO Rules, Laws, or Norms	X	Adhering to LIO Rules, Laws, or Norms	
Dictating Behavior to Other States	X	Respecting States Self Determination	
Forcing out Competitors	X	Working with States for Mutual Gain	
Territorial Expansion	X	Respecting Existing Borders	
Realism Score	5	Liberalism Score	0

Source: Authors Original Work

Since China has failed to recognize the authority of the international order a spiral model of China’s own making is at play in the region. While the United States and other nations continue to rap China on the wrist for violations and continue to emphasize the liberal order, China continues its unabated expansion. Instead, the United States and its allies should counter-balance China before they lose the ability to impose meaningful costs in order to deter it in the future.

As the famous state centric realist Robert Gilpin astutely noted, a state will seek to change the international system through territorial and economic expansion until the marginal costs of further change are equal to or greater than the marginal benefits. Only once equilibrium between costs and benefits will a state cease to expand. To paraphrase Gilpin’s

astute observation, until achieving balance, the system will change to a new equilibrium that reflects a changed distribution of power.¹¹

World Trade Organization

As noted previously, China's integration into the World Trade Organization (WTO) was viewed at the time by the international community as an indicator of China's dedication to the existing LIO. Their 2001 entry signified a huge diplomatic accomplishment of the Clinton administration and a giant leap towards the full integration of China into the world economy.¹² For years leading up to their admission the United States and many of its allies opposed China's entry into the WTO unless it made major reforms to its economy. Advocates thought meaningful concessions leading up to accession into the WTO would demonstrate China's commitment to multilateralism and signify that China would engage in fair global competition according to the rules and conditions set by the WTO. In fact, when China joined the WTO it agreed to tough conditions across numerous sectors to address many of these concerns.

To determine if China is, in fact, integrating into the system or not, one must first understand what the WTO stands for and what its rules and norms are. The WTO, founded in 1995, is an intergovernmental organization intended to replace the General Agreement on Tariffs and Trade, founded in 1948. The WTO regulates the trade of goods, services, and intellectual property between participating countries by providing a forum for dealing with disputes that encourage states adherence to the

¹¹ Robert Gilpin, *War and Change in World Politics* (Cambridge University Press, 1983), 10.

rules of the WTO. China's entry into the WTO and their adherence to these rules and norms appeared to symbolize an increasing dedication to the LIO and as a result there were many supporters for their entry.

US proponents of Chinese entry into the WTO argued that if the US voted against its entry it would hamper the US economy. Early estimates for the economic growth spurred by Chinese entry into the WTO claimed that US exports to China would increase by \$2.7 billion that combined with other follow-on growth effects including increased global trade with China would result in the US GDP growing by more than \$1.5 billion.¹³ In addition, U.S. wages would increase as workers shifted to sectors that are more productive.¹⁴ These estimates notwithstanding, the at the time of the vote of entry into the WTO, China had already made trade agreements with more than two-thirds of the WTO's members which all but secured its entry. Any vote against China made by the United States would have provided further justification for the PRC to continue to shut out US businesses that would have harmed the United States while imposing few costs on China.

Opposition to Beijing's entry argued that the deal would send more jobs overseas and that the trade deficit with China would at least double over 10 years costing over 800,000 jobs in the US.¹⁵ Many believed the assumptions of positive trade results were overly optimistic. Not only that, but they were suspicious of China's willingness to comply with the terms of the WTO over the long run. Many experts viewed claims that

¹³ "Assessment of the Economic Effects on the United States of China's Accession to the WTO," U.S. International Trade Commission, Publication 3229, September 1999, 7.1-7.3.

¹⁴ "Assessment of the Economic Effects on the United States of China's Accession to the WTO," 7.3.

¹⁵ Robert Scott, "The High Cost of the China-WTO Deal: Administration's Own Analysis Suggests Spiraling Deficits, Job Losses," Economic Policy Institute.

the deal would eliminate barriers thus increase U.S. exports as naïve and believed China was unwilling to eliminate barriers to economic competition in many key sectors.¹⁶

What has transpired is beyond what anyone hoped or feared. Since just before WTO entry in 2000 through, China's GDP has experienced over 7% growth per year and has gone from just over \$1.2 trillion dollars to over \$23 trillion dollars in 2017.¹⁷ From 2001 to 2010 alone the increasing trade deficit between the U.S. and China resulted in the loss of 2.8 million American jobs, 69% of which were from the manufacturing industry.¹⁸ As of 2015, those job losses continued to climb and are now in excess of 3 million and the trade deficit has reached almost \$400 billion annually. In that time span, China's influence over the world economy has grown and so has its economic power and willingness to adopt all the norms of the WTO. Putting aside the fact that the skeptics were largely correct as to the economic impact of China's entry into the WTO, the real question is whether China's entry into the WTO symbolized a dedication to the LIO and multilateralism.

The core principles of the WTO begin with non-discrimination of goods, services, or intellectual property of any kind. WTO members agree that there can be no preference given to one product over another, including those that are imported.¹⁹ In essence, this means eliminating non-tariff barriers to trade and encouraging a system of trade where the market principles of supply and demand apply equally to all

¹⁶ Scott, "The High Cost of the China-WTO Deal."

¹⁷ "IMF World Economic Outlook Database List, Information about Gross Domestic Product (GDP)" (International Monetary Fund, 2017 2000).

¹⁸ Robert Scott, "Growing U.S. Trade Deficit with China Cost 2.8 Million Jobs between 2001 and 2010," Economic Policy Institute.

¹⁹ Bernard M. Hoekman, Aaditya Mattoo, and Philip English, *Development, Trade, and the WTO: A Handbook* (World Bank Publications, 2002).

member states. In addition, states are to give equal access to all and to encourage access to foreign markets. Typically referred to as reciprocity, equal access is the liberalization of the markets into a free market and one that is virtually borderless. Next, it establishes binding and enforceable commitments made by WTO members so that when states make agreements, the organization holds states accountable for them. The WTO requires transparency between members and it requires them to publish their regulations and decisions in an open and honest way to provide a fair and predictable playing field for all. Finally, safety means that member nations protect human, animal, and plant health as well as safeguard the environment.²⁰

This analysis begins with the first two criteria of non-discrimination and reciprocity. Commonly discussed in the news is the issue of Chinese currency manipulation that often makes headlines while few understand what this is and what influences it has. Three criteria determine if a country is a currency manipulator according to the U.S. Treasury Department:

1. The country must have a significant bilateral trade surplus with the U.S.
2. The country has a material currency account surplus that exceeds 3% of GDP
3. The country is engaged in persistent, one-sided intervention in the foreign exchange market defined as spending at least 2% of GDP a year to buy foreign assets to suppress the value of its currency.²¹

The trade surplus of over \$400 billion as previously discussed is massive. However, China also has a large surplus of foreign currency mainly because it has such a large positive trade surplus with many

²⁰ “WTO | What Is the WTO? - What We Stand For,” World Trade Organization 2018.

²¹ “Foreign Exchange Policies of Major Trading Partners of the United States” (U.S. Department of the Treasury Office of International Affairs, October 14, 2016).

foreign nations. As of early 2018, China held over \$3 trillion dollars in foreign currency, over \$2 trillion of which was in either U.S. dollars or treasury bonds. Many argue that the currency holdings are just a natural state of affairs due to the trade imbalance and it is unavoidable that other nations, especially China, hold large sums of U.S. debt. However, as part of policy, China requires that its currency stays valued below the U.S. dollar because it is committed to an export-driven growth plan that requires it. To achieve its impressive levels of growth, China must intervene in the currency markets in order to avoid the self-correcting mechanism that takes place when one currency floods the system due to a trade imbalance. In a free market, this natural process of supply and demand should lead to devaluation of excess currency and thus balance out trade equity as goods and services from the exporting nation with a deficit become cheaper over time. To stop this from happening and maintain high levels of exports, China must counteract this natural market force. As a result, China holds almost ten times the threshold for currency manipulation or almost 30% of its annual GDP in U.S. and other foreign currency.

The next criterion is whether a state engages in persistent one-sided intervention in the foreign exchange market. China has long made clear that its strategy for economic growth depends on exports. Its ability to undercut competitor prices underpins this strategy. As you can see from Figure 4 China has held over 3 trillion in foreign reserves since 2012. Of note, China has held over \$1 trillion in U.S. debt since 2010. The holding of such a substantial amount foreign currency allows China to persistently depress the value of the Yuan. For years the U.S. and others were happy to allow China to be one of the biggest holders of their debt because it allowed their citizens to enjoy low consumer prices which permit their economies to grow as well and keeps interest rates low on debt. However, the consistent ownership of U.S. debt has also allowed the economic balance of power to shift in China's favor.



Figure 4: China Foreign Exchange Reserves

Source: *Tradingeconomics.com* | *Peoples Bank of China*

China's consistent holding of U.S. debt also ensures it has political leverage as from time to time China threatens to sell part of its debt holdings knowing that it would severely impact the U.S. economy. The threats from China are usually in response to the U.S. allowing the value of the dollar to drop in response to the massive trade imbalance. What typically follows is a call for a new global currency by China along with threats to call in U.S. debt. These tactics pressure the U.S. to keep the value of the dollar high relative to the Yuan and leaves the U.S. with little recourse. Due in large part to this persistent interference in the currency market, China is now the world's largest economy outpacing both the United States and the European Union in growth.

It is important to note that while the United States declared China a currency manipulator, no extant economic body or study has determined that China is in fact a currency manipulator yet. For the purposes of this thesis China is clearly interfering with the currency market which has given it an unfair competitive advantage and leads to

discrimination of other WTO members goods in the market that have to compete with China's. Remember that the WTO is supposed to establish a framework in which imported goods are no less favorable than domestic goods once they have entered the market. Unfortunately, the WTO frameworks only targets discriminatory behavior after goods or services enter the states market. If goods never make it to market due to costs associated with tariffs, or in this case, currency interference, the WTO has little jurisdiction.

However, China's current practices violate the principle of equal access and reciprocity at least in spirit. Rather than adopting the rules and abiding by the spirit of the WTO, the Chinese are using their access to markets to fuel growth propped up by practices that block other products from making it into their market. Rather than competing fairly on cost, the Chinese practice of currency deflation is applying artificial pressure to create a cost differential that should not exist in a truly open, liberal market system.

The very high and sustained levels of economic growth spurred in now small part by its currency practices have put China into a very powerful position in the world economy. Liberal institutionalists argue that as power increases within the LIO, the benefits of adherence grow as well as will far outweigh the benefits of disruption to the system. In China's case, the theory predicts a growing adherence to liberal norms. This thesis has already outlined one aberration to this prediction. On the other hand, realists argue that as China's power grows the expected outcome would be just the opposite within the LIO. With more power comes the ability and willingness to exert that power and go against the system when it is in a states' interest.

As China's economic power and prestige has developed, a growing nationalism has bled into the economy which now shows signs of discrimination against foreign companies and investors. This nationalism threatens the entire notion that China is transitioning to a

free market economy and integrating into the LIO. According to the 2017 USTR Report to Congress on China's WTO Compliance, researchers stated:

“China has shown a willingness to take modest steps to address isolated issues, and it will sometimes make broader commitments when pressed at very high levels, but it is not prepared to follow through on significant commitments or to make fundamental changes to its trade and investment regime. China is determined to maintain the state's leading role in the economy and to continue to pursue industrial policies that promote, guide and support domestic industries while simultaneously and actively seeking to impede, disadvantage and harm their foreign counterparts, even though this approach is incompatible with the market-based approach expressly envisioned by WTO members and contrary to the fundamental principles running throughout the many WTO agreements.”²²

The report goes on to highlight the growing trade imbalance and accuses China of maintaining restrictions in many sectors that unfairly inhibit other WTO members from competing fairly with Chinese goods. Several WTO members including the U.S. are using the enforcement mechanisms of the WTO to try to hold China accountable. Yet, the Chinese government seems increasingly resistant to market-based competition as outlined in the WTO charter. Unfortunately, enforceable and binding mechanisms do not exist that can adequately control China as it opts for this state-led trade regime that pursues policies to counter market forces. The WTO dispute mechanisms are for narrow disputes with the assumption that states are in the WTO with a good faith obligation to the fundamental underpinnings of the organization.

Like other WTO members, when China joined the WTO it made clear that it was expressly committed to the WTO and what it stood for. However, Chinese leadership has undergone a change since they made

²² “2017 Report to Congress On China's WTO Compliance” (United States Trade Representative, January 2018), 4.

that commitment. At the time of accession into the WTO, Chinese leadership believed that membership was a necessity for the future prosperity of the state and joining the WTO was a logical continuation of the economic reforms that China began under Deng Xiaoping in the 1970's. However, when Hu Jintao became president in 2003, the economic policy of the PRC began to change and as China's economic power continued to grow, an increasing reluctance to adhere to the liberal norms of the WTO emerged.

The driving factor behind this change is because under Hu Jintao, the Chinese economy transitioned to a state-led and closely controlled economy. This new economy rebuffed many of the liberal reforms of the 1970's and developed an institutionalized preference for state-owned businesses and a policy of state interference and manipulation of market forces.²³ The fact that this policy coincided with and is largely responsible for the dramatic growth in the Chinese economy only encouraged further state interference in the market.

The U.S. and other WTO members are nearly unanimous in accusing China of targeting foreign companies with legal hurdles intended to promote domestic industry over foreign competitors. According to the USTR Report, China uses internal regulations to pursue investigations intended to damage foreign business without any due process or evidence that would warrant an investigation. This abuse of the administrative processes within China only exacerbated the already in place practices that discriminate foreign businesses and the interference with market forces.

These trends continued under the Xi Jinping regime starting in 2013. In fact, the state's role and interference in the economy is increasing under his leadership. The *Made in China 2025* plan, unveiled

²³ "2017 Report to Congress On China's WTO Compliance," 6.

in 2015, formalizes the discrimination against foreign companies. In the plan, China seeks to replace foreign products with Chinese ones in ten of its major domestic industries. Once it accomplishes this goal, the plan then turns to international markets to attempt to do the same on a global scale.²⁴ This plan continues China's policy of state-guided economics that disadvantages foreign companies and goes against the principles of the WTO. Furthermore, the *Made in China 2025* plan demonstrates that China is on course to take even more actions that are in defiance of WTO norms in order rather than a trend that would bring it closer in alignment with international norms.

In direct contradiction of the predictions of liberals, as globalization continues and electronic commerce increases, China is introducing rules to regulate the content of foreign and domestic suppliers of goods and services intended to interfere with normal and viable commercial business operations. The PRC sees electronic commerce as a way to promote further its exports, but also has concerns about its potential impact on the regime. It intends to control the flow of information with burdensome restrictions on Internet use and has set up 12 separate agencies to monitor and filter Internet traffic in China. These agencies block objectionable content and frequently issue lists of banned terms. These actions put providers of Internet goods and services at a disadvantage while trying to comply with Chinese law.²⁵

The WTO is also supposed to protect intellectual property, which China is notorious for stealing. According to the Intellectual Property Commission (IPC), China is the world's largest theft of intellectual property (IP). This is not a byproduct of bad actors in China but is the product of a policy in China that is committed to the acquisition of

²⁴ "2017 Report to Congress On China's WTO Compliance," 7.

²⁵ "2017 Report to Congress On China's WTO Compliance," 132-133.

foreign technology and information. China attains IP from companies operating from within its border as well as around the world. There have been numerous cases of coercive activities by the state to force IP transfer from companies as well as downright theft. Figure 5 shows that China leads the world in provision of counterfeit goods. In the U.S. alone, the estimates of imported counterfeit goods vary from \$58 billion to \$118 billion in 2015, with 87% originating from China.

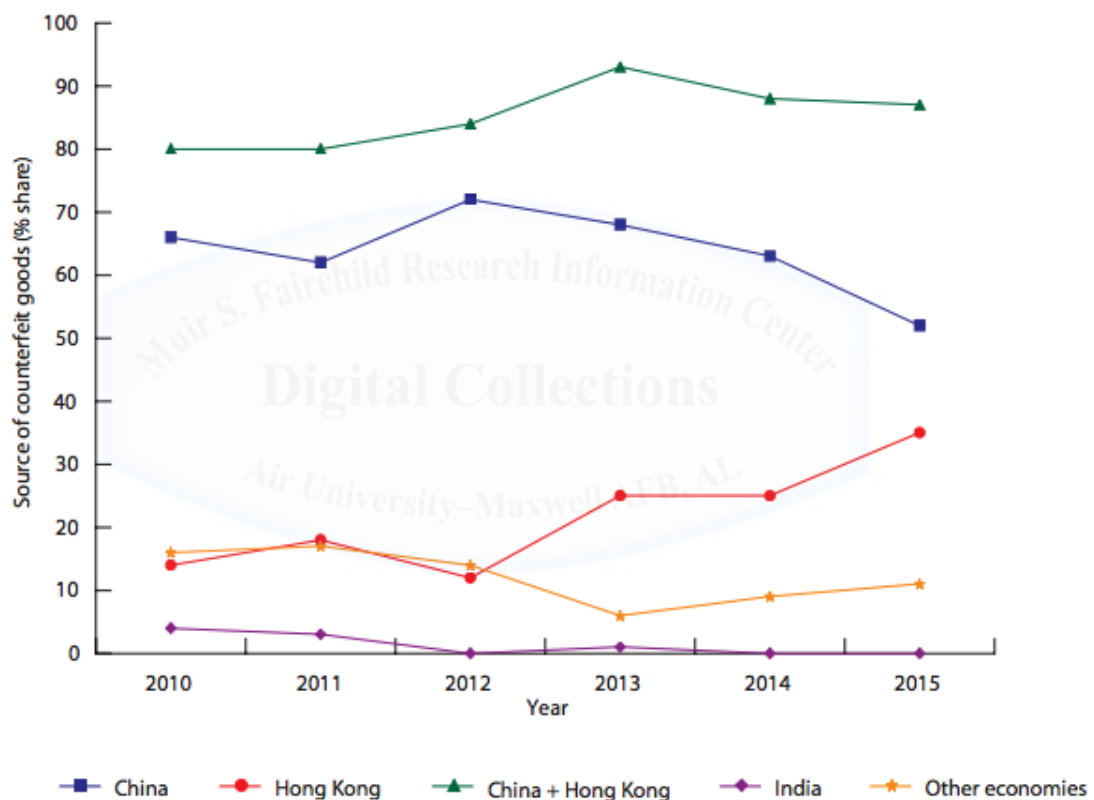


Figure 5: International Share of Counterfeit Goods Production

Source: The National Bureau of Asian Research

While China made strengthening protections for IP a goal leading up to its entry into the WTO, it has done little to stem the theft of IP since. In fact, it was not until 2014 when it first tackled this issue in the

Chinese courts.²⁶ This shortcoming is largely because in China's successive five year plans it targets strategic industries, particularly in technology sectors, for cyber espionage and IP theft. As part of its unified effort to become a world leader China steals IP, subsidizes domestic firms, and implements state-led anti-market policies as outlined earlier. It specifically calls for the theft of IP by Chinese government-sponsored hackers.²⁷ This theft, combined with the unfair business practice, are part of a broad strategy that allows Chinese firms to continually maintain the ability to underbid competitors. The state-sponsored theft of IP enables Chinese researchers to develop competitive technology faster than their international rivals.²⁸

Not only has China failed to adopt the principles of non-discrimination and transparency for goods, services, and intellectual property, its record of safeguarding the environment as well as human and animal safety is severely lacking. While countless nations both developed and developing have histories of pollution, China's rapid economic growth has created an environmental footprint larger than any other nation in the world. China currently emits more greenhouse gases than any other nation and has done so since 2007. Due to a lack of transparency, numbers regarding China's exact level of pollution are difficult to find. However, some things are impossible to hide. In January of 2013 for example, a smog cloud in China warranted a World Health Organization (WHO) warning after it determined pollution levels were 40 times the minimum safe level.

²⁶ "Update to the IP Commission Report: The Theft of American Intellectual Property: Reassessments of the Challenge and United States Policy" (The National Bureau of Asian Research, 2017), 14.

²⁷ Update to the IP Commission Report, 15.

²⁸ Update to the IP Commission Report, 16.

Coal is largely to blame. In 2015 alone, China increased its coal power plant capacity by 55% with 155 new coal power plants. In that same year, China admitted it had been underreporting its coal consumption since 2000. According to the Chinese Ministry of Health, pollution contributed to cancer becoming the leading cause of death in China. Only 1 percent of the 560 million city dwellers breath safe air and 500 million people are without safe and clean drinking water. In the face of measures intended to cut pollution, China remains heavily dependent on its heavy industries for economic growth, which appears to override any concerns for environmental safety concerns espoused by the WTO.

We have thus far outlined ways in which China defies the rules, laws, or norms of the WTO and therefore the LIO as the west knows it. China also forces out competitors with the practices outlined. The next behavior is whether China dictates behavior to other states, which would be consistent with a power-based system resembling that predicted by the structural realists or whether China encourages freedom and self-determination.

Economic statecraft is replacing economic diplomacy in China as the state-led system strengthens its hold over the economy. This shift has given way to a condition in which China intentionally manipulates commercial actors in order to incentivize them to behave in line the China's national strategic interests.²⁹ As China's sovereign wealth has increased, China is leveraging it to dictate actions of others. For example, in 2017 China used its economic leverage against South Korea to stop the deployment of the terminal high-altitude area missile defense (THAAD) system on the Korean peninsula. China banned tour groups,

²⁹ William J. Norris, *Chinese Economic Statecraft: Commercial Actors, Grand Strategy, and State Control* (Ithaca, NY: Cornell University Press, 2016), 13-18.

which hit multiple sectors in South Korea. China's media encouraged boycotts of Korean products, and regulators used various rule violations to pressure and even close Korean businesses in China. Blunt coercion such as this has become the new normal for China as its economic advantage increases.

Since entering the WTO, China has integrated with dozens of economies around the world. China sees this as a way to shape the rules and norms of other countries and to dictate behaviors that it prefers. In addition, China uses its foreign investment to attain an advantage for itself and for Chinese firms. We will discuss this advantage in further detail in the Belt Road Initiative case study to follow, however, China pressures debtor nations that owe China money into accommodating Chinese rules and giving exclusive contracts to Chinese businesses. This pressure to accept Chinese business leads to further leverage available to China and a de facto acceptance of the Chinese way of doing business as these states become increasingly dependent on China.

Since China's accession into the WTO, China's commitment to multilateralism appears tentative at best and China seems to behave in ways that serve its interests first. Turning to our grading criteria chart reveals that China is favoring the predictions of the structural realists in the three criteria that are applicable as seen in Table 3. However, there is a notable absence of military pressure being used for economic gains and China is respecting existing state borders in WTO matters. While there is clear evidence of China forcing out competitors with its trade practices, there are notable examples of China benefitting other states and numerous states actually run trade surpluses with China including Taiwan, South Korea, Australia, and Japan. While China forces out competitors with its unfair business practices there are plenty of states that benefit from the relationship including the United States. As a result, the results are somewhat mixed.

Table 3: WTO Scoring Sheet

Structural Realism		Liberal Institutionalism	
Military Build Up		No Military Build Up	X
Breaking LIO Rules, Laws, or Norms	X	Adhering to LIO Rules, Laws, or Norms	
Dictating Behavior to Other States	X	Respecting States Self Determination	
Forcing out Competitors	X	Working with States for Mutual Gain	X
Territorial Expansion		Respecting Existing Borders	X
Realism Score	3	Liberalism Score	3

Source: Author's Original Work

Although the scoring sheet is split, when China joined the WTO in 2001, it was to have heralded a shift towards the liberal values of a free market. Since 2003 however, the country has moved sharply towards a restrictive, state-led economic system that does not adhere to the norms of the WTO. The WTO is one of the most important intergovernmental organizations at the heart of the LIO. It oversees about 60 different agreements that have been ratified by its members upon their accession into the organization.³⁰ Members agree to abide by principles, five of which are of particular importance, which this analysis has discussed at length. China, unfortunately, violates those principles discussed and shows very little progress since 2001 toward abiding by them, and in several areas shows an increasing lack of willingness. This portends

³⁰ "WTO | Official Documents and Legal Texts."

poorly for the LIO in the hands of China as their power continues to grow.

Belt and Road Initiative

The Belt and Road Initiative (BRI) formerly known as One Belt and One Road (OBOR) is a strategy proposed by the PRC to connect economically Eurasian countries. It is part of a major effort by China to take a leading role in economic world affairs and put China at the center of international commerce.³¹ By the time China completes it, the BRI will be one of the largest infrastructure projects in history and will connect 65% of the world's population across 68 different countries.³²

The project, first unveiled in 2013 by Xi Jinping, has led to significant investments for rail, road, and power grids in the region. The BRI is different from the Silk Road of ancient times because it focuses on information flow, financial service, technology, and people in addition to material. The plan calls for new institutions such as the Asian Infrastructure Investment Bank (AIIB) in addition to seven physical transport corridors to ease the flow of goods, services, and information. The seven corridors include:

- The New Eurasian Land Bridge from Western China to Western Russia
- The China Mongolia Russia Corridor from Northern China to Eastern Russia
- The China Central Asia West Asia Corridor from Western China to Turkey
- The China Indochina Peninsula Corridor running from Southern China to Singapore

³¹ Usman Chohan, "What Is One Belt One Road? A Surplus Recycling Mechanism Approach," SSRN Scholarly Paper (Rochester, NY: Social Science Research Network, June 13, 2017).

³² Charlie Campbell, "China: 5 Facts on Xi Jinping's Belt & Road Initiative Summit | Time," May 12, 2017.

- The China Myanmar Bangladesh India Corridor from Southern China to Myanmar
- The China Pakistan Corridor from South West China to Pakistan.

In addition to the land corridors, there is a Maritime Silk Road from the Chinese coast through Singapore to the Mediterranean Ocean.³³ See Figure 9 for a visual depiction of the OBOR.



Figure 6: BRI Map

Source: *The Wall Street Journal*

China’s declared objective is to connect markets and to extend Chinese influence abroad.³⁴ Due to suspicion as to what China intends

³³ UNESCO World Heritage Centre, “UNESCO Expert Meeting for the World Heritage Nomination Process of the Maritime Silk Routes,” UNESCO World Heritage Centre.

³⁴ Don Weinland and Peter Wells, “Fitch Warns on Expected Returns from One Belt, One Road,” *Financial Times*, January 26, 2017.

to do with this influence several nations have already rejected the BRI effort. Opponents see the BRI as China's continued effort to push the U.S. out of the region and gain regional hegemony. China, on the other hand, contends that the BRI is proof that China is committed to its integration within the global economy. Public statements by Xi Jinping claim the PRC is committed to multilateral trade and a promotion of a free trade zone in the Asia-Pacific region.³⁵

The broader state-led initiative for economic development makes clear the importance of the BRI campaign. We see the importance of this initiative from the Chinese placement of it under the National Development and Reform Commission (NDRC).³⁶ So while there may be broad multilateral objectives, there are selfish economic aims embedded in the plan that view strengthening connectivity and economic capacity as an enormous benefit to the Chinese economy. Since the BRI is a key element of the economic reform process in China and it contains territorial and economic aspects that comprised the previous two cases it provides the critical case for this thesis in which to test the two theories against one another.

There is no doubt that the BRI will result in an increased presence of the PLA overseas. The BRI requires a wide range of security services covering both the maritime and land routes. As part of the initiative, the PRC has made a long-term security guarantees to support infrastructure development, which has implications for their long-standing principle of noninterference with foreign powers. These security partnerships have the potential to destabilize the balance of power in the region, which the

³⁵ M. Nicolas Firzli, "China's AIIB, America's Pivot to Asia & the Geopolitics of Infrastructure Investments," *Revue Analyse Financière*, Q4 2015 (N° 57).

³⁶ "China Sets up Leading Team on Belt and Road Initiative," New, Xinhuanet, March 29, 2015.

PRC appears keenly aware of and is addressing by increasing their military footprint.

China made the military component of the BRI very clear in 2017 when, as part of an effort to protect trade routes, it announced that it was increasing military spending by \$147 billion USD. This funding included a 400% increase in its Marine Corps, bringing the force to over 100,000 to fulfill “new missions” for the country. Taken in conjunction with activities in the SCS the U.S. and other regional states are justifiably concerned this is just another expression of Chinese military expansion and an attempt to gain increased power in the region.³⁷

To rebound from the century of shame and enable China to defend itself now and in the future, President Xi’s goal is to rejuvenate the nation into one that is both prosperous and engaged within the international community. As mentioned in the analysis of the WTO, this is a stark difference from Deng Xiaoping's view of a nation without international ambitions.³⁸ Xi views the BRI as a way to integrate through trade amongst Eurasian nations in the context of a world order that seeks multilateralism whenever possible. The initiative will provide not only the needed global infrastructure and provide a means to address global challenges such as climate change but will also increase its power and influence.³⁹

Through the BRI, China is putting itself in a position to dictate the terms of the largest human infrastructure project in history. According

³⁷ Franz-Stefan Gady, “China Is Building a 100,000 Strong Marine Corps,” *The Diplomat*.

³⁸ Jonathan Hillman, “China’s Belt and Road Initiative: Five Years Later,” Center for Strategic and International Studies, 25 January 2018.

³⁹ Amar Bhattacharya, Joshua P. Meltzer, Jeremy Oppenheim, Zia Qureshi, and Nicholas Stern, “Delivering on Sustainable Infrastructure for Better Development and Better Climate,” *Brookings*, December 24, 2016.

to U.S. Secretary of Defense James Mattis referring to China's actions in regards to the global economy and the BRI, "China is using predatory economics to intimidate its neighbors."⁴⁰ The unclassified version of the U.S. National Defense Strategy makes this the official stance of the U.S. by stating that, "China is a strategic competitor using predatory economics to intimidate its neighbors while militarizing features in the South China Sea," and that China would pursue "displacement of the United States to achieve global pre-eminence in the future."⁴¹

While the BRI will create more efficient trade links, it will also export Chinese rules and standards, which are often at odds with the current LIO. Nations that host components of the BRI, lured by the benefits of financial integration, take on a burden that China can use against them as the PRC can manipulate those benefits to influence or even dictate desired state behavior. There is evidence already that this manipulation is occurring and that the initiative is increasing the tensions between China and the rules of the LIO.

BRI projects, for one, are not open to local or international participation. The Center for Strategic and International Studies (CSIS) compiled an open-source database containing over 2,200 projects across the Eurasian landmass. The CSIS report notes that of the Chinese funded projects in the BRI, 89% are supporting strictly Chinese companies while only 7.6% are local and just 3.4% are foreign companies. When compared to similar projects funded by other multilateral banks, 29% are Chinese, 40.8% are local, and 30.2% are foreign. Despite the claims that China is embracing a global, multilateral view of economics, the CSIS study states that China's practices in regard to the BRI are very biased in favor of its own companies.⁴²

⁴⁰ Jim Mattis, "Summary of the 2018 National Defense Strategy," 14.

⁴¹ Mattis, 1.

⁴² Hillman, "China's Belt and Road Initiative: Five Years Later."

This China-centric view leads to many of the problems noted in the WTO case study, which showed that China lacks openness and transparency. There is little to no information available about projects in the BRI in time to have fair and open competitions for them. Countries that buy into BRI are unable to fairly compete for contracts, which forces local businesses out of the competition. Typically, this circumstance would lead to countries being unwilling to participate in such a one-sided and unfair venture. However, China is a large creditor having lent over \$350 billion dollars in the region from 2007-2014 alone. These Chinese loans come with strict terms that are later used as leverage. Since China is often the only nation willing to loan money to some of the more risky and smaller nations involved in the BRI it leaves them in an almost impossible situation.⁴³

The CSIS does highlight however, that China is often willing to accept less stringent requirements for social and environmental safeguards as well as negotiates the terms of repayment of loans to allow states to take on more debt than they might otherwise be able to do. China argues that this is because they are more open and less discriminatory in dealing with other states. However, China making debt readily available comes at the expense of many of the rules and norms of the current LIO. China overlooks many of the standards promoted by liberal institutions that are required for doing business in the international community. Many experts argue that China is placing a higher priority on access and influence than on the LIO's norms and values and that this is eroding the current LIO.

However, what is currently taking place is an effort by the PRC to use China's wealth and industrial power to create a new China-dominated institution to refashion the economic order. China is drawing

⁴³ Hillman, "China's Belt and Road Initiative: Five Years Later."

countries in its orbit of influence to serve its own economic needs. China has excess capacity in many sectors of production to grow and continue the state-led export-based economy. Now, China must find more buyers of its products. The logical place to look next is to the developing world. Much like the United States did during the Marshall plan after WWII, the PRC is deploying hundreds of billions of dollars to buy global leadership and build a new order.

While this strategy is not one of territorial expansion in the traditional sense, President Xi is expanding influence to nations that bring a strategic benefit to China. For this reason, the territorial expansion appears mixed as far as our grading criteria but adherence to existing LIO norms appears to be the standard operating practice for China in the BRI. See Table 4 for the case study behavioral scoring sheet. While there are indicators that one could take to fruition in either direction, China’s pursuit of its BRI strategy overlooks the norms of organizations like the WTO and its unilateral dealings with other countries does not bode well for the LIO. Rather, it points to a drastically different world order with new norms.

Table 4: BRI Scoring Sheet

Structural Realism		Liberal Institutionalism	
Military Build Up	X	No Military Build Up	

Breaking LIO Rules, Laws, or Norms	X	Adhering to LIO Rules, Laws, or Norms	
Dictating Behavior to Other States	X	Respecting States Self Determination	X
Forcing out Competitors	X	Working with States for Mutual Gain	X
Territorial Expansion	X	Respecting Existing Borders	X
Realism Score	5	Liberalism Score	3

Source: Author's Original Work



Chapter 3:

Conclusion

In each of the three cases examined, China is exhibiting behaviors consistent with power-based realist principles, not liberal ones. In the beginning, this thesis posed the questions; What indications have China given that can predict its future intent in regard to the current LIO? Is China's behavior consistent with a power seeking to challenge the existing order? Alternatively, is their behavior akin to a state acting from within the current system and does it indicate they are merely striving for a more prominent seat at the existing table of international institutions? Has the international system become so entrenched and complex that no one country can overturn it? What this this has shown consistently is that in each of the cases China does not appear to be adhering to the rules and norms of the LIO and there is a notable trend toward those behaviors predicted by realists. Table 5 summarizes the findings from each of the three cases into one final grading chart.

Table 5: Overall Results

Structural Realism		Liberal Institutionalism	
Military Build Up	2	No Military Build Up	
Breaking LIO Rules, Laws, or Norms	3	Adhering to LIO Rules, Laws, or Norms	
Dictating Behavior to Other States	3	Respecting States Self Determination	2
Forcing out Competitors	3	Working with States for Mutual Gain	2
Territorial Expansion	3	Respecting Existing Borders	2
Realism Score	12	Liberalism Score	6

Source: Author's Original Work

First, China is building up its military through both an expansion of military capability in the ECS and SCS and its use of military forces to protect its interests in the BRI plan. These two cases indicate that China is seeking to gain military power. Remember that the structural realists predict that China is likely to do this due to the need to defend itself in an anarchic world. Military power, they argue, is one of the prime instruments of national power. China appears to agree which explains China's behavior in two of three cases.

Next, in all cases, China is breaking at least some rules, laws, and norms of the LIO. In the SCS and ECS disputes, the most notable example is their defiance of the UNCLOS ruling accompanied by a notable military buildup that violates international law. The WTO case highlighted China's defiance of five of the WTO rules and norms. Whether non-discrimination of goods, services, or intellectual property, reciprocity, adherence to the binding and enforceable commitments made by WTO members to include transparency and safety, China's track record is full of instances in the WTO case where it does not abide by the rules of the organization. Lastly, case study of China's BRI initiative produced mixed results showing instances of adherence and/or defiance of LIO norms. China's unilateral dealings with countries and many of the agreements made with them often fall outside the norms and values of the LIO. As a result, the future does not bode well for the existing LIO.

In addition, China is dictating behavior to other states in each of the three cases. However, it has respected the state's right of self-determinism in two cases, indicating appreciation for a value that is a hallmark of liberal institutionalism. Notably, however, the disputes in the SCS and ECS shows that if directly challenged, China's interests will likely prove to be determinative of its behavior. Still, this mixed result indicates that China is not seeking to dictate behaviors in all interactions. Nevertheless, as noted in both the BRI and WTO cases China uses its economic power as leverage to influence behaviors of

states. What this example illustrates is that China shows behaviors of both liberal values and realist power politics depending on the circumstances but it is trying to exert increasing influence in all cases. The SCS and ECS case again provides a clear warning that when its interests are in direct conflict with the LIO, China reverts to a realist state that defends its interests at the expense of LIO rules and norms.

In every case tested, there are examples of China forcing out competitors, but also instances when China works with states for mutual gain (two of the cases). Again, the SCS and ECS disputes provide a case that focuses on territorial interests, so it is logical that there is less negotiating space to work for mutual gain with other states when their interests conflict with China's. In both the BRI and the WTO cases there are examples of China using trade practices to force out competitors and favoring domestic companies over foreign ones. However, there are also instances in which it strikes deals, typically unilateral ones, with states for at least a perceived benefit by both parties. This result is again mixed but there is a trend that indicates China forces out competitors more often than it works for mutual gain.

Next, China is expanding its territory in two of the three cases, but also shows behaviors consistent with respecting states boundaries in two cases as well. While the WTO and China Sea (East and South) cases are starkly different, the BRI case comprises elements of both territorial interests as well as the economic interests associated with the WTO. For this reason, the BRI is a critical example of how China can and is demonstrating both realist and liberal institutionalist behaviors. However, as noted, in the BRI example, President Xi is expanding Chinese influence to nations that bring strategic gain to China as part of its larger strategy to gain power and influence. Combined with the fact that China overlooks norms of the WTO, the BRI initiative and the expanded influence of China points to a goal that supersedes any obligation to LIO rules and norms and that if given the right

circumstances, China would create a different world order with new norms if those favored its interests.

In the final analysis of the cases, China appears to favor the predictions of the structural realists. China demonstrates behaviors consistent with a state focused on power gains and has shown itself willing to exert power to dominate other states in the Asia Pacific region. These behaviors show a more realist trend than one of adherence to LIO norms and values. We can anticipate that Chinese policy and strategy will favor a realists approach and that China will attempt to dictate behavior in its region to weaker states and to try to push out competitors. As the power differential increases, these aggressive actions will likely accelerate and could result, as realists warn, in a conflict that resets the international order or the order.

By all accounts, China appears to be a threat to the LIO and on a track to challenge the current world order with increasing effectiveness as its military and economic power grow. This has two major implications for the US and any strategy to address this problem. First, in order to deter any further challenge or exacerbations of the behaviors outlined in this thesis, the United States and its allies must increase their relative power. In essence, the United States and its allies address the realist actions of China with a realist strategy in the near term. While this solution provides the quickest solutions to address the issues from the current cases, one can make a valid argument that those efforts may prove futile over the longer term. With a population surpassing 1.3 billion, the scale of China's growth and potential economic and military capacity makes countering it with pure power by even a coalition of allies a questionable strategy.

This brings the second and largest implication of this thesis for the US and its allies. China is not being dissuaded in a meaningful way by the LIO as of yet. This means that proposed strategy to utilize the LIO to accommodate and moderate China's rise is not adequate at the moment

to accomplish what the liberal theorists claim. However, the information present in this analysis provides key behaviors that the LIO and the United States can focus on to increase the influence of the LIO over China's rise. Hopefully with this knowledge and continued study and analysis, strategists can devise a targeted long-term plan to shift the chart to favor the LIO over time by focusing on those areas where realist behavior appears dominant and where liberal behavior is the weakest.



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