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China used its economic instrument of national power, launching the One Belt, One Road (OBOR) Initiative to push beyond its borders to generate demand for its goods to create favorable conditions for internal stability. Focusing on regional infrastructure projects, China aims to increase trade and prosperity throughout Asia with the goal of stabilizing developing countries on its borders reducing potential threats to China. It created the Asian Infrastructure Investment Bank (AIIB) as a means of creating leverage and bypassing rules that favor western nations. Together, OBOR and AIIB create a synergistic effect helping to create a mutually prosperous, stable region in which China is the regional leader.

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MASTER OF MILITARY STUDIES

EAST MEETS WEST: CHINA'S STRATEGIC END GAME

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## **Preface**

China has become of increasing importance over the past few decades as its economy becomes ever more integrated into the global marketplace. I believe it to be of the utmost importance to military officers, academics, and governmental leaders to seek to gain an understanding of what drives Chinese strategic thought and how it influences decision making. Only by seeking to understand the context in which decisions by foreign governments are made can we as a government and a society truly formulate effective foreign policy.

I would like to thank Dr. Christopher Yung and Lieutenant Colonel Paul Armstrong for their unrelenting support, guidance, and subject matter expertise throughout my research and the writing process. Their depth of knowledge, patience, and ability to provide context was instrumental in my efforts.

## Executive Summary

**Title:** East Meets West: China's Strategic End Game

**Author:** Major John R. Saporita, United States Army

**Thesis:** China's economic push beyond its borders is not an effort to gain global supremacy, but a necessary measure by which to enhance territorial integrity, reduce the likelihood of foreign influence, and promote domestic stability.

**Discussion:** Many scholars, economists, and leaders have become captivated by China's tremendous growth over the two decades. The subject has sparked intense debate as to China's strategic aspirations and their rationale for an outward push as characterized in the One Belt, One Road Initiative. Freedom from foreign influence, territorial integrity, and internal stability rest at the heart of Chinese strategic thought. While many nations may lead with the military instrument of national power, China finds armed conflict an activity that is costly and avoidable. The impact the global financial crisis of 2008 had on China's economy forced it to reexamine its strategic for domestic growth. Returns on investment had fallen, and slack demand for Chinese goods left excess industrial capacity. Factories that once employed a large labor force lay dormant and left the government to fulfill their basic needs. For China to maintain its internal stability and security, it had to continue its growth to bring prosperity to its people. When the United States refocused efforts in Asia, its influence in the region created increased competition in a world order China saw as unfavorable to its development. China had to make an innovative strategic decision to maintain the momentum which began in 1978.

**Conclusion:** China used its economic instrument of national power, launching the One Belt, One Road (OBOR) Initiative to push beyond its borders to generate demand for its goods to create favorable conditions for internal stability. Focusing on regional infrastructure projects, China aims to increase trade and prosperity throughout Asia with the goal of stabilizing developing countries on its borders reducing potential threats to China. It created the Asian Infrastructure Investment Bank (AIIB) as a means of creating leverage and bypassing rules that favor western nations. Together, OBOR and AIIB create a synergistic effect helping to create a mutually prosperous, stable region in which China is the regional leader.

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Great Britain peacefully passed the torch of global leadership to the United States following World War II. The United States economy, despite the Great Depression, had grown exponentially over the preceding two decades making it an economic power already, growing by 139%.<sup>1</sup> A growing population that fed the labor force fueled its strong economy. The labor force staffed an expanding industrial base that satisfied not only domestic demand but created volumes of exports. It was this industrial base that turned on a dime during the war producing materiel for what became the world's most powerful military force. A powerful military and a prevailing economy have been the hallmarks of the American Superpower. In 1991 the fall of the Soviet Union pushed the United States into unprecedented territory – a global hegemon. Since then the United States has had unfettered influence across the corners of the globe, a power unmatched since hallowed antiquity. It has written the rules for the World Order and has a controlling interest in the organizations that watch over it. NATO, the UN, the World Bank, the IMF all are initiatives led by the United States.<sup>2</sup> In recent years the US political and economic influence globally has waned. Developing countries have seen significant growth and seek to exert their influence in the global community. One nation more than all others exemplifies this desire to participate economically in the global community and seeks to create an environment conducive to its own growth and domestic security (internal stability), China.

China became of increasing global interest during the late 1990's as once erratic GDP performance began to follow a steady trend of growth.<sup>3</sup> International corporations relocated their

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<sup>1</sup> Bureau of Economic Analysis, "Table 1.1.5 Gross Domestic Product," *US Department of Commerce*, accessed January 2, 2018,

<https://www.bea.gov/iTable/iTable.cfm?reqid=19&step=2#reqid=19&step=3&isuri=1&1910=x&0=-9&1921=survey&1903=5&1904=1929&1905=1947&1906=a&1911=0>.

<sup>2</sup> Martin Jacques, *When China Rules the World: The End of the Western World and the Birth of New Global Order*, (New York: Penguin Books, 2012) 1-5.

<sup>3</sup> World Bank, "GDP Growth," *World Bank*, accessed November 22, 2017,

<https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?end=2016&locations=CN&start=1961&view=chart>.

manufacturing facilities to China taking advantage of lower costs of production. Exports began to exceed imports creating a cash rich environment. Industrial capacity grew. Investors found new and lucrative opportunities backed by the Chinese government. A rising middle class fostered demand for real estate, goods, and services. It was a recipe similar to that of the United States following World War II. The growth continued until the financial crisis of 2007-2008. Demand for exports fell. Excess industrial capacity rose. Yields on US Treasury Bonds fell leaving the Chinese government looking for other investment vehicles for their sovereign wealth. China looked beyond its borders to find a world order controlled by the west. It has projected itself outward and onto the global stage as a near peer competitor to the United States. China has historically been content within its borders, what are China's strategic motivations for their current push outward? What are the implications for the global world order? Critics argue China's rise is not one of peaceful development. As part of a master plan, China seeks to supplant the United States as the global superpower. Efforts to modernize the People's Liberation Army seem to support this point of view. A further, in depth examination of Chinese strategic thought and past economic policies, provide a different perspective. This paper will attempt to prove China's strategic motivation for its engagement with the global community is not expansionist, but a necessary economic decision to sustain domestic growth. Three elements of Chinese strategic thought underpin China's need for sustained economic growth – territorial integrity, freedom from foreign influence and internal stability. Reactionary and ideological economic policy decisions in the past reinforce the three elements of strategic thought and counter ideas of a master plan. China's economic push beyond its borders is not an effort to gain global supremacy, but a necessary measure by which to enhance territorial integrity, reduce the likelihood of foreign influence, and promote domestic stability.

## **The Way Ahead: A Roadmap**

The purpose of this research paper is to examine China's economic push beyond its borders to satisfy domestic concerns; its outward projection of the economic instrument of national power is not a concerted effort to depose the United States as the global superpower. Three elements of Chinese strategic thought, territorial integrity, freedom from foreign influence and domestic security and stability, drive its policy decisions. The three elements have been displayed throughout history when China has faced security challenges. They have driven China's economic policies since the era of Mao Zedong and continue to do so as China engages globally. This paper uses these three elements of Chinese strategic thought as a means through which to test the hypothesis that domestic concerns have catalyzed China's push beyond its borders.

Five sections divide this paper. The first examines the counterarguments that China has a master plan to become the dominant global leader by 2049 and that China is seeking at least regional hegemony. It also addresses the outliers of the modernization of the People's Liberation Army (PLA) and China's actions in the South China Sea. The second section frames Chinese strategic thought to add context to its economic decisions. It incorporates the works of China scholars as well as historical examples to build three important themes; territorial integrity, freedom from foreign influence, and internal stability and security. The third section describes China's economic shift beyond its borders, exemplified by the One Belt, One Road Initiative (OBOR), to develop stable neighbors, create a Chinese favorable economic environment, and fuel domestic growth. The three themes of strategic thought described in the second section necessitate this outward push. Section four outlines implications of China's outward economic

policy using three possible scenarios. The first uses a Mahanian lens to demonstrate the potential for political and military influence to follow economic actions. The second implication aims to use the theme of Chinese realism<sup>4</sup> to gauge just how far Chinese influence will grow. The final implication describes how China may react when faced with challenges to economic efforts fueling its growth. The final section, the conclusion, ties everything back to one underlying theme – maintaining the sustained rule of the Chinese Communist Party.

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<sup>4</sup> Realism, according to Jonathan Kirshner of Cornell University, is a behavioral characteristic of a state that makes its foreign policy decisions based not off the sum of individual benefits, but off its collective interests. While a world order may exist, the nation does not disavow the possibility of armed invasion into its sovereign territory nor does it believe armed conflict is inevitable. Realists view human behavior as influenced by politics, sociology, and anthropology. Fear is the primary motive of behavior and security is of utmost concern.

## I. Critics and Outliers

### *Critics: Global Domination and Regional Hegemony*

A commonly held school of thought exists that China's motivation is not merely to satisfy their domestic ends but to supplant the United States in the global world order. In his book, *The Hundred-Year Marathon*, Michael Pillsbury argues the Chinese have a one-hundred-year master strategic plan to overtake the United States by 2049, the centennial anniversary of the successful conclusion of the Chinese Communist Revolution. He adds that since the era of Mao Zedong, Chinese hawks have been advising the Chinese leadership on how to "mislead and manipulate American policymakers" so that by 2049 China will replace the United States as the "economic, military, and political leader of the world."<sup>5</sup> To achieve this goal, he states, the Chinese have implemented a great campaign of deception. The master plan exists, but not in written form.<sup>6</sup> It is "so well known to Chinese leaders that there is no need to risk exposure by writing it down."<sup>7</sup> There is no evidence for such a plan, not a reference in a discussion, no mention of it from Chinese defectors, and no intelligence from inside sources. Three factors relating to Chinese strategic culture make the idea that China aims to supplant the United States unlikely. First, the more globalized China becomes, the more scrutiny it will receive and the more transparency it must demonstrate. The idea of external scrutiny goes contrary to a culture which wishes to keep foreign influence from permeating its borders. The more entangled in

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<sup>5</sup> Michael Pillsbury, *The Hundred-Year Marathon: China's Secret Strategy to Replace America as the Global Superpower* (New York: St. Martin's Press, 2015), 12.

<sup>6</sup> Ibid, 5-16.

<sup>7</sup> Ibid, 16.

globalization China gets, more foreigners will visit, more Chinese will travel for work and pleasure, and increased influences from other parts of the globe will take hold. Second, with a greater share of the pie, comes a greater share of the bill. As China grows in global influence, so does the expectation for it to take part in solving global problems. World hunger. Environmental protection. Piracy. Countering transnational criminal organizations. China is willing to expend capital when these issues have a negative impact on China, but if it were to surpass the United States as the global power, it would inherit the responsibility to act as the world balancer. Money would be diverted from domestic programs to support unrelated foreign initiatives. This role entails spending money with no potential return on investment. The concept of realism, doing what is in China's best interest, leads to the third and most important reason. It is not in China's best interest to replace the United States. Being a global leader would, as stated, subject it to greater cost and scrutiny, but also divert significant efforts away from domestic matters. China faces serious challenges to internal stability at home to include an aging population, rising debt, an overvalued real estate market, and corruption all existing in an environment where any negative downturn could lead to civil strife. China, as will be discussed further, uses its external engagement not to "avenge past humiliations"<sup>8</sup> as Pillsbury would argue, but to secure markets and resources to create positive domestic conditions. China's global actions are not due to a secret plan to become the global superpower; they are merely external actions necessary to ensure domestic stability, the powerbase viability of the Chinese Communist Party, and a sense of cultural pride.

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<sup>8</sup> Michael Pillsbury, *The Hundred-Year Marathon: China's Secret Strategy to Replace America as the Global Superpower* (New York: St. Martin's Press, 2015), 12.

A second, similar theory on China's rise is offered by John Mearsheimer in his book *The Tragedy of Great Power Politics*. Mearsheimer concludes that China desires to establish a regional hegemony within Asia as the best way for the nation to survive. It seeks to increase its power relative to its neighbors, gain military dominance, and push the United States Navy from the South China Sea. He asserts a regional hegemony would provide great benefit to China. Hegemony would allow it to resolve disputes in its favor, assist in securing sea lines of communication and interests in the region, and potentially undermine US regional hegemony in the Western Hemisphere.<sup>9</sup> In his assessment of China's offensive realism, Jonathan Kirshner of Cornell University describes China's offensive realism as "wrong and dangerous".<sup>10</sup> Offensive realist states engage outwardly out of fear for their own survival. They find that the safest position is in a system of regional hegemony. Mearsheimer finds that war between the United States and China is inevitable due to this system of thought.<sup>11</sup> Study of Chinese history and strategic thought make Mearsheimer's conclusions unlikely. First, there are many negative implications to China seeking a regional hegemony. Aside from the United States' influence in the region, there are several other powerful nations who would oppose a Chinese regional hegemony. Japan, India, and Russia are all powerful countries with significant political, military, and economic influence in the region. Any attempt by China to overstep its bounds would undoubtedly be counterbalanced by one of the three, if not the United States. The idea of hegemony also runs counter to Chinese thought which abhors hegemony and increases the risk of conflict. What may develop is a region closely tied to China as its economic leader, not a

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<sup>9</sup> Amitai Etzioni, "Mearsheimer's War with China," *The Diplomat*, March 2015, <https://thediplomat.com/2015/03/mearsheimers-war-with-china/>.

<sup>10</sup> Jonathan Kirshner, "The Tragedy of Offensive Realism: Classical Realism and the Rise of China," *European Journal of International Relations* 18, no. 1 (August 2010): 53, <http://journals.sagepub.com/doi/abs/10.1177/1354066110373949>.

<sup>11</sup> Ibid 58-61.

hegemony. Second, Mearsheimer's argument that China is an offensive realist state presupposes China is motivated by fear for its existence and therefore its best chance for survival is regional hegemony. China maintains a second strike nuclear capability and the second largest economy in the world. Its security situation with its neighbors has improved with most disputes being resolved peacefully. China's push beyond its borders may contain an element of fear but not a fear of its existence being called into question by an adversarial nation. It maintains numerous reasons for international engagement, many of which relate directly to the themes of territorial integrity, freedom from foreign influence, internal stability, and economic growth which will be further discussed. Lastly, war is not inevitable. China's view of armed conflict is that war is a costly venture that should be avoided. A kinetic war with a power such as the United States would disrupt economic growth, destabilize the country, and leave a lasting negative impact on China for years to come. All three themes of Chinese strategic culture would be negatively affected. Additionally, the economic interdependence of the global community would further push all nations involved to seek a diplomatic resolution before waging war. Mearsheimer's arguments, while thought provoking, fail to incorporate elements of Chinese strategic thought in their quest to determine China's strategic objectives.

*Outliers: Military Modernization and the South China Sea*

The world must view the military modernization of China's People's Liberation Army (PLA) Forces as an outlier to the argument that economics precipitated China's push beyond its borders. Three examples assist in resolving this issue – Chinese reaction to the Gulf War of 1991, China's geographic location, and its defense posture on alliances. Overshadowing its defense policy is the long history of foreign powers using military coercion and military force to

serve their respective goals leading to such events as the Century of Humiliation<sup>12</sup>. In 1991 when the United States quickly and efficiently defeated the Iraqi Armed Forces in the Gulf War, China's military establishment was rattled. Brad Roberts points out this revelation provided an impetus for the modernization of the PLA.<sup>13</sup> The US victory proved the PLA was not prepared or equipped for the character of modern warfare. The PLA had to be modernized to provide at least some level of deterrence. When the United States rebalanced its strategic focus toward Asia and reallocated maritime forces into the region, concern grew within China. Christopher Yung and Wang Dong explain that leading Chinese military scholars saw this as the US strengthening its "strategic containment" against China and endangering its maritime access.<sup>14</sup> A containment policy increased the likelihood of undesired foreign influence. The need for a greater military deterrent grew. The requirement for a strong military was not only a function of US capabilities and posture but a matter of geography. While the United States enjoys the relative freedom of having two large oceans and two friendly nations as buffers, China does not. Some of China's rural and mountainous regions, such as Xinjiang Province, are sparsely populated, underdeveloped, and populated by ethnic and religious minorities. These factors could lead to conditions ripe for the development of extremist factions threatening internal stability. Amongst its neighboring nations, four possess nuclear weapons (Pakistan, India, Russia, North Korea) and while Pakistan works closely with China, there have been armed conflicts with India and Russia while North Korea continues to be an unstable actor, not only

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<sup>12</sup> The Century of Humiliation began following the close of the First Opium War in 1840 and lasted until Chinese Communist Party's victory 1949. This period in Chinese history is filled with conflict characterized by wars, occupations, and revolutions.

<sup>13</sup> Brad Roberts, "Strategic Deterrence Beyond Taiwan." in *Beyond the Strait: PLA Missions Other Than Taiwan*, ed. Roy Kamphausen, et al., 167-209 (Carlisle, PA: Strategic Studies Institute, 2009) 175.

<sup>14</sup> Christopher Yung and Wang Dong, "US-China Relations in the Maritime Security Domain," in *US-China Relations in Strategic Domains*, ed. Travis Tanner and Wang Dong, 1-20 (Seattle, WA: National Bureau of Asian Research, 2016), 9-10.

drawing regional but global attention. While a strong PLA and defense alliances can serve as deterrents against coercion and aggression, China maintains only one military alliance with North Korea. It shies away from alliances in favor of bilateral negotiations believing it to be a more beneficial approach.<sup>15</sup> A lack of alliances leaves China with an armed force and a second strike nuclear capability to serve as its only military deterrents against threats to its territorial integrity. While other nations maintain deterrence solely through alliance networks; this is not the case in China. To be an effective deterrent, the PLA must be a credible force with credible capabilities and technologies. With the changing nature of warfare, catalyzed by the 1991 Gulf War, the PLA must be modernized to suit this end.

Maritime territorial disputes, specifically the South China Sea, are outliers and issues of contention that have become highly publicized and researched. While some view China's sensitivity to freedom of navigation, resource development, and its construction of islands in the region as a sure sign of a belligerent desire, two factors counter this point of view – maritime economic viability and historical boundaries. Lieutenant Colonel Christopher Pehrson, a US Air Force officer assigned to the Pentagon, cites economic development as a key component to China's domestic stability (a topic later discussed). He also notes, it is one of their greatest vulnerabilities. As China's economy continues to grow and develop, its demand for energy resources grow. Coal, oil, and natural gas comprise the bulk of China's energy needs with 70% of oil coming from the Middle East shipped along maritime lines of communication.<sup>16</sup> The maritime route transits through the "String of Pearls" and the South China Sea. Ensuring energy

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<sup>15</sup> Joel Wuthnow, "Posing Problems Without an Alliance: China-Iran Relations After the Nuclear Deal," *Strategic Forum*, no. 290 (February 2016), 6, <http://ndupress.ndu.edu/Portals/68/Documents/stratforum/SF-290.pdf>.

<sup>16</sup> Christopher Pehrson, "The String of Pearls: Meeting the Challenge of China's Rising Power Across the Asian Littoral," (Carlisle, PA: Strategic Studies Institute, 2006), 5-6. <https://nnsbc.files.wordpress.com/2012/06/string-of-pearls.pdf>.

shipments can run unabated is crucial to the domestic well-being and stability of China. The concept of territorial integrity further explains China's actions regarding the South China Sea. Yun Sun, Senior Fellow and Director of the East Asia Program at the Stimson Center, explains from the Chinese perspective it sees its past lack of action as simply not working to improve its claims. China's territorial claims centered around the nine-dashed line predate the UNCLOS treaty by forty years.<sup>17</sup> The international legal system has not resolved the issue, and with China's long history of foreign incursions into its territory (another topic to be discussed later), it is prudent to recognize the emphasis it places on its maritime claims. Economics that foster internal stability and territorial integrity are not just themes explaining China's actions in the South China Sea but are factors that underpin much of Chinese strategic thought.

Fear of the unknown is a strong driving factor in human behavior. We naturally fear those things we do not understand and seek to reconcile them using worst case scenarios. Some American strategists and politicians fear a rising China. They see a China with a plan to become the world power, or even a regional hegemon playing to this fear. Misunderstood actions such as a military modernization and misinterpreted actions in the South China Sea further exacerbate this fear. Through an understanding of Chinese strategic culture, its motivations, and its actions, fear is reconcilable, and an objective analysis possible. The next section describes the underpinnings of Chinese strategic culture to begin to understand China's strategic end game.

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<sup>17</sup> Yun Sun, "China's New Calculations in the South China Sea." *Asia-Pacific Bulletin, East West Center*, June 10, 2014. [http://www.eastwestcenter.org/sites/default/files/private/apb\\_267\\_0.pdf](http://www.eastwestcenter.org/sites/default/files/private/apb_267_0.pdf)

## **II. Chinese Strategic Culture Underpinned by History**

A long, rich history of a nation looking inward to unify itself and looking outward to solidify resources characterizes Chinese strategic culture. It avoids conflict and postures for an active defense. The culture believes itself to be one that is superior to all others in statecraft and strategy. Viewing all others as barbarians, China sees itself as the “Middle Kingdom” and the center of civilized society. It is an egocentric view leaving the Chinese to believe their undertakings are right and just. The Chinese will not tolerate external meddling in their domestic affairs, no matter the cost, and internal security, stability, and unification are paramount. While Chinese views may seem self-centered and aggressive, the Chinese typically do not initiate conflict with other nations. Wars are costly and are considered by the Chinese to be the last resort. Chinese strategic culture is not expansionist but a culture of self-preservation and internal stability where territorial integrity, freedom of foreign influence, and internal security reign supreme.<sup>18</sup> Scholars agree on these three factors and their underpinnings are demonstrated throughout Chinese history.

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<sup>18</sup> Thomas Mahnken, *Secrecy and Stratagem: Understanding Chinese Strategic Culture* (Sydney: Lowry Institute For International Policy, 2011) 7-22.  
<https://www.lowryinstitute.org/publications/secrecy-and-stratagem-understanding-chinese-strategic-culture>.

### *Territorial Integrity: Threats on the Doorstep*

The territorial integrity of China is a theme integral to Chinese strategic thought agreed upon by scholars Thomas Mahnken<sup>19</sup> and Li Jijun.<sup>20,21</sup> Its importance is rooted in both geography and history. China currently borders 14 countries, four of whom possess nuclear weapons.<sup>22</sup> The security of China's border regions, as well as neighboring nations, directly impact the powerbase of the central government and its support amongst the populace. When adversaries are able to penetrate Chinese borders, popular support for the government wanes leading to a breakdown in stability and security. History shows the Chinese in a constant struggle to maintain its border regions as evidenced by territorial incursions from the Xiongnu, the Mongols, and the ongoing dispute over Taiwan.

Over four centuries, 221 B.C.E to 220 C.E., the Xiongnu tribes, also known as the Hun, of the northern steppes (present day Mongolia) created havoc in the northern border regions of China. They conducted raids into Northern China and used their superior horsemanship and archery skills to defeat Chinese foot soldiers.<sup>23</sup> Perhaps the most infamous incursion against Chinese territorial sovereignty was that of the Mongols in 1209 catalyzing a century and a half of struggle. Starting with Chinggis Khan in 1209, the Mongols, over the course of three generations and 70 years, harassed and conquered Chinese territory. By 1279 China was under Mongol rule and would remain as such until the rise of the Ming Dynasty in 1368. By 1368, in a

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<sup>19</sup> Thomas Mahnken is a Professor of Strategy at the US Naval War College and former Deputy Assistant Secretary of Defense for Policy Planning. He holds both an MA and PhD in International Affairs.

<sup>20</sup> Lieutenant General Li Jijun served as the Vice President of the PLA's Academy of Military Science. The academy is charged with developing military doctrine and strategic theory in the People's Republic of China.

<sup>21</sup> Li Jijun, "Traditional Military Thinking and the Defensive Strategy of China." (address, Carlisle, PA, August 27, 1997), US Army War College, <https://ssi.armywarcollege.edu/pdf/PUB82.pdf>.

<sup>22</sup> Thomas Mahnken, *Secrecy and Stratagem: Understanding Chinese Strategic Culture* (Sydney: Lowry Institute For International Policy, 2011) 18. <https://www.lowryinstitute.org/publications/secrecy-and-stratagem-understanding-chinese-strategic-culture>.

<sup>23</sup> David C Wright, "The Northern Frontier," in *A Military History of China*, ed. David A. Graff and Robin Higham (Lexington, KY: The University Press of Kentucky, 2012), 57-63.

China riddled with instability, Mongol rule was overthrown, and Chinese rule reestablished. Despite a weakened enemy in the steppes, northern border incursions continued for the next several hundred years.<sup>24</sup> Even today we see the evidence of infringement of Chinese sovereign territory with the case of Taiwan. From European imperialist powers seeking colonization to the fleeing of Ming loyalists to the island in 1683<sup>25</sup>, Taiwan has changed hands a multitude of times. It became a Japanese possession in 1895 following the first Sino-Japanese War and would remain as such until their defeat in World War II.<sup>26</sup> Other than a brief period after the war, Taiwan, as part of China, remains one example of contested territory amongst many.

The implications of instability in and around Chinese borders leads to the perception of a weak central government and degrades the support of the population fostering civil unrest. It forces China to shift resources from domestic development to expensive military action and creates an environment of uncertainty degrading economic growth. Territorial integrity for China, as well as its neighbors, serves the Chinese best interest. Threats to stability exist not only beyond Chinese borders but within them leading to another aspect of strategic thought – internal security.

### *Internal Stability and Security: Threats from Within*

Internal security and stability for a nation as large as China is a daunting task. Challenges to governmental powers come in the form of simple critiques in print and electronic media to protests to acts of terrorism. Taylor Fravel<sup>27</sup> stresses the importance of these challenges

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<sup>24</sup> Ibid, 71-76.

<sup>25</sup> Paul Lococo Jr., “The Qing Empire,” in *A Military History of China*, ed. David A. Graff and Robin Higham (Lexington, KY: The University Press of Kentucky, 2012), 118.

<sup>26</sup> Richard S. Horowitz, “Transformation of the Chinese Military, 1850-1911,” in *A Military History of China*, ed. David A. Graff and Robin Higham (Lexington, KY: The University Press of Kentucky, 2012), 158-159.

<sup>27</sup> M. Taylor Fravel is an Associate Professor of Political Science at MIT. He holds graduate degrees from the London School of Economics and Oxford as well as a PhD from Stanford. He additionally serves on the editorial board of *The China Daily* and the National Committee on US-China Relations.

to authority through China's commitment of military resources "in and around large population centers."<sup>28</sup> Li Jijun describes a Chinese people who "treasure unity." Over a period of 5000 years, they fought more than 6000 wars, the majority for "unification of the nation" and "harmonic coexistence."<sup>29</sup> Maintaining internal security and stability requires the support of the population. Furthermore, it requires the population to be vested in their government and that their government sets conditions for them to thrive, socially and economically. If poor conditions exist, citizens seek a better alternative and revolt. Chinese history demonstrates this in the White Lotus Rebellion, the Taiping Rebellion, and ultimately, the Chinese Communist Revolution.

In the latter part of the 18<sup>th</sup> century as China's population grew, poor and unemployed persons migrated west and south west to lesser inhabited regions. In an area with little government, ideas from a religion loosely associated with Buddhism sparked the White Lotus Rebellion (1796-1804). The White Lotus Society used the promise of relief from hunger, disease, and suffering to inspire poor peasants to revolt against the Manchu controlled regime. Protests that began against tax collection erupted into a series of uprisings amongst an organized movement. The rebellion was eventually quelled by 1804 as the government pursued a campaign of extermination against the rebels and establishment of local militias to deny the movement recruits and supplies. The uprising had cost the dynasty five years' revenue and left the lasting impression of susceptibility to future revolts.<sup>30</sup>

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<sup>28</sup> M. Taylor Fravel, "International Relations Theory and China's Rise: Assessing China's Potential for Territorial Expansion." *International Studies Review*, no. 12 (2010): 524.

<sup>29</sup> Li Jijun, "Traditional Military Thinking and the Defensive Strategy of China." (address, Carlisle, PA, August 27, 1997), US Army War College, <https://ssi.armywarcollege.edu/pdffiles/PUB82.pdf>.

<sup>30</sup> John King Fairbank and Merle Goldman, *China: A New History* (Cambridge, MA: The Belknap Press, 2006), 190-191.

A similar circumstance presented itself less than fifty years later. The Great Taiping Rebellion of 1851-1864 sought not only conquest but a complete change to Chinese society. Its leader, Hong Xiuquan, selectively used Christian based teachings coupled with domestic anger at Manchu control of China to gain control of roughly half the country. As in the White Lotus Rebellion, the movement enlisted poverty-stricken peasants, in search of a better way of life, to revolt against the status quo. Ethnic minorities, feeling little connection to the Chinese ruling class, saw the regime as oppressors. The movement pushed from south to north as the rebels battled with Chinese troops. Both sides suffered great losses as the conflict raged on for thirteen years. While mostly defeated by 1864, the rebellion left a widespread distrust toward Christianity and served as an inspiration for future movements.<sup>31</sup>

A third example, one that was successful and reshaped Chinese society, is that of the Chinese Communist Revolution. The roots of socialist ideology in China began as early as 1918 inspired by the Bolshevik Revolution in Russia and the teachings of Li Ta-chao. Over the next thirty years, the Chinese Communist Party (CCP) built popular support amongst the rural populace as well as its military strength. Five years after the 1931 Japanese invasion of China, the CCP allied with KMT government in 1936 to free China from Japan. With the Japanese surrender during World War II in August of 1945, the CCP continued spreading its ideology across the country side while engaging in armed conflict with the KMT. While outnumbered in most instances, the Red Army was able to achieve victory through its support from the local population and strategic leadership under Mao Zedong. Peking fell in January of 1949, and the KMT government withdrew to Taiwan.<sup>32</sup> The revolution was a success, and the social construct

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<sup>31</sup> John King Fairbank and Merle Goldman, *China: A New History* (Cambridge, MA: The Belknap Press, 2006), 206-213

<sup>32</sup> John King Fairbank, *The Great Chinese Revolution: 1800-1985* (New York: Harper and Row, 1986) 205-269.

of China changed. The Chinese Communist Revolution serves as a prime example of how unstable conditions within China can lead to a complete regime change.

The White Lotus Rebellion, the Taiping Rebellion, and the Communist Revolution share a common theme. All consisted of an ideology that promised a better future for poor peasants who believed the current government was oppressive and unresponsive to their basic needs. Rebels exploited a lack of support for the government. Domestic instability grew. The masses mobilized to seek change. From a small uprising to a successful revolution, problems arising from internal security and stability led to not only conflict but eventually a complete paradigm shift in Chinese society. It is in the power of the populace that Chinese strategic thought realizes the importance of internal security and stability. While internal threats were able to disrupt the Chinese way of life, threats from foreign influence pose another, much greater risk.

#### *Foreign Influence: Threats from Afar*

The undesired influence of foreign governments in China creates similar conditions for instability and is another theme anchored in Chinese strategic thought. The theme of freedom from external meddling is one agreed upon by scholars Mahnken and Susan Craig<sup>33</sup>. Mahnken ascertains the desire for freedom from foreign influence is rooted in the Chinese concept of the “Mandate of Heaven.” Foreign influence is linked to internal instability and is detrimental to popular support for the Chinese leader.<sup>34</sup> Craig’s analysis of Chinese strategists bolsters the argument. She argues that China perceives itself as nonaggressive, peaceful, and benevolent and quotes the *Science of Military Strategy* as stating, “If a war breaks out, may it be anti-invasion,

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<sup>33</sup> Susan Craig has served as a China analyst at the US Army’s Foreign Military Studies Office as well as counterproliferation analyst for the Defense Intelligence Agency. She holds an MA in political management from George Washington University and an MPA in international security policy from Harvard University.

<sup>34</sup> Thomas Mahnken, *Secrecy and Stratagem: Understanding Chinese Strategic Culture* (Sydney: Lowry Institute for International Policy, 2011) 18. <https://www.lowryinstitute.org/publications/secrecy-and-stratagem-understanding-chinese-strategic-culture>.

anti-separation, anti-interference our country will be forced into it...”<sup>35</sup> The extent to which the Chinese will go to deter unwanted foreign influence demonstrates its importance to them. The Opium Wars, Boxer Rebellion, and American reactions to the Tiananmen Square protests are indicative of the Chinese strategic theme of distaste for foreign interference.

The Opium Wars of 1839-1842 provides an example of a foreign power exerting its influence to coerce China to cooperate. The trade of Indian opium to China for tea before 1839 created concerns for the Chinese. Outside of the social degradation the drug caused, its high price on the black market led to violence, corruption, and civil unrest. Economically, the trade created a monetary crisis, driving up the price of silver. In response to these factors, the Chinese suppressed opium traders in Guangzhou and forced them to surrender their stocks. Britain responded with gunboats that conducted engagements against Chinese naval vessels and forts along China’s southeast coast to coerce the Chinese government into an agreement. By 1842 the British were able to force the Chinese to agree to the Treaty of Nanjing giving them, amongst other concessions, extraterritoriality, and most-favored-nation treatment.<sup>36</sup> It was a demoralizing loss for China and a blow to the power base of the emperor.

Imperialism continued as did the civil unrest created by its presence. The flooding of the Yellow River in 1898 and a following drought created an environment ripe with discontent in Northern China. A group known as the Boxers United in Righteousness emerged touting the slogan, “Support the Qing, destroy the foreign.” The movement took across the northern region and gained the support of the Empress Dowager Cixi. From June 29 to August 14, 1900, the Boxers besieged foreign civilians, missionaries, diplomats, and journalists through constant

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<sup>35</sup> Susan L Craig, *Chinese Perceptions of Traditional and Nontraditional Security Threats*, Security Studies Institute (Carlisle: US Army War College, March 2007) 10, <https://ssi.armywarcollege.edu/pubs/display.cfm?pubID=765>.

<sup>36</sup> John King Fairbank and Merle Goldman, *China: A New History* (Cambridge, MA: The Belknap Press, 2006), 198-201.

small arms fire. The west responded sending an international army. The Boxers looted Beijing and terrorized towns. International troops responded with brutality, raping Chinese women, killing civilians, and looting cities, towns, and villages. By September 1901 China was forced to sign the Boxer Protocol by eleven foreign powers. Foreign powers executed ten high officials, expanded the legation quarter in Beijing, destroyed twenty-five Chinese forts, and China was forced to pay \$333 million in reparations over forty years, with interest.<sup>37</sup> It was yet another blow by foreign powers to Chinese sovereignty. Interference continued as China became increasingly involved in the global market. In recent history, another global superpower, much like Britain during the Opium Wars, has sought to wield its influence over Chinese affairs.

The United States has leveraged its position as the global superpower over China countless times following the close of World War II. Despite diplomatic signaling by China, the United States pushed into the region to curb the spread of communism along China's borders in both Korea and Vietnam, and on both occasions, saw China commit its military.<sup>38</sup> By the late 1970's relations between the two nations began to normalize. During the 1980's China appeared to be opening up to the world order joining both the IMF and World Bank. Further economic reforms brought communist China closer to the capitalism of the western world. All was trending positive until the summer of 1989. Students, protesting government corruption and policies, gathered in Tiananmen Square in opposition. The movement resonated in other Chinese cities and following weeks of protest the Chinese government intervened.<sup>39</sup> The Peoples' Liberation Army (PLA), heavily armed, cleared the square between June 3<sup>rd</sup> and 4<sup>th</sup>

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<sup>37</sup> Ibid, 230-232.

<sup>38</sup> Paul Godwin and Alice Miller, *China's Forbearance Has Limits: Chinese Threat and Retaliation Signaling and Its Implications for a Sino-American Military Confrontation*, China Strategic Perspectives, no. 6 (Washington, DC: Center for the Study of Chinese Military Affairs, April 2013),15.

<http://ndupress.ndu.edu/Portals/68/Documents/stratperspective/china/ChinaPerspectives-6.pdf>

<sup>39</sup> Henry Kissinger, *On China* (New York: Penguin Books, 2012) 400-411.

leaving hundreds killed and thousands injured.<sup>40</sup> The United States criticized China's use of force. China felt it was warranted. In reaction, the US suspended high-level exchanges and arms sales, put administrative sanctions into place and opposed new loans to China from the World Bank and other financial institutions.<sup>41</sup> The relationship between the two nations would never be the same. Three weeks later in a meeting with an American envoy, Deng blamed American policy for the degradation in relations and commented that Americans "must understand history."<sup>42</sup> The American reaction to the events of June 3-4, 1989 solidified China's skepticism of foreign influence. China believed their actions just while the Western world found them a gross infraction against human rights. It was clear in the Chinese mind that despite numerous attempts, western and eastern ideologies were not reconcilable.

The Opium Wars, Boxer Rebellion, and American actions following the Tiananmen Square protests all serve as instances that reinforce Chinese sensitivity to interference by foreign powers. They prove to the Chinese that outsiders are privy to their own ends, regardless of the means, that the population needed to sustain their stability has no taste for it, and no matter the effort, there are differing beliefs between east and west where there can be no compromise. How China and west approach non-interference differs. China emphasizes the importance of society rather than the individual. It will not intervene in foreign affairs unless it finds the action as a threat to the natural order within China – the action's consequences would threaten the internal unity or stability of China.<sup>43</sup> Western thought places emphasis on individual rights. Western nations have regularly intervened in the affairs of foreign nations to promote human rights and

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<sup>40</sup> Andrew Scobell, *China's Use of Military Force: Beyond the Great Wall and the Long March* (New York: Cambridge University Press, 2003) 157-163.

<sup>41</sup> Henry Kissinger, *On China* (New York: Penguin Books, 2012) 412-416.

<sup>42</sup> *Ibid*, 419.

<sup>43</sup> Thomas Mahnken, *Secrecy and Stratagem: Understanding Chinese Strategic Culture* (Sydney: Lowry Institute for International Policy, 2011) 13-14. <https://www.lowryinstitute.org/publications/secrecy-and-stratagem-understanding-chinese-strategic-culture>.

self-determination, regardless of the threat to their security. The difference in approach can be seen in the lending practices between China's Asian Infrastructure Investment Bank (AIIB) and the western-led World Bank later discussed in this paper. Analysts, policy makers, and political leaders must consider the Chinese view of non-interference as an aspect of strategic culture when examining China.

### *Conclusions on Chinese Strategic Culture*

Chinese history demonstrates, and scholars agree territorial integrity, internal stability, and freedom from foreign interference are aspects that contribute to Chinese strategic culture. Given China's rise, it is an important lens through which to view how China interacts with the world order. How do these aspects shape their decisions? Why have they chosen one option over another?

The idea of territorial integrity, as previously discussed, relates to the stability of the nation. Stability depends on the support of the population and peaceful conditions. Supported by the Chinese concept of "Mandate of Heaven", internal stability fosters acceptable of governmental leadership by the population. When the population accepts the leadership, they are accepting the mandate, and civil unrest is minimized, leading to less conflict.<sup>44</sup> War is costly, disruptive to social order and can have negative impacts on popular support. To ensure territorial integrity, China would find the best approach to work with their surrounding neighbors to help produce a stable region through peaceful economic development. Tiejun Zhang, Director of the Shanghai Sinovision Center for Cultural Exchanges, notes that as China is still weak compared to western powers, it needs the west economically and technologically. Using force would

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<sup>44</sup> Thomas Mahnken, *Secrecy and Stratagem: Understanding Chinese Strategic Culture* (Sydney: Lowry Institute for International Policy, 2011) 14. <https://www.lowryinstitute.org/publications/secrecy-and-stratagem-understanding-chinese-strategic-culture>.

disrupt economic development. He further adds that increasing inclination toward Confucianism and a non-violent approach serve to reinforce a hesitation to use force.<sup>45</sup> Non-disruptive, peaceful conditions create a win-win scenario for economic growth which fosters prosperity and employment. This approach is similar when examining internal stability.

China has experienced countless uprisings negatively affecting domestic stability over its long history. Many of those uprisings included poverty-stricken peasants in less than governed regions of the country. It is a common theme that the less a government does for its people, the less patriotic they are and more likely to rebel – as was the situation in the cases above. To positively affect stability, China must reach out to its population as it did during the Communist Revolution. It must develop opportunities in lesser inhabited regions and offer those will little opportunity to succeed. It must provide essential services, jobs, generate demand for goods, and secure crucial resources for the long term.<sup>46</sup> By creating prosperity, China will foster patriotism amongst its people and achieve the stability it desires. The stability created must be protected from perhaps its greatest threat – foreign interference.

Sovereignty is a crucial element every nation seeks to protect. China is no different. As its interests grow in the global market, they will undoubtedly come into conflict with those of another nation that seeks similar resources or access. Two approaches China may take are gaining leverage and creating an environment for their own success. Gaining leverage may be seen in the form of economic interdependence or a monopoly on a certain sector. In a situation where eastern and western business approaches conflict, China could choose to use its economic

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<sup>45</sup> Tiejun Zhang, “Chinese Strategic Culture: Traditional and Present Features,” *Comparative Strategy* 21, no. 2, (November 2010): 82, <https://doi.org/10.1080/01495930290043056>.

<sup>46</sup> Early attempts by the Chinese government to provide essential services and opportunities to its lesser developed regions led to the deaths of millions and created further instability. Economic growth and new approaches to development over the past two decades have lessened the need for political mobilization to achieve strategic goals and provided greater resources to fulfill them leading to reduced conflict.

instrument of national power to create institutions governed by its own rules. If it could rally other like-minded eastern countries, it could create a regional order in which it sets favorable rules. China's ability to bargain or dictate terms increases in either case.

Chinese strategic culture becomes more important as its economy expands and its interests grow beyond its borders. The United States must view China's actions through the lens of history and Chinese strategic culture or risk a misstep that may have lasting consequences. It is important to note that the Chinese view war as a costly venture that creates internal instability – a hallmark of what China aims to avoid.<sup>47</sup> The view is one long held in Chinese thought as stated by Sun Tzu “To subdue the enemy without fighting is the acme of skill.”<sup>48</sup> Deng Xiaoping reinforced this idea and furthered that war should be prevented to facilitate conditions for economic development. It is the development of the country through economics that will set conditions for stability and security.<sup>49</sup> It is through the economic instrument of national power the United States should further direct its attention using the afore mentioned elements of strategic culture as a lens. Recent history demonstrated when China's emphasis shifted to Deng's economic approach, China's rise to power began. The very first inklings of capitalism began ironically in the same place as communism – the countryside.

The elements of territorial integrity, internal stability, and freedom from foreign influence explained above are lynchpins in beginning to understand China's actions. Each element has been ingrained, through history, into China's culture and China validates them through their actions. As demonstrated, if any of the elements become infringed upon, China suffers dire

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<sup>47</sup> Thomas Mahnken, *Secrecy and Stratagem: Understanding Chinese Strategic Culture* (Sydney: Lowry Institute for International Policy, 2011) 16. <https://www.lowryinstitute.org/publications/secrecy-and-stratagem-understanding-chinese-strategic-culture>.

<sup>48</sup> Sun Tzu. *The Art of War*, trans. Samuel B. Griffith (Oxford: Oxford University Press, 1963) 77.

<sup>49</sup> Peng Guangquin, “Deng Xiaoping Strategic Thought,” in *Chinese Views of Future Warfare*, ed. Michael Pillsbury (Washington D.C.: NDU Press, 1997) 5. <http://www.au.af.mil/au/awc/awcgate/ndu/chinview/chinapt1.html#2>.

consequences. Chinese strategic thought considers military action an expensive venture of last resort, so how does it seek to protect its territorial integrity, ensure its internal stability, and resist foreign influence? Economics.

### **III. Surviving a Changing Economic Tide: The Need to Push Out**

China took centerstage during the first decade of 2000. A rapidly growing economy, expanding the industrial base, rising middle class, and an insatiable desire for luxury goods demonstrated the hallmarks of an up and coming major economic power. The growing economy necessitated the movement of people from rural farming areas to new urban areas to fill positions in newly established factories. Between 1982 and 2012 over 600 million escaped poverty with many rising to the middle class.<sup>50</sup> Investors continually found lucrative opportunities to invest in Chinese businesses backed by the government. Through investment, many found their way into the upper class. In 2007 the Chinese economy peaked with unprecedented GDP growth of 14.23%.<sup>51</sup> Chinese factories had little excess industrial capacity, the economy was at close to full employment, and government savings earned close to 5% on their US Treasury Bond holdings. A prosperous population set conditions for increased domestic stability. The world's

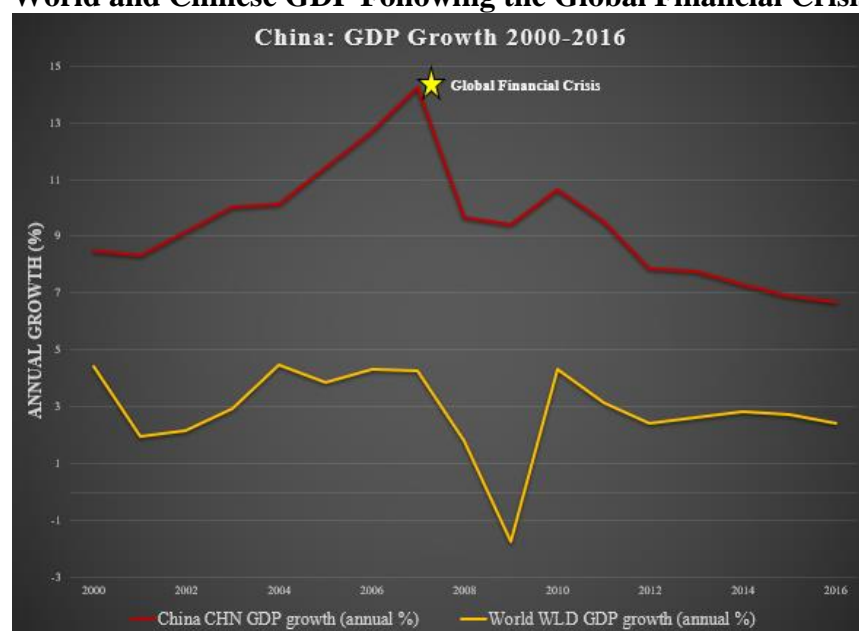
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<sup>50</sup> Mark Purdy, "China's Economy, in Six Charts," *Harvard Business Review* (2013): 1. <https://hbr.org/2013/11/chinas-economy-in-six-charts>.

<sup>51</sup> World Bank, "GDP Growth," *World Bank*, accessed November 22, 2017, <https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?end=2016&locations=CN&start=1961&view=chart>.

foremost power, the United States, was engaged in two wars in the middle east, leaving little time to worry about China. China had made progress settling border disputes with neighbors peacefully. All was going well for China until later that year, a global financial crisis struck and was followed by slowing worldwide economic growth. Chinese GDP growth slowed following the crisis falling to 6.9% in 2015.<sup>52</sup> (Figure 1 depicts China’s slowing GDP growth.) As China’s growth began to slow so did world growth spurring declining yields across major markets including US Treasury Bonds. The prosperity which had enhanced China’s domestic stability was in jeopardy.

**Figure 1. Chinese GDP Growth, 2000-2016**  
**World and Chinese GDP Following the Global Financial Crisis**



*Source: World Bank GDP Growth Data*

US Treasury Bond yields declined between 2006 and 2017. The downward trend contributed to China’s desire for new, more lucrative, sources of investment. Historically, China has held much of its national savings in bonds. Treasury bonds offered little to no risk and a

<sup>52</sup> World Bank, “GDP Growth,” *World Bank*, accessed November 22, 2017, <https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?end=2016&locations=CN&start=1961&view=chart>.

moderate rate of return. In 2006 the 30-year treasury bond returned, on average 4.91%. Year after year the rate of return fell. By 2013 the average rate of return had fallen to 3.44% and by 2016, a mere 2.59%.<sup>53</sup> (Figure 2 displays the falling yields on US Treasury Bonds.) Declines resulted from the 2007-2008 financial crisis and an increasing trend by the United States to issue bonds to cover its obligations.<sup>54</sup> The opportunity cost of capital dictated China seek alternative investment strategies to maximize returns. The growth in Chinese holdings of long-term US treasury debt decreased after 2011. From 2005 to 2010 the average yearly increase was 35%, from 2011-2016 the average fell to 2%. In 2010, China held one third of long-term US treasury debt, by 2016 they held just 22%.<sup>55</sup> China needed to reduce its reliance on a foreign controlled investment vehicle to produce more lucrative returns. The slowdown in worldwide growth that affected rates of return affected another key economic factor in China – demand for exports and excess capacity for production.

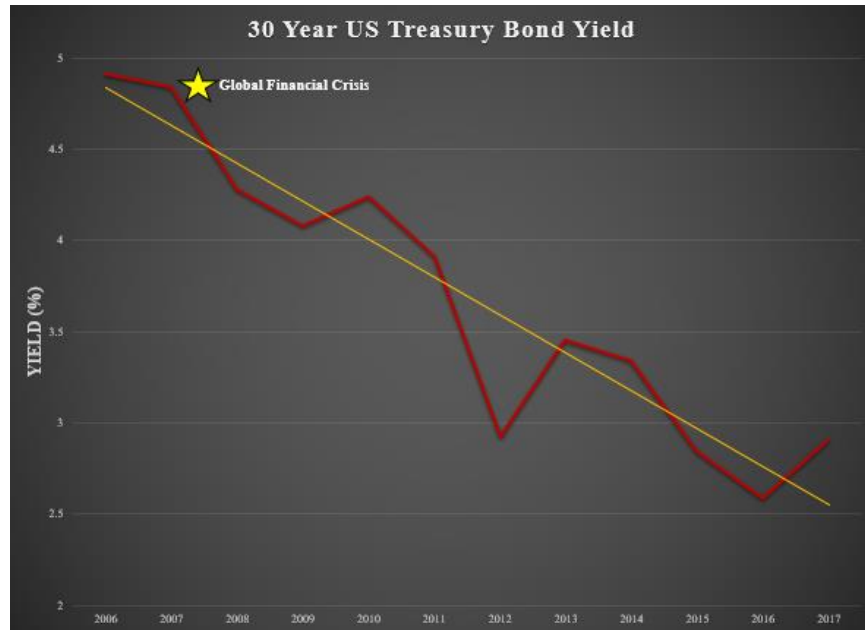
**Figure 2. 30-Year US Treasury Bond Yields, 2006-2017**  
**Falling US Treasury Bond Yields Following the Financial Crisis**

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<sup>53</sup> U.S. Department of the Treasury, “Daily Treasury Yield Curve Rates,” *U.S. Department of the Treasury*, accessed November 22, 2017, <https://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=yieldYear&year=2017>.

<sup>54</sup> Gal Luft. “China’s Infrastructure Play: Why Washington Should Accept the New Silk Road.” *Foreign Affairs* 95, no. 5 (2016): 3.

<sup>55</sup> U.S. Department of the Treasury, “Foreign Holdings of U.S. Securities,” *U.S. Department of the Treasury*, accessed January 20, 2018, <https://www.treasury.gov/resource-center/data-chart-center/tic/Pages/fpis.aspx>.



*Source: US Treasury Department, Daily Treasury Yields*

Internal stability within a country hinges of the employment of the population and its ability to achieve a relative level of prosperity. One of greatest effects of the 2007-2008 financial crisis was a decrease in demand for exports ultimately leading to the loss of employment for Chinese workers. The diminished demand created excess industrial capacity within China and the closure of industrial factories. In 2016, Chinese Premier Li Keqiang commented during his Report on the Work of Government address that China must “focus on addressing overcapacity in the steel, coal, and other industries facing difficulties” and “take a combination of measures to stop the decline of imports and exports.”<sup>56</sup> In the steel industry alone, excess capacity was 130 million tons in 2016 equating to 65% more than the total steel production in the United States that same year.<sup>57</sup> Production capacity for steel that had once supplied a booming global demand was now dormant. In 2007, Chinese exports constituted

<sup>56</sup> Li Keqiang, “Report on the Work of the Government (2016),” (speech, Beijing, March 5, 2016), The State Council, [http://english.gov.cn/premier/news/2016/03/17/content\\_281475309417987.htm](http://english.gov.cn/premier/news/2016/03/17/content_281475309417987.htm).

<sup>57</sup> Zhiyao Lu, “China’s Excess Capacity in Steel: A Fresh Look,” *Peterson Institute for International Economics* (2017): 1, <https://piie.com/blogs/china-economic-watch/chinas-excess-capacity-steel-fresh-look>.

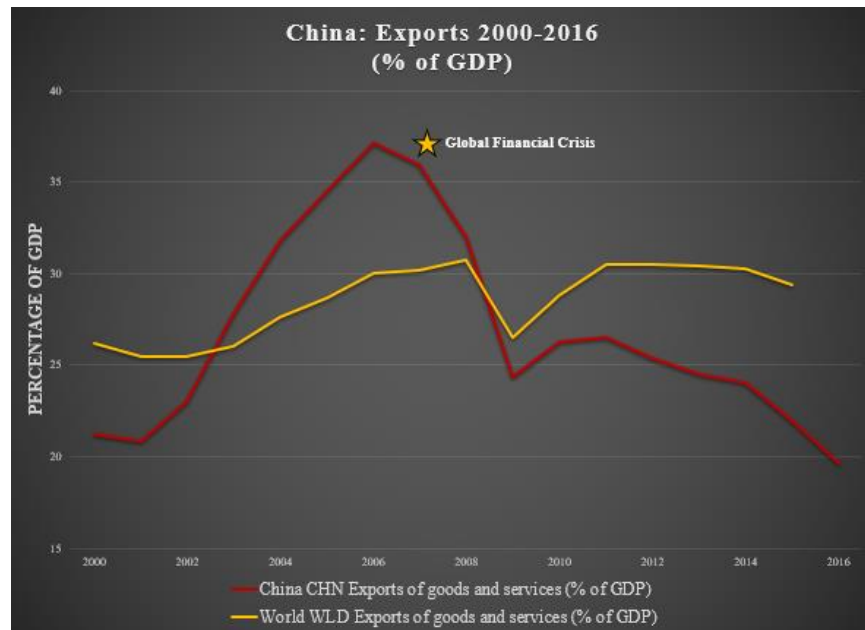
35.94% of GDP, by 2015 it fell to just 21.97%.<sup>58</sup> (Figure 3 displays the decline in Chinese exports as a percentage of GDP from 2000 to 2016.) As demand decreased for exports and domestic consumption of construction materials, so did the need for the steel, iron, and coal workers. The Chinese government further faced increased burdens as a communist government responsible for large social safety net programs to include resettlement and unemployment insurance. Within the industrial labor force in steel, iron and coal – an estimated 726,000 workers were resettled in 2016, and the Chinese government projected an additional 500,000 workers to be laid off in 2017.<sup>59</sup> The government bears a significant cost as they resettle the unemployed workforce. The Vice Minister of Industry and Information Technology announced in 2016 that the central government would establish a fund of 100 billion yuan over the next two years to compensate those laid off. Slowing of world economic growth not only aided in the creation of excess industrial capacity but had a second order effect – an increased need to fund social programs to support the newly unemployed. Despite growing excess industrial capacity and expenses associated with unemployment, the Chinese government continued its march toward urbanization further underpinning its need to find new markets for it to increase demand.

**Figure 3. Chinese Exports as a Percentage of GDP, 2000-2016**  
**Falling Chinese Exports following the Financial Crisis**

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<sup>58</sup> World Bank, “Exports of Goods and Services,” *World Bank*, accessed November 22, 2017, <https://data.worldbank.org/indicator/NE.EXP.GNFS.ZS?locations=CN>

<sup>59</sup> Zhiyao Lu, “China’s Excess Capacity in Steel: A Fresh Look,” *Peterson Institute for International Economics* (2017): 3, <https://piie.com/blogs/china-economic-watch/chinas-excess-capacity-steel-fresh-look>.



Source: World Bank GDP and Export Data

Urbanization, although costly to the Chinese government, greatly contributed to the economic success of China before 2008.<sup>60</sup> Rural workers relocated to fill the demand for workers related to industrial production. The movement of these citizens, with the promise of employment, created a large labor force. Given China's low overall population growth and affinity against internal migration, this would not have occurred naturally. A labor force drives a country's ability to produce goods for export and industrial capacity, using the labor force, gives the Chinese economy and its currency strength.<sup>61</sup> An added benefit of urbanization is the ability of the government to concentrate its population in urban areas where there is a greater security presence to overwatch and if needed, quell discontent. Civil unrest had increased after the financial crisis. In 2005, China reported 87,000 mass incidents<sup>62</sup>, by 2010 that figure grew to an

<sup>60</sup> Mark Purdy, "China's Economy, in Six Charts," *Harvard Business Review* (2013): 1, <https://hbr.org/2013/11/chinas-economy-in-six-charts>.

<sup>61</sup> Sit Tsui, Erebos Wong, Lau Kin Chi, and Wen Tiejun. 2017. "One Belt, One Road: China's Strategy for a New Global Financial Order." *Monthly Review* 68 (2017): 39. <https://search-proquest-com.lomc.idm.oclc.org/docview/1927781928?accountid=14746>.

<sup>62</sup> Fewsmith cites the definition of a mass incident is greater than five people protesting publicly as reported by the Public Security Bureau. The Public Security Bureau stopped releasing official figures in 2005.

estimated 180,000. Between 2003 and 2009 there was a reported total of 248 mass incidents involving groups of more than 500 people.<sup>63</sup> Despite excess industrial capacity and declining exports, the Chinese government continued moving forward with the urbanization policy. The 13<sup>th</sup> Five Year Plan announced in 2015 a continuation of an urbanization policy with a goal that by 2020, 60% of the Chinese population is living in an urban area.<sup>64</sup> The greater the urban population, the greater the need for employment opportunities to ensure a stable population. If domestic demand cannot fulfill what is necessary for full employment, China needed to look to foreign markets to generate demand or facilitate the creation of those foreign markets itself to ensure domestic conditions for an environment conducive to stability. As they looked outward for a solution, a new challenge came from the west.

Starting in 2010, the United States refocused its strategic efforts in the Asia region rekindling Chinese fears of foreign meddling from the global superpower. These fears were further exacerbated by the announcement of the Trans-Pacific Partnership trade agreement between the US and Asian nations. The Brookings Institution reported on several Chinese perceptions of the US rebalance in 2011. The first perception is the rebalance is to attempt to promote dissent in China to garner instability. The second is to apply pressure to China to revalue its currency with the goal of fostering unemployment. The third is to promote distrust of China in the region and leverage countries already weary of China to form trade alliances to block China's economic rise.<sup>65</sup> The first two perceptions likely created cause for concern as they would directly lead to instability within China. The third, if it came to fruition, may indirectly

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<sup>63</sup> Joseph Fewsmith, "Domestic Drivers of China's Future Military Modernization," in *The Chinese People's Liberation Army in 2025*, ed. Roy Kamphausen and David Lai (Carlisle, PA: US Army War College Press, Carlisle, PA, 2015) 59-60. <https://fas.org/nuke/guide/china/pla-2025.pdf>.

<sup>64</sup> Li Keqiang, "Report on the Work of the Government (2016)," (speech, Beijing, March 5, 2016), The State Council, [http://english.gov.cn/premier/news/2016/03/17/content\\_281475309417987.htm](http://english.gov.cn/premier/news/2016/03/17/content_281475309417987.htm).

<sup>65</sup> Kenneth G. Lieberthal, "The American Pivot to Asia," *Brookings*, December 21, 2011, <https://www.brookings.edu/articles/the-american-pivot-to-asia/>.

challenge China's territorial integrity if bordering countries gained boldness and confidence through an alliance with the US and other Asian countries. The potential impacts of foreign influence in the region influenced how China would approach its neighbors. It had to take an approach of peaceful development, offering a mutually beneficial relationship to balance what China saw as US efforts to contain its development.

Domestic factors coupled with the United States "pivot toward Asia" following 2008 led China to seek a new strategy for growth. China had to actively seek international economic opportunity with a renewed interest by the United States in the region or risk being shut out of markets. Governmental savings needed a higher rate of return. Demand for goods such as iron, steel, and cement was needed to open factories to full capacity. Jobs were required to continue the policy of urbanization and build a strong labor force. The geopolitical climate created by the United States made it difficult for China to do business beyond its borders. The changing climate resonated with several key elements of Chinese strategic thought –internal stability and freedom from foreign influence. The solution was one that had brought China great wealth in their past. Sustained economic prosperity through the creation of trade routes across land and sea to facilitate trade, foster regional economic growth (leading to increased disposable income), and a cooperative form of standardization. An economic system created by China, with Chinese rules. The solution was a major infrastructure investment project stretching across land and sea from China to Eastern Europe, a new silk road – One Belt, One Road.

### *Looking Out to Solve Problems Within*

Chinese President Xi Jinping announced the creation of an economic belt in 2013 and a new maritime silk road in 2014 designed to link trade routes in China to Eastern Europe. The

plans together as part of China's Greater Neighborhood Policy (GNP) came to be known as the One Belt, One Road (OBOR) initiative.<sup>66</sup> China's stated goal was to assist the economic development of Asian countries not capable of undertaking large scale infrastructure projects on their own.<sup>67</sup> The benefits of China's strategic concerns are two-fold. First, by facilitating economic development in the region, China's neighbors gain prosperity and further stability. It reduces concerns regarding unstable governments on its doorstep. Regional economic development enhances China's territorial integrity by reducing threats. Second, OBOR's conception created an environment that addressed the need for new investment opportunities with higher yields. These new markets relieve excess economic capacity creating employment for newly urbanized citizens. The burden of supporting the unemployed diminishes while prosperity and stability within China follow. In total, if successful, OBOR has the potential to foster prosperity not only within China and the region, but across Asia, the Middle East, and Eastern Europe. As money yields power and influence, the projects are funded through a newly established Asian Infrastructure Investment Bank (AIIB) controlled by China – ultimately giving it a large measure of control and leverage. The control and leverage achieved creates an environment where foreign influence is mitigated and China freely engage in development without a set of rules imposed by western powers.

The AIIB complements China's strategic underpinnings by creating leverage, reducing foreign influence and increasing stability through improved economic conditions. China economist Arthur Kroeber<sup>68</sup> and international business law expert Daniel Chow argue that a

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<sup>66</sup> Theresa Fallon. "The New Silk Road: Xi Jinping's Grand Strategy for Eurasia." *American Foreign Policy Interests* 37, no.3 (2015): 140-141. *Points of View Reference Center*, EBSCOhost (accessed November 3, 2017).

<sup>67</sup> Gal Luft. "China's Infrastructure Play: Why Washington Should Accept the New Silk Road." *Foreign Affairs* 95, no. 5 (2016): 1.

<sup>68</sup> Arthur Kroeber is the managing director of the global economics research firm, Gavetal Dragonomics. He is a member of the National Committee on US-China Relations as well as the editor of *China Economic Quarterly*. He received his BA from Harvard University and currently resides in Beijing.

major impetus behind the bank's establishment was China's frustration with the western economic world order – the World Bank and the International Monetary Fund (IMF). Both cite US obstruction of China's efforts to gain a larger share of voting rights in the IMF and the US-led Trans-Pacific Partnership (TPP) that sought to create a regional trade structure which did not include China.<sup>6970</sup> China's strategic culture of non-interference comes into direct conflict with the lending policies of the World Bank and the IMF. Both institutions have a lengthy list of non-financial requirements for lending based on western values set by the United States.

Transparency, non-corruption in government, workers' rights, environmental sustainability, and collective bargaining are just a few. Some Chinese scholars such as Ersheng Zhang view this "Washington Consensus" as having a "corrosive impact on strategically important parts of the Chinese economy."<sup>71</sup> To further exacerbate the issue, as China sought member countries to contribute to the AIIB, Washington vehemently opposed the bank as a threat to the western world order and attempted to dissuade allies from joining. They were unsuccessful.<sup>72</sup>

Constrained by rules written by the west, China found a way to curb interference with the AIIB.

AIIB officially opened its doors on January 16, 2016. By November 2017, it had 58-member nations contributing \$93.2 billion. Chinese contributions comprised 32% or approximately \$29.7 billion. The contribution entitled them to a 27.5% share of the votes; the next closest voting share was India at 7.9%.<sup>73</sup> In comparison, within the IMF China maintains a

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<sup>69</sup> Arthur R Kroeber, *China's Economy: What Everyone Needs to Know* (New York: Oxford University Press, 2016) 245.

<sup>70</sup> Daniel C.K Chow, "Why China Established the Asia Infrastructure Investment Bank." *Vanderbilt Journal of Transnational Law* 49, no. 5 (January 2017): 1258.

<sup>71</sup> Mark Beeson and Fujian Li, "What Consensus? Geopolitics and Policy Paradigms in China and the United States," *International Affairs* 91, no. 1 (January 2015): 101-102. EBSCOhost (100438443).

<sup>72</sup> Daniel C.K Chow, "Why China Established the Asia Infrastructure Investment Bank." *Vanderbilt Journal of Transnational Law* 49, no. 5 (January 2017): 1259-1279.

<sup>73</sup> Asian Infrastructure Investment Bank, "Members and Prospective Members of the Bank," Asian Infrastructure Investment Bank, accessed November 24, 2017, <https://www.aiib.org/en/about-aiib/governance/members-of-bank/index.html>.

6.09% voting share vice the US share of 16.52%<sup>74</sup> and within the World Bank 4.53% vice the US share of 16.26%.<sup>75</sup> China, in effect, maintains a controlling interest and like the US in the World Bank, can dictate terms.

The bank's objective, like that of the World Bank, is to provide loans for financing of sustainable infrastructure across the region. AIIB reviews projects proposals from its Beijing headquarters, approve them, and makes financing available in the customer nation's currency "in accordance with policies that minimize currency risk."<sup>76</sup> (If the AIIB were to decide to conduct the transaction in yuan, it would negate exchange rate risk for China.) The AIIB provides an outlet for the Chinese government, as well as private investors, to invest its excess capital, with limited external influence, to achieve a rate of return associated with the risk of the project undertaken. AIIB projects also provide a viable alternative to the purchase of US Treasury Bonds which have had decreasing yields. It is in effect, a financial system unto itself, a financial system controlled by a China which is controlled by the Chinese Communist party. Chow argues that the party could utilize the AIIB to further its policy goals.<sup>77</sup> Take, for example, a less than economically optimized country receives a sizeable loan from the AIIB, does that not create a degree of influence for the bank over the country, especially when China backs the bank? The more a country becomes indebted to the bank, the more they are inclined to support a Chinese agenda if they seek to do business in the future. One just needs to look at the World Bank and the spread of western ideology to prove the concept. It is a conclusion supported by the U.S.-

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<sup>74</sup> International Monetary Fund, "IMF Members' Quotas and Voting Power, and IMF Board of Governors," International Monetary Fund, accessed January 20, 2018, <https://www.imf.org/external/np/sec/memdir/members.aspx>.

<sup>75</sup> World Bank, "Voting Powers," World Bank, accessed January 20, 2018, <http://www.worldbank.org/en/about/leadership/votingpowers>.

<sup>76</sup> Asian Infrastructure Investment Bank, *Operational Policy on Financing*, March 21, 2016, 4, <https://www.aiib.org/en/policies-strategies/operational-policies/operational-policy-financing.html>.

<sup>77</sup> Daniel C.K Chow, "Why China Established the Asia Infrastructure Investment Bank." *Vanderbilt Journal of Transnational Law* 49, no. 5 (January 2017): 1262-1263.

China Economic and Security Review Commission in its 2017 Report to Congress. The report quotes Nadège Rolland from the National Bureau of Asian Research as saying “Economic cooperation is not just a way to boost development or to bring financial returns. It is also a tool to be used for political and strategic gain...”<sup>78</sup> The AIIB creates a system in which China can operate, by its own rules, that limits interference from the west and puts China first. It is, however, not the only benefit. The projects the bank finances suit China’s other needs – the creation of demand to reduce excess industrial capacity and employ workers.

China’s emphasis on trade infrastructure projects serves two goals agreed upon by economists Chi Lo and Arthur Kroeber, spread economic development and enhance investment returns.<sup>79</sup> Lo further explains that in addition to increasing returns, the projects could reduce China’s excess industrial capacity and stabilize growth. If successful, she ascertains, it could help China realize the “Chinese Dream” and “enhance national pride and personal well-being.”<sup>80</sup> These goals are consistent with elements of Chinese strategic thought. Economic development, not only in China but surrounding regions, creates prosperity leading to domestic and regional stability. The World Bank’s laundry list of requirements for lending often rules out developing countries unwilling to concede to the unrelated terms of the loan. China, concerned with creating stable, prosperous countries to lessen territorial threats, can use the AIIB’s development loans to engage in countries where the World Bank will not. China’s OBOR as well as its economic policy toward the trade sector could also create an environment where China attains yet another instrument to leverage – a vertical monopoly.

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<sup>78</sup> U.S.-China Economic and Security Review Commission, *2017 Report to Congress* (Washington, DC: Government Publishing Office, 2017), 165.

<sup>79</sup> Arthur R Kroeber, *China’s Economy: What Everyone Needs to Know* (New York: Oxford University Press, 2016), 246.

<sup>80</sup> Chi Lo, “China’s Silk Road Strategy,” *The International Economy* (Fall 2015): 54.

China's stance on its trade infrastructure projects has been to create an economic corridor to benefit the prosperity of all in the region. Regional stability and economic interdependence lead to reduced likelihood of conflict affecting China's borders. The trade infrastructure includes seaports, airports, highways, rail lines, electric grids, and pipelines – all projects which include the use of materials such as iron, steel, concrete, and other finished goods which, regionally, are produced by China. China's geographic location makes it an attractive source of supply for the projects. Goods could be shipped from China to the Gwadar Port in Pakistan (financed by China) and travel by sea to the Port of Piraeus in Greece (controlling stake owned by China) for further high-speed rail transportation to Serbia (a project backed by China).<sup>81</sup> Given China's production capacity, it could supply most of the construction materials at a fraction of the cost. To assist customers in planning and executing their project on time and budget, the Chinese controlled AIIB focuses on procurement and implementation readiness – both areas in which they are willing to provide advice and guidance.<sup>82</sup> The OBOR initiative, if successful, has the potential to greatly increase the regional demand for Chinese goods reducing industrial capacity and creating employment opportunities fostering internal stability. It also has the potential to allow China to dominate the market through economies of scale and vertical integration.

In the late 1800's Andrew Carnegie used a concept called vertical integration purchasing railroads and iron mines to complement his steel mills. He owned the source of raw materials, the manufacturing plants, and the means of distribution allowing Carnegie Steel to produce steel cheaper than all other competitors. Similarities exist between Carnegie Steel and China's current approach using the same product, steel. Given their excess industrial capacity, China already

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<sup>81</sup> Gal Luft. "China's Infrastructure Play: Why Washington Should Accept the New Silk Road." *Foreign Affairs* 95, no. 5 (2016): 2.

<sup>82</sup> Asian Infrastructure Investment Bank, "Project Process," Asian Infrastructure Investment Bank, accessed November 24, 2017, <https://www.aiib.org/en/projects/process/index.html>.

possesses ample means of production. Through AIIB China has the means to finance projects requiring steel as well as the ability to coerce customers to use Chinese construction firms to complete the work. OBOR projects would provide distribution network. Means of production, means of financing, means of distribution, means of employment; China could have all the factors to corner markets and if it wished, dictate prices and terms. Such an ability would give China significant leverage and competitive advantage, both of which would generate significant prosperity and increased influence to curb foreign influence. For those conditions to exist, China must face its core economic problem, a lack of demand for goods and services. In pushing outward, it has sought to solve that very problem.

Since Xi Jinping's announcement of OBOR in 2013 and 2014 respectively, the Chinese Government has taken aggressive steps to create a foreign demand. From 2010 to 2015 the value of contracts held by Chinese construction firms has almost doubled reaching \$160.7 billion.<sup>83</sup> In conjunction with a rise in foreign contracts has also been a rise in Chinese labor abroad. In 2009, the Chinese government reported 450,300 citizens working abroad. Over the following six years later the number increased by 37% to 618,300.<sup>84</sup> What China could not find within its borders, it seems to have found on the outside. In total, Chinese overseas direct investment grew extensively from 2009 to 2015. At the end of 2009, Chinese investors and corporations have a total of \$56.5 billion invested abroad, by 2015 that number was \$145.7 billion and trending upward.<sup>85</sup> (Figure 4 depicts Chinese overseas direct investment trends.) With the 2016 opening

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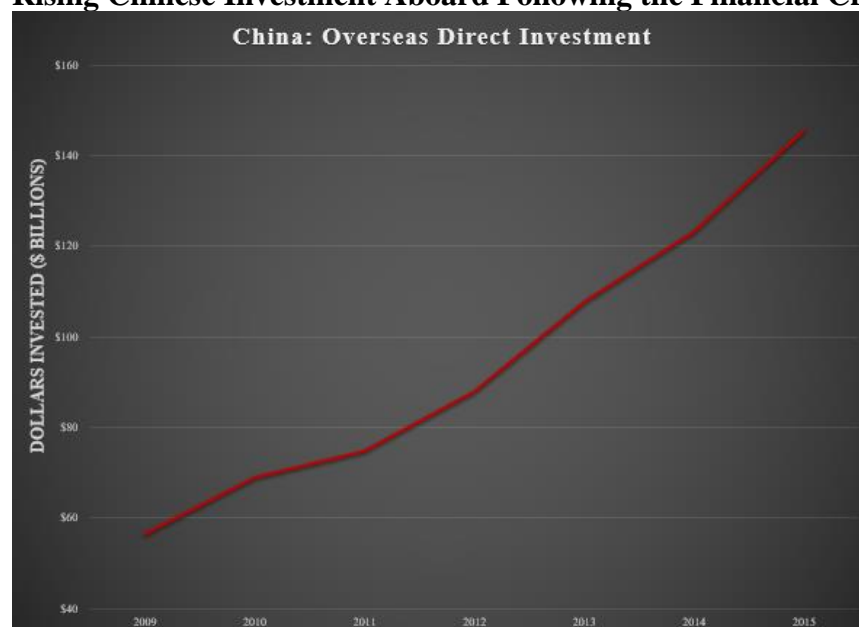
<sup>83</sup> National Bureau of Statistics of China, "Overseas Contracted Projects," National Bureau of Statistics of China, accessed November 22, 2017, <http://www.stats.gov.cn/tjsj/ndsj/2016/indexeh.htm>.

<sup>84</sup> National Bureau of Statistics of China, "Overseas Labor Services," National Bureau of Statistics of China, accessed November 22, 2017, <http://www.stats.gov.cn/tjsj/ndsj/2016/indexeh.htm>.

<sup>85</sup> National Bureau of Statistics of China, "Overseas Direct Investment," National Bureau of Statistics of China, accessed November 22, 2017, <http://www.stats.gov.cn/tjsj/ndsj/2016/indexeh.htm>.

of the AIIB to facilitate such transactions, China's push outside its borders to seek economic opportunity will undoubtedly continue.

**Figure 4. Chinese Overseas Direct Investment, 2009-2015**  
**Rising Chinese Investment Aboard Following the Financial Crisis**



*Source: National Bureau of Statistics of China*

China's push beyond its borders came at a time when poor global economic conditions threatened its internal stability. Growth had slowed, returns on investment had fallen, and excess industrial capacity mounted. The strategic rebalance to Asia by the United States rekindled fears of external meddling deeply rooted in Chinese history. The fear was not only foreign influence seeking to destabilize China itself, but its periphery regions that could threaten its territorial integrity. Its solution to begin large scale investment abroad through One Belt, One Road provided a solution to increase demand for Chinese goods and services which in turn would guarantee production and the livelihood of its citizens (domestic stability). The Asian Infrastructure Investment Bank became a vehicle by which it could begin to write the rules for a financial system it saw as controlled by the west, in favor of the west (freedom from foreign influence). The combination of OBOR and AIIB provided an infrastructure solution to unstable countries in the region to help spur their development and bolster not only the economy of China

but the region. With a stable, prosperous region, China can feel a sense of ease within its borders (territorial integrity). China's bold decision to push beyond its borders using its economic instrument of national power was undoubtedly based on its desire for internal stability, territorial integrity, and to gain leverage to curb foreign influence.

#### **IV. Future Implications**

##### *Military Growth*

China's economic push beyond its borders has been one that seeks new markets to sustain growth and satisfy a lack of domestic demand. Chinese leadership has on numerous occasions stated the goal of OBOR is one of peaceful regional development. Despite China's statements to only seek peaceful economic development, are there further second and third order implications of this strategy? James Holmes of the US Naval War College, through his analysis of Alfred Thayer Mahan's work on geopolitics, concludes that commercial, political, and military

influences are linked.<sup>86</sup> Despite intent, a natural progression occurs. Commercial interests, as they grow, require governmental engagement to facilitate access and protect interests. As this political engagement creates greater access spurring foreign investment, some military presence is required to secure those interests and deter potential adversarial interference. China has begun to follow this trend. The maritime domain reflects this. Over the past decade or so Chinese firms have invested heavily in overseas ports to build sea lines of communication for shipment of raw materials to drive industrial production and energy resources to fuel factories. China has announced or completed \$46.6 billion over 40 port projects. The top five are Bagamoyo, Tanzania (\$10 billion), Colombo and Hambantota, Sri Lanka (\$3 billion), Ashdod and Haifa, Israel (\$2.9 billion), Madaya Island, Myanmar (\$2.5 billion), and Darwin, Newcastle, and Melbourne, Australia (\$2.2 billion).<sup>87</sup> With China's economic push outward there has been an increase in political engagement abroad demonstrating the progression of commercial interest to political influence. Xinhuanet reported in 2016 that over the course of four years, 2012-2016, Xi Jinping conducted 24 tours abroad totaling 154 days.<sup>88</sup> The third segment of the sequence, military influence, has recently begun to emerge. In addition to the recent efforts to modernize the PLA Navy, China opened its first foreign naval base in Djibouti in 2016. Given China's significant investments in Africa and the instability in the region, it is natural to extrapolate the need for a military deterrent in the region. As China's commercial interests in the Asia-Pacific region continue to grow through OBOR, their political and military influence will follow suit. They follow suit not because of a devious plan, but a natural progression. China scholars

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<sup>86</sup> James R Holmes, "Strategic Features of the South China Sea: A Tough Neighborhood for Hegemons," *Naval War College Review* 67, no. 2 (2014): 32,

<https://search-proquest-com.lomc.idm.oclc.org/docview/1514370903?accountid=14746>.

<sup>87</sup> Mercy A. Kuo, "The Power of Ports: China's Maritime March." *The Diplomat*, March 8, 2017,

<https://thediplomat.com/2017/03/the-power-of-ports-chinas-maritime-march/>.

<sup>88</sup> Xinhua, "Xi Jinping's 154 Days of Foreign Tours," *Xinhuanet*, December 30, 2016,

[http://www.xinhuanet.com/english/2016-12/30/c\\_135944763.htm](http://www.xinhuanet.com/english/2016-12/30/c_135944763.htm).

Christopher Yung and Ross Rustici from the Center for the Study of Chinese Military Affairs (CSCMA) further support this argument. In their work, *Not an Idea We Have to Shun: Chinese Overseas Basing Requirements in the 21st Century*, they examine the increasing operational requirements of the PLA Navy and China's historical and projected approach to providing logistical support to their maritime fleet. Yung and Rustici conclude China's current dual use port facilities are unlikely to be able to support combat operations and future construction of military facilities in the Indian Ocean would be vulnerable to air and missile attack.<sup>89</sup> Their conclusions support the assertion that China's naval base in Djibouti is linked not to a desire to conduct major combat operations but a desire to provide limited logistics to naval vessels securing economic interests. In the future, given China's economic expansion efforts, foreign commercial interests will grow as well as the need for political engagement to create opportunity and military presence to provide security. The world will continue to see more of China beyond its borders.

#### *A Regional Leader*

The question of how far Chinese influence will expand is one best viewed through a realist lens. Anything China does must be in the best interest of China. What will ensure its internal stability, territorial integrity, and minimize external meddling to allow for the continued rule of the Chinese Communist Party? Large scale world domination does not equate with these ends. Opposition to hegemony is a concept written into its constitution. Being the superpower would undoubtedly come with diminishing marginal returns. China would no longer be able to

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<sup>89</sup> Christopher Yung and Ross Rustici, *Not an Idea We Have to Shun: Chinese Overseas Basing Requirements in the 21st Century*, China Strategic Perspectives, no. 7 (Washington, DC: Center for the Study of Chinese Military Affairs, October 2014), 1-2.  
<http://ndupress.ndu.edu/Portals/68/Documents/stratperspective/china/ChinaPerspectives-7.pdf>.

pick and choose where and when it engages; it would be expected to divert its sovereign wealth to assist others with no potential for return. Its business practices, human rights record, and social construct would be subject to even greater scrutiny. In seeking to maintain the world order, it would need to be willing to use military means for ends that do not necessarily threaten its core interests. Being the global power brings with it many costs and not enough benefit. China benefits handsomely from the current order into which it must pay little. What China seeks is to become the regional leader in Asia. It seeks to create a regional order where it has the greatest influence and can use that influence to create its own institutions, under its own set of rules to create a prosperous China. There are those who argue China's real strategic goal is to become the world power pushing the United States aside. The preceding evidence and arguments in this paper demonstrate a much less grim reality. China's strategic end state is a China characterized by territorial integrity, internal stability and free from foreign influence.

#### *China's Use of Force*

China has outwardly stated few interests it is willing to engage in armed conflict to protect. Its core interests, such as Taiwan and Tibet are two of those limited examples. In the future, however, its increasing reliance its foreign activities to fuel its economy may become more sensitive than ever before. Infrastructure projects and acquisition of energy and raw materials have become increasingly more integral to sustaining Chinese economic growth and ensuring domestic stability. In the future, if countries seek to compete forcefully against China's economic interests, the Chinese will most likely use economic coercion and diplomatic efforts as a first attempt to resolve the situation. The greater the perceived threat, and the perceived loss by China, the more willing they will be to escalate the situation. China will always weigh the costs of additional action against what it has to gain or lose. China would treat a trade deal which

decreases China's exports by a small margin much differently than an action which cuts off China's ability to source foreign energy supplies. In the future, China's will measure its response to threats. While some would argue China's military modernization demonstrates an intent to react otherwise, its history in settling territorial disputes differs. In Taylor Fravel's analysis of China's use of force, he notes it has a track record of compromise rather than conflict. From 1949 to 2007 China only used force in six of 23 territorial conflicts. He also concludes China "has been less belligerent than leading theories of international relations might have predicted."<sup>90</sup> China's response to threats will be proportional at best and, depending on the perceived impact to its core interests, may escalate to include the use of force as a last resort.

## V. Conclusion

Critics may argue China seeks to dominate the global world order by implementing a master plan. Elements that underpin Chinese strategic thought, territorial integrity, internal stability, and freedom from foreign influence provide a different context. It is a context indicative of a nation oriented domestically. China, as a civilization, is old, but the People's Republic of China, born of the Chinese Communist Revolution is still in its infancy. It continues

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<sup>90</sup> M. Taylor Fravel, "Power Shifts and Escalation: Explaining China's Use of Force in Territorial Disputes," *International Security* 32, no. 3 (Winter 2007): 44-45. EBSCOhost (28531831).

to attempt to find its economic balance through trials and tribulations. China's One Belt, One Road initiative and its economic push beyond its borders was a solution to slowing domestic economic growth and concerns over foreign influence in the region. Falling yields on US Treasury Bonds precipitated the need for other, more lucrative investments. Slack demand for materials such as iron, steel, coal, and cement created excess industrial capacity in need of new markets. China's policy of urbanization to create a labor force to drive production compounded the necessity to seek these new markets. It found the answer in the in a push beyond its borders. OBOR's creation of the 21<sup>st</sup> century silk road has the potential to satisfy China's continued growth needs and bring prosperity to the Chinese people. Through the AIIB it can create conditions for China to sit in a dominant position in the region, creating leverage to offset foreign influence. China's outreach to the world, thus far, has been largely economic. It has begun to create foreign demand for goods and services, to sustain its own domestic growth goals. Only through domestic growth, will China be prosperous. The prosperity of the Chinese people will calm the populace, build nationalism, and underwrite internal security and stability. As developments in regional trade infrastructure take hold, the prosperity will move beyond China stabilizing neighboring nations, protecting territorial integrity. Trade will encompass the region; economies will become interdependent with China at the helm. Through the success of the AIIB, China will gain leverage and write the rules of a regional order to its own favor, curbing foreign influence in the region. It is through the skillful use of the economic instrument of national power that finds answers to strategic problems of the past, internal stability, territorial integrity, and freedom from foreign influence. It is through economics that China's ultimate goals, regional leadership and the sustained power of the Chinese Communist Party, will be realized.

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