STRATEGIC TRENDS 2012

Key Developments in Global Affairs

Editor: Daniel Möckli

Series Editor: Andreas Wenger

Authors: Myriam Dunn Cavelty, Jonas Grätz, An Jacobs, Prem Mahadevan, Daniel Möckli
China’s recent economic growth has been spectacular, and has helped the country build its military muscle. Whether the Asian giant can continue rising peacefully is questionable, however. China’s growth model will hardly be sustainable as Western demand declines. Adapting it without weakening domestic political cohesion will be difficult. With nationalist sentiments increasingly affecting China’s foreign policy, concerns about its geopolitical ambitions are mounting across the Asia-Pacific region. In this context, the US is positioning itself as a long-term stakeholder in the regional balance of power, a stance Beijing interprets as hostile.
The notion that the global balance of power is shifting from West to East has been prevalent for some years now. What is new is the sharp focus that the discourse on this shift has acquired – the notion that one country, above all others, is fast becoming a global power. That country is the People’s Republic of China. With sustained annual economic growth of nearly 10 per cent since 1978, China has lifted half a billion people out of poverty. It has become the world’s second-largest economy in terms of nominal GDP (and the largest in terms of purchasing power parity). It has the world’s largest army and is the world’s largest exporter.

This Sino-centric assessment of global power redistribution dovetails with that of Chinese analysts themselves, albeit with a nuanced difference. To the latter, China is not so much ‘rising’ as it is regaining its natural importance in the world order – a position from which it was ousted by Western aggression in the 19th century. Thus, while the West sees China’s rise as a ‘game-changer’, Chinese interpretations view it as a benign resurgence. Both agree on one central point: After the United States, China is the most prominent power in the current international system and the one with the greatest potential to reshape world politics.

This chapter argues that the rate of China’s further rise is not as assured as experts sometimes assume. The country’s transformation has thus far been achieved under unique politico-economic conditions, which might not continue to hold good in the future. The Chinese economy, being export-dependent, cannot escape the negative effects of the global economic downturn, even if these effects are somewhat delayed. Another crucial factor that has driven both Western and Chinese assessments of the redistribution of global power, namely, China’s political cohesion, remains untested. Already, civil unrest against burgeoning state corruption and income disparity is posing an ever-present challenge to political stability. If such unrest were to gain more momentum, or even if fear of such an escalation were to permeate Chinese decisionmaking, the country’s continued rise would be neither assured nor peaceful. Finally, China’s ascent may also be partly stunted by its limited quantum of ‘soft power’. Even if some developing countries admire the efficiency of the Chinese model, replicating it will probably prove to be beyond their capabilities.

Although China is likely to remain extremely important to the global power balance and will avoid a drastic downturn in its economic fortunes,
the country may now be nearing the zenith of its international trajectory. The danger is that growing domestic pressures resulting from structural impediments on China’s continuing rise may further nourish nationalist and xenophobic sentiments in the country and translate into a more assertive foreign policy. Against the background of Beijing’s expanding claims in the South China Sea and the growing capabilities and political influence of the Chinese military, a period of tension may well be in the offing in the Asia-Pacific region. Even as multilateral economic and security cooperation continues to accelerate in Asia, and even as Washington and Beijing emphasise the need for partnership, the US and other Asian powers seem to be gradually embarking on a balancing policy against China. What they are apprehensive of is not so much a rising China, but a China that first overestimates its own ability to continue ascending and then subsequently refuses to scale down its geopolitical ambitions.

**Limits to China’s rise**

Between 2001 and 2008, the Chinese economy tripled in size. This in itself was a significant acceleration of growth, since the economy had already doubled every eight years since 1978. Prior to reforms introduced by the Communist regime in that year, the economy had grown at a moderate rate of 4 per cent between 1952 and 1978. Such a rate could be called ‘healthy’, given that China experienced economic and political turmoil on a massive scale between 1958 and 1978. First, in 1958–61, the country embarked upon a collectivisation effort known as the ‘Great Leap Forward’. Intended to make China self-sufficient in industry, it led to the biggest famine in recorded history, with between 30 and 45 million people dead. Damage to property was incalculable.

Political infighting over the failure of the Great Leap Forward subsequently prompted China’s paramount leader Mao Zedong to launch a purge within the Chinese Communist Party (CCP). Known as the ‘Cultural Revolution’, this purge left China convulsed in factional warfare for another ten years (1966–76). Dissident party leaders were eliminated by Mao loyalists, while millions of Chinese citizens were persecuted for not being sufficiently militant in their political views. After Mao’s death in 1976, survivors of the purge took control of the party. Foremost among the new leadership was Deng Xiaoping, who introduced economic reforms.

From 1978 onwards, the CCP exercised tight but unofficial control over the economy through party cells embedded in corporate management
bodies. This ensured that China’s economic liberalisation never became as comprehensive as foreign investors initially assumed it would. The investors pumped money into a country where overt state intervention had decreased not because of a trend towards political inaction, but rather because of constant regulation through shadow bureaucracies. An informal understanding was forged, requiring foreign investors to share technology and specialised expertise with Chinese counterparts, in exchange for access to the local market. Over time, this increased the domestic competitiveness of the partnering firms to such an extent that they were able to block foreign businesses from further expanding their share of the market.

Tight regimentation of commerce introduced a high degree of discipline into the Chinese economy, which meant that major economic shocks were avoided. The most profitable sectors remained under state ownership in various guises. These included energy, steel, and telecommunications. By ensuring that foreign access to these industries was limited, the regime prevented the emergence of well-funded rival power centres in the form of corporate elites. Any private business interests that did come up did so in conformity with the CCP’s dictums, not in spite of them. State control over the most lucrative industries and senior-level personnel appointments thus bred macroeconomic stability.

China’s recent economic surge

GDP in current US$ bn

Source: IMF, World Economic Outlook Database, September 2011
An unsustainable economic surge

The last ten years have been exceptionally kind to the Chinese economy. Having joined the World Trade Organisation in 2001, it has grown to dominate global exports due to low labour costs, good infrastructure, easy availability of credit, and an undervalued currency. However, its current trajectory is predicated on the extent of international consumer demand, which has weakened following the sub-prime and Eurozone crises in the West. Initially, Beijing sought to bypass this downturn by spending massively on infrastructure creation, but that has now led to over-capacity in production. Unless Chinese exporters lower prices to levels that would wipe out all profits, they may not be able to expand their overseas market share much further. A supply glut would cause surplus stock to build up, forcing some businesses into bankruptcy. This poses a problem for the Communist regime, as a slowdown in manufacturing would lead to mass unemployment, something a government bereft of popular legitimacy cannot afford.

Maintaining production at current levels would require increasing domestic consumption, which requires eliminating many of the factors that have kept the Chinese economy internationally competitive. For instance, wage rates would have to be raised so that disposable incomes can rise, interest rates would have to go up so that savers can be confident of high returns upon retirement and thereby spend more freely, and the renminbi would have to be allowed to appreciate so that consumers can have greater buying power. All of these steps would make Chinese exports more expensive to foreign consumers and raise the cost of doing business within China. In other words, a slowdown simply might not be avoidable.

At present, the regime is forced to implement a structural adjustment of the economy that would ideally unfold over some years, but which has to be compressed into a shorter timeframe due to the magnitude of the West’s economic troubles. Ironically, the same factor that has projected China onto the global stage as a rising power – its strong economic growth amidst a general downturn since 2007 – is now in danger of being adversely affected by that same downturn. There is widespread apprehension that growth could slow after 2012. Aware of this, the government has begun raising interest rates and deflating a real estate bubble caused by years of speculative investment. However, it remains apprehensive of anger from the middle class, which has invested heavily in property. A controlled slowdown of
the economy is thus likely, unless the international economic situation drastically improves in the next year.

Foreign investment, hitherto considered central to economic growth, might only provide short-term relief. It is unlikely to be a sustainable solution in the long term. Over recent years, Western investors have complained about widespread intellectual property theft by Chinese companies. Beijing has been relatively complacent about the issue, having calculated that a bankrupt West needs China more than China needs the West. Such confidence is justified, for now. However, it is not certain that over the next decade, foreign investors will remain strongly attracted to a market that is only semi-transparent and heavily biased in favour of local commerce. In the event of a slowdown, they might be disappointed by the returns to be obtained from investing in China. For its part, China’s success as an exporter has been based upon its ability to combine local quantitative advantages with Western qualitative superiority in industrial design. It cannot retain its position as the world’s biggest exporter without technical assistance from the West. By themselves, Chinese industries have shown limited capacity for innovation, due to an education system that privileges rote learning over critical thinking. This has prevented them from acquiring a reputation for high-quality manufacturing and so constrained their capacity to go it alone in the international market.

Domestic challenges
Perhaps the most important factor upon which China’s image as a great power hinges, is domestic stability. Since 1989, when the CCP regime used troops to suppress widespread protests, China has been relatively free of political turmoil. Its success in resisting democratisation has projected it as internally even stronger than the former Soviet Union. Beijing has outlasted successive waves of anti-authoritarian protest that swept over Communist and former Communist states in China’s immediate neighbourhood. However, it has done so through relatively subtle methods of domestic surveillance and has not had to resort to massive repression after 1989. Owing to this, it has garnered grudging respect for its ability to preserve internal order.

Even so, the key to understanding the lack of large-scale political tension within China is the implicit bargain within that the ruling CCP elites have struck with their subjects. In return for policies that favour economic growth, the Chinese middle and working classes do not protest against abuses of official power, except when the perpetra-
tors are relatively junior CCP officials. The party, for its part, occasionally sacrifices minor functionaries through anti-corruption investigations in order to assuage public anger and protect the top leadership. This approach has worked since the 1990s, while the economy was growing massively.

However, it might not prove tenable in the event of an economic slowdown. China already suffers from societal strains caused by rampant corruption. The considerable autonomy to conclude business deals that Beijing has granted to provincial governments has resulted in free-for-all competition aimed at attracting investors. Local bureaucrats have been known to forge backhand deals with commercial enterprises at public expense in order to undercut rivals in other departments and bolster their own career prospects. Growing public awareness of this phenomenon poses a threat to the CCP regime, since it impinges on the party’s claim that its rule is efficient and beneficial for the country.

Within the interior provinces, peasant disillusionment with the party is being fuelled by alleged cases of land-grabbing by government officials acting on behalf of commercial interests. One estimate suggests that 60 per cent of public protests in China are connected with illegal land acquisition. On rare occasions, the issue has exploded into terrorist violence perpetrated by individual protesters who succeeded in acquiring bomb-making skills. Incomes in rural areas are, on average, 3.5 times lower than in cities, creating a substantial wealth gap. In any case, poverty reduction in China...
has slowed. From 1993 onwards, the primary beneficiaries of economic growth have been urban elites, with a limited trickle-down effect among the middle class. The condition of the rural poor remains relatively unchanged. If the state now proves unable to raise living standards in urban areas as well, public unrest could increase. Indeed, there are indications that the number of socio-economically driven protests has already started to mount. Add to this the growing challenges China faces in preserving stability in some of its border regions (see below), and the resulting impression is that of a rising power increasingly vulnerable from within.

Limits to Chinese ‘soft power’ overseas
With its rapidly expanding commercial footprint across Africa and the Middle East, China is seen as a major international player. Trade with Africa alone has increased by 1,000 per cent in the last decade. Some analysts are concerned that China’s economic success, combined with its resistance to democratisation, could lead to the formation of a neo-autocratic bloc among developing nations. Fears of a ‘Beijing Consensus’, substituting state-led economic growth for political freedom, are being articulated in Western capitals. With democratically elected leaders struggling to deliver rapid socio-economic change in many poor countries, local elites might be tempted to opt for the Chinese model of ‘development without democracy’.

Such concerns are not entirely baseless, but they should not be exaggerated either. China itself has not shown keenness to export its model of governance overseas, sticking instead to a stance of non-interference in the internal affairs of foreign powers. This has won it goodwill, albeit primarily among states that were already suspicious of Western dominance to begin with. Beijing’s willingness to enter into trade deals regardless of the political nature of its partners is an indication of pragmatism rather than deliberate subversion. It has offered obviously authoritarian regimes, such as that of Robert Mugabe, a commercial alternative to the West. Within more democratic contexts, it has allowed corrupt elites to reap the electoral benefits of infrastructure creation while bypassing Western demands for better governance standards. However, this does not necessarily mean that such elites would choose to abandon democratic politics. Still less does it imply that they would climb on the Chinese bandwagon in defiance of Western wishes, even if Beijing wanted them to.

This is because most developing countries cannot hope easily to
emulate China’s model of economic development, which is derived from several context-specific factors that help in unobtrusively suppressing civil disturbances. These factors include extensive surveillance capacity, vast geography, cultural insularity, and linguistic barriers to communicating with the outside world. It would be harder for a less authoritarian regime than China’s to achieve the same degree of efficiency at suppressing labour unions or public unrest against corrupt business transactions. A high economic growth rate requires lowering entry barriers to foreign businesses, which would bring with it the risk of political contamination in a geographically smaller country than China. Furthermore, few states can be as easily closed off to outside influence as China, due to cross-border cultural linkages. The 2011 ‘Arab Spring’ partly proves this point: Dictatorial regimes in Tunisia, Egypt, and Libya were unable to suppress domestic dissent unobtrusively without inviting attention from media networks in other Arab states.

Secondly, China has started suffering from the same malady that led to its own split with the erstwhile Soviet Union in the early 1960s, namely, that of unrealistic expectations. Complete economic dependence upon a single patron is likely to produce disappointment, as many African states are finding out. The September 2011 election of an avowedly anti-Chinese politician to the presidency of Zambia is a case in point. Cashing in on popular resentment against cheap and allegedly low-quality Chinese manufactured goods, as well as the absence of a trickle-down effect from Chinese investment in the copper industry, the new Zambian government looks set to tighten regulations concerning trade with China. The same trend is occurring elsewhere in Africa, albeit in less pronounced forms. Governments are becoming aware of trade deficits that favour China and lead to increasing unemployment caused by the poor competitiveness of local manufacturers vis-à-vis Chinese imports.

Lastly, China has an extensive commercial presence across the globe, but this does not necessarily translate into mass political appeal. Beijing’s position on international law – that it is a set of norms and rules crafted by Western countries to serve their own interests – has limited resonance in many post-colonial developing states. Such states see practical benefits in maintaining ties with the West, if only to extract development aid. Unlike the US, China also faces difficul-
ties in projecting its soft power. Merely setting up Confucius Institutes (over 500 in 87 countries) does not erase the challenges associated with justifying the Chinese regime’s position on human rights. Such institutes have been criticised both within and outside China for overemphasising traditional Chinese culture without being able to provide a convincing rationale for the country’s current authoritarian nature.

At present, China’s participation in multilateral efforts to resolve global governance problems is considered essential, and rightly so. However, China itself has only enough material power to block solutions that it does not wish to support, but seems to lack an alternative vision of global governance to push forward. It does not have the capacity to shape solutions in accordance with its own preferences and ensure their acceptance by the international community. Following its veto at the February 2012 UN Security Council debate on Syria, appreciation of its stance on non-interference in the domestic affairs of sovereign states is also starting to wear thin. Many countries that have long been favourably disposed towards China have started to perceive that its foreign policy is based not so much on moral principles as much as on the narrow prioritisation of Chinese interests.

A more nationalistic and militarised China

In view of the growing challenges Chinese leaders face in securing long-term economic growth and preserving domestic stability, there are signs that the CCP will increasingly resort to militant nationalism as a means of defusing criticism and fostering national unity. While this in itself is not a new trend, the scope and intensity of Chinese nationalism is bound to expand. This will likely affect Chinese foreign policy.

Fertile ground for a nationalistic turn

The CCP began to stoke nationalistic fervour more than two decades ago. The regime’s abandonment of Communism in the late 1970s bred an ideological vacuum that was deeply unsettling to many Chinese. Events in 1989 showed that unless this vacuum was filled, pressure for political reform could build up against the regime. To forestall this eventuality, the CCP has promoted a kind of nationalism that has been tinged with xenophobia. The latter has become an important tool of its strategy of political control, since it has allowed the regime to denounce pro-democracy groups as foreign agents. Democratisation is portrayed in official Chinese discourse as an instrument of Western subversion, intended to promote social instability in China and derail its
protesting monks in Tibet have upset the tenuous control exercised over these regions. Since the resource-rich frontier provinces of China account for just 10 per cent of its population, but more than 60 per cent of its territory, Beijing is extraordinarily sensitive about disturbances in these areas. Any large-scale political turmoil could spill over into the Chinese heartland, either in the form of anti-regime protests or Han chauvinism against ethnic minorities. For this reason, the CCP

China: Core vs. frontiers

- **Core**
- **Frontiers**
- **Separatist conflicts**
has long taken a stance that domestic instability is a result of foreign designs against Chinese sovereignty. A threat narrative has been constructed that casts the West and Japan as indirectly responsible for disturbances in the country by encouraging separatism.

The threat narrative rests upon a historical foundation that is partly factual and partly fanciful. It highlights the Western and Japanese invasions of China and describes the country’s national past in terms that have been disputed by several scholars. China, according to this narrative, has long been a united country bound by civilizational homogeneity. Any political divisions that occurred during the last two millennia were aberrations. This view has been officially espoused by CCP historians in order to validate the party’s own claim to power and project it as a unifying force that continues to hold China together, following the tradition of the country’s great imperial dynasties. It has however, been contested by academics, who suggest that China has led a fractured existence for most of its history. They argue that the country’s present borders greatly exceed its civilizational core, particularly with regard to Xinjiang and Tibet. Present-day China, according to them, is an internally fragile country in need of a shared past that is being concocted by CCP propagandists.

The West has unwittingly become a victim in the CCP’s attempt to rewrite Chinese history in terms flattering to the party. As per the CCP’s official interpretation, China was last divided against itself by Western intrigues that started with the First Opium War in 1839. Since that was also when outlying provinces of the county broke free of central rule, separatism or any other kind of internal dissidence has since become associated with foreign subversion in Chinese political discourse. The 1989 uprising coincided with the 150th anniversary of the First Opium War, thus providing the CCP regime with an opportunity to fashion a xenophobic narrative and anoint itself as protector of Chinese sovereignty. As part of this process, Japan, with whom the regime had long maintained friendly relations, was abruptly recast as a historical adversary of China, alongside the West.

If the CCP seems set to fuel nationalistic sentiment further in the years ahead, this is not just because it will have to cope with the limits of China’s rise. Rather, the CCP will also have to accommodate those who believe that China’s rise is unlimited. Over recent years, domestic pressure has been building up for the CCP to take a more uncompromising stance on foreign policy issues. Such pres-
sure emanates from sections of the military as well as radical elements within the student community and the professional class. Since the failed uprising of 1989, Chinese society has been indoctrinated to view China as a historically wronged power that has only just began to reclaim its rightful international status. According to this narrative, China has been a great power for the last two millennia, and its resurgence is inevitable. Having replaced the Soviet Union in the superpower league, the country needs to assert its national interests in the face of determined opposition by status quo powers.

This narrative has produced an undercurrent within Chinese politics that reduces the CCP’s flexibility in foreign policy. The party now runs the risk of being accused of capitulationism whenever it seeks to resolve differences with foreign powers through compromise. On such occasions, it is made to feel the brunt of public anger, indirectly expressed in patriotic terms. Since direct criticism of the regime is a political crime, a legion of ‘patriotic dissenters’ with an active Internet presence regularly hits out at the CCP for not living up to its own militaristic ideals.

Having stoked militant nationalism in order to deflect domestic resentment over its rule, and being pushed to play the nationalism card ever more frequently, the CCP needs to be careful that such a course does not scare away foreign investors. The result is a dilemma that the CCP usually navigates past on the basis of legal techni-

**China’s perceived return to greatness**

Share of global GDP over past 2000 years

![Graph showing China’s share of global GDP over past 2000 years](source: Maddison, The World Economy: A Millenial Perspective 2001)
calities: It takes the position that while nationalist demonstrations against foreign powers (usually carried out near embassies) are legitimate, such protests should not disrupt public life. What this means in effect is that once the protestors have had their say, they are expected to disperse rather than start criticising the government for not changing its foreign policy. In this way, China’s patriotic dissidents are accommodated within the authoritarian state structure. How long this bargain will hold remains an open question.

**Growing role of the military**
The surge of Chinese nationalism is all the more troubling since it has been accompanied by a parallel trend: a growing role of the Chinese military in foreign affairs. Over the past two decades, civilian heads of state have essentially bought peace with the military through substantial yearly increases in defence spending. Initially started under Jiang Zemin, this policy has continued under his successor Hu Jintao. Both ascended to the position of CCP chairman as technocrats with no credibility within the military establishment. Unlike their battle-hardened predecessors Mao and Deng, they could not browbeat the military leadership by claiming a distinguished war record. Their way of controlling the military, therefore, has been to accommodate its wishes, first on promotions, then pay increases, and finally, force modernisation.

During 2001–11, China’s defence budget increased annually at an inflation-adjusted rate of 12 per cent. Initially, most of the additional funds went towards improving living conditions for military personnel and their

**China’s military expenditure 1989–2010**
Constant US$ m (figures are based on estimates)
welfare benefits. Of late however, these funds have been put to use preparing for a possible military confrontation with the US, most likely over the status of Taiwan. What is more, Hu has expanded the military’s role in security affairs from a narrow focus on defence policy to broader issues relating to foreign policy.

The new mandate is ostensibly based on the assessment that, as China develops global interests, the military will need to play a more active role in force projection and protecting trade routes. It might well be, however, that the real reason is domestic: Since 1992, there have been quiet tensions in Chinese civil-military relations. That year, two senior People’s Liberation Army (PLA) generals were ousted from office, allegedly for planning a coup. From then onwards, the CCP has annually hiked defence spending in double-digit percentage terms. In the process, it has prodded the military into gradually distancing itself from domestic politics. This trend has dispensed with the Maoist model of civil-military relations, which held that the PLA was the enforcement arm of the CCP and would thus be closely involved in the country’s internal affairs.

At any rate, there is a broad consensus among analysts that the military’s power in China has increased considerably relative to the civilian foreign ministry. In part, this is due to an objective diminishment of the ministry’s influence due to the recent proliferation of interest groups and lobbies within the Chinese decisionmaking apparatus. The Ministries of Commerce and Energy, for instance, have pushed forward their own agendas as a result of burgeoning trade relations and concerns over energy security. However, the PLA’s role stands out in that it makes the case for a more assertive foreign policy.

The PLA has increasingly focused on training for and adapting to conventional inter-state warfare in recent years. Its preoccupation with a potential conflict with the US has also shaped Chinese military doctrine. The PLA has realised from studying the 1991 and 2003 Gulf Wars and US naval manoeuvres near East Asia that it cannot hope to win a head-on battle with the US, whose superiority across the spectrum of military operations is too great. China’s military buildup, though sophisticated by the standards of the developing world and enormous by any standards, still qualitatively lags behind the operational capabilities of most Western armies. Therefore, the PLA has developed an elaborate doctrine that aims to hit the US where it would be most vulnerable to disruption: in intelligence and
logistics. Under its so-called ‘anti-access doctrine’, the PLA has developed weapons systems that would deny sea-borne US forces an operational base near China in the event of a war. Anti-ship ballistic missiles such as the DF-21D would be targeted at US vessels steaming towards a conflict zone, while other missiles would wreck Asian ports that might be used by US forces. Meanwhile, cyber-measures and anti-satellite systems would disrupt the command-and-control mechanism of the US military, which relies upon secure real-time communications in order to maintain central control of combat forces over long distances.

Through a high-tech version of asymmetric warfare, the PLA hopes to make a military engagement in Asia ruinously expensive for the US. The anti-access doctrine, in keeping with Chinese military thought, is viewed by the PLA as being purely defensive, intended to prevent the US from bullying China. It challenges US military power not at the global level, but at the regional level. Its use would occur in situations where China feels its legitimate interests threatened by Western powers that it sees as inherently aggressive and hegemonic. Crucially, the doctrine does not violate the ‘peaceful rise’ commitment made by top-ranking Chinese leaders in 2003–5, which emphasised that China would not challenge US dominance in world affairs. East Asian affairs are a different matter, however, as per the logic of PLA strategists. They feel that the US has no business maintaining a military presence in East Asia. With the Cold War long over, they want Washington to scale down its profile in the region.

Security implications

Perhaps despite the intentions of CCP leaders, the combination of militant nationalism promoted by the party and the PLA’s increased profile in making foreign policy has already led to changes in Chinese behaviour. These changes are felt at both the global level and the regional level. They are likely to become more pronounced in coming years.

Starting with the global level, there is a real danger that PLA behaviour may lead to a deterioration of Sino-US relations. In general, the Chinese military has been more exuberant about the prospects for China’s continued rise than civilian analysts. The latter estimate that, with its economy still developing, China will have to wait until at least 2060 before it would be in a position to challenge the US. Conversely, there is a perception among members of the Chinese military leadership that the US is in terminal decline. Having discerned that US soft power has reduced since
the 2003 Iraq War – a trend thought to have been accelerated by the 2008/9 financial crisis – they believe that the US no longer has the right to criticise China for being assertive. Furthermore, they believe that it will gradually become possible for Beijing to begin dictating terms to Washington in the medium term.

Early manifestation of such sentiments occurred in February 2010, when senior PLA officers suggested that China punish the US for supplying weapons to Taiwan by selling US Treasury bonds. More than the actual substance of this proposal, it is the flawed logic underlying it that is disturbing. Firstly, China holds just 8 per cent of US sovereign debt, with over 70 per cent being held by US government agencies and private households. Therefore, the impact of dumping US bonds would not have been crippling. Secondly and more importantly, such a move would have harmed China more than the US, since it would have diminished the ability of US consumers to buy Chinese products.

The fact that some Chinese officials can misread the balance of economic power would not be worrying if similar overconfidence could be avoided in security issues. This does not seem to be the case, however. On at least three occasions, the PLA has already acted semi-independently of the civilian arms of government, escalating tensions with the US. The first was the EP-3 spyplane crisis of April 2001, when the PLA forced down a US reconnaissance aircraft. The Chinese foreign ministry was initially not even informed about PLA decisions during the crisis. The second was the January 2007 test launch of an anti-satellite weapon, which again caught the foreign ministry unawares and limited its effectiveness at addressing international concerns. The third was the January 2011 test flight of the J-20 stealth fighter, which occurred as US Defence Secretary Robert Gates was visiting China. It has been suggested that even Hu Jintao was not informed about the planned flight, hence its awkward timing. Seemingly indifferent to the impact of Chinese military posturing on international opinion, the PLA appears to have gradually developed a habit of occasionally contravening diplomatic efforts meant to emphasise the peacefulness of Chinese intentions.

The US, for its part, is not inclined to ignore these signs of increased Chinese military assertiveness. It has adopted a policy of ‘congagement’ towards China, combining elements of both containment and engagement. While it seeks to co-opt China into global governance efforts, such as...
nuclear non-proliferation and reducing the impact of climate change, it is also hedging against a potentially aggressive PLA by enhancing its military footprint in Asia and seeking to strengthen its network of bilateral alliances in the region. In November 2011, the US announced that it would base military aircraft in northern Australia and would also arrange to have 2,500 Marines stationed there. In January 2012, the Obama administration released new strategic guidance for the Department of Defense, according to which the US military will ‘of necessity rebalance toward the Asia-Pacific region’. The decision to expand its military presence in East Asia, at a time when defence spending is expected to contract, shows that the US is prepared to contest Chinese claims to regional dominance.

Regional tensions
Besides the US, there are at least two other major powers that are likely to resist any Chinese effort to establish an exclusive sphere of influence in East Asia. These are India and Japan. Both countries can claim to rival China on at least one measure of national power. In India’s case, this would be military power, while in Japan’s case, it would be economic power. Both countries have long-standing territorial disputes with China. Most importantly, in recent years, both have perceived a hardening of Beijing’s negotiating stance on these disputes. Indian analysts accuse the PLA of pressuring Beijing to abrogate a bilateral agreement signed in 2005 regarding a possible compromise on the border issue. Japanese policy-makers, meanwhile, insist that China has opportunistically reopened a dispute over the East China Sea – a dispute that had been left idling for several decades by mutual consent. They assert that Beijing’s changed policy stems from recent discoveries of hydrocarbon resources in the area.

Since 2009, Chinese rhetoric posturing has also caused alarm in Vietnam, the Philippines, and Malaysia. These countries are worried by China’s decision to include the South China Sea as a core national interest. Traditionally, the term ‘core interests’ has been applied to regions that China regards as integral parts of its territory and whose status is non-negotiable. Any foreign interference in these regions would be a trigger for war. Previously, there were only three such territories: Xinjiang, Tibet, and Taiwan. Now, however, Beijing has signalled that it is also prepared to assert its claim over the South China Sea by force. As an apparent demonstration of its resolve, it has intensified coastal patrolling in these disputed waters. In response, other claimants have increased their
defence spending substantially with a view to upgrading their naval strength. The US, while remaining aloof from the dispute at a general level, has repeatedly indicated that it does not support a unilateral expansion of the Chinese claim. These claims, if left unopposed, could massively increase Chinese territorial waters from the internationally recognised limit of 12 nautical miles offshore to over 200 nautical miles. The resultant disruption to shipping would greatly complicate US efforts to maintain a maritime presence in East Asia and would block off regional US allies from each other.

Acknowledging the concerns of its neighbours, Beijing has made efforts
to repair the damage that military assertiveness had caused to its image. It has toned down the stridency of its criticism over US aid to Taiwan and sought to reassure its southern neighbours that the South China Sea dispute can be peacefully resolved. However, it appears from diplomatic posturing at the November 2011 Asia-Pacific Economic Cooperation (APEC) Summit that a trust deficit has developed. While China seeks to minimise the US footprint in East Asia, regional players are determined to develop close security ties with Washington while simultaneously maintaining cordial relations with China and continuing to do ever more trade with it. Even Myanmar, long a client state of China, has made overtures to Washington, partly in response to domestic anger against allegedly exploitative Chinese commercial activities. By invitation, therefore, the US looks set to become an Asian power in the long term, in keeping with the wishes of its own leaders as well as those of regional allies.

At present, contradicting dynamics are shaping the Asia-Pacific region. On the one hand, intra-regional trade is booming, and a growing number of multilateral schemes have been set up to foster economic and security cooperation including both the US and China. On the other hand, there are signs of growing polarisation between Washington and Beijing in the region. To a significant extent, developments in China will determine the course of regional events in the years ahead. A combination of economic slowdown, militant nationalism, and an adventurous military could lead China to take an uncompromising stance on security issues. While this
The problem is that China does not seem capable of developing the economic, military, and diplomatic strength needed to rival the US as a world power. Should its strategic community refuse to accommodate the possibility that China might not ascend further, the risk of a military-led miscalculation would remain a possibility.