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# China in Xi's "New Era"

## A PLAY FOR GLOBAL LEADERSHIP

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For most of the four decades since Mao Zedong died in 1976, the foreign policy of the People's Republic of China (PRC) has served mainly as a tool to support the country's economic development. Deng Xiaoping, who became leader in 1978, understood that the Chinese Communist Party (CCP) could keep popular support only by delivering economic growth. Deng also knew that China, given its weakness, could ill afford to antagonize the rich Western democracies and risk losing access to their capital, technology, and markets. Although Deng, as would his successors, saw the Western democracies as a long-term threat to CCP rule, he calculated that the Party's short-term need to restore its tattered legitimacy after the catastrophe of Mao's Cultural Revolution (1966–76) made foreign-policy restraint the best choice. Deng himself summed up this approach just after the close of the Cold War: Observe calmly, handle without panic, hide your strength, build your capabilities, never pursue leadership, and seek accomplishments when opportunities arise.<sup>1</sup>

Until about a decade ago, Deng's successors closely followed this grand strategy. They hid China's strength, built its capabilities, and shied away from grabs for hegemony. As a result, China's relations with the West remained fairly smooth. Even though rapidly mounting Chinese capabilities stirred concern—China's GDP, measured in dollars, went from 6.2 percent of U.S. GDP in 1991 to 31.3 percent in 2008—Beijing managed to reassure the West in general and the United States in particular with pragmatic and relatively restrained external behavior.

Since 2008, however, the PRC's foreign policy has changed dramatically. The pace of this change has been uneven. At first, the shift toward assertiveness was gradual, calibrated, and subtle. Yet since President Xi

Jinping rose to power in late 2012, things have accelerated. Beijing's actions have become far more ambitious and confrontational. Most notably, Xi now unabashedly champions a foreign policy that is sharply at odds with Deng's warnings about hiding strength and not seeking leadership on the world stage.

Under Xi, who is not only state president but also head of the CCP and the military, China's grand strategy no longer centers on learning to live with the Western liberal order while taking advantage of its openness in ways that promote the development of the Chinese economy. Instead, that strategy has come to aim at undermining the Western liberal order while reaching for PRC hegemony in Asia and the expansion of Chinese influence worldwide. Among the challenges facing the West, the one that China poses is now among the most daunting. Beijing's ambitions have set off alarms around the world and sparked spirited debates about how to respond to a China that has benefited greatly from the Western liberal order yet—despite the hopes of generations of pro-“engagement” Westerners—has not evolved into a “responsible stakeholder” within the community of nations.

How will this debate turn out? Most probably, it will lead to a significant hardening of Western policies toward the PRC. The new U.S. National Defense Strategy, published in January 2018, calls China “a strategic competitor using predatory economics to intimidate its neighbors while militarizing features in the South China Sea,” and adds that Beijing and Moscow “want to shape a world consistent with their authoritarian model.”<sup>2</sup> Efforts to deal with a more assertive China, whether through engagement, confrontation, or some mix of the two, can never succeed in the long run without a sound understanding of China's recent actions. This will require assessments of their causes and effects, as well as analyses of the risks that China is running and the limitations that it is facing.

### **Leveraging Economic Heft**

Although recent Chinese foreign-policy behavior under Xi has drawn most of the attention, China actually began to expand its influence globally and display greater assertiveness long before he came to power. Even so, however, these efforts were modest, cautious, and probing. Most were about furthering China's economic interests rather than directly challenging the Western liberal order and U.S. security interests in East Asia. What makes China's recent moves worrying is their increasing strategic and ideological coherence and a barely disguised long-term aim to challenge Western leadership not only in economic affairs, but also in the realms of security and even public opinion.

Longtime trade surpluses and the burgeoning foreign-exchange reserves they bring have allowed China to press on the weakest spot in

**TABLE 1—CHINESE FOREIGN AID, 2000–2014  
(COMMITTED, US\$ BILLIONS)**

Type	Period		Total
	2000–2008	2009–2014	
Concessional	\$27.1	\$54.1	\$81.2
Nonconcessional	\$41.2	\$175.0	\$216.2
<b>Total</b>	<b>\$68.3</b>	<b>\$229.1</b>	<b>\$297.4</b>
Annual Average	\$7.6	\$38.2	-

*Note:* AidData identifies about an additional \$57 billion in Chinese foreign aid as “Vague Official Finance.”

*Source:* AidData ([www.aiddata.org/china](http://www.aiddata.org/china)).

the West’s economic order: development assistance. Driven at first by a desire for more secure access to energy and crucial raw materials, China gradually expanded the scope of its activities and began to integrate its commercial activities into its geopolitical strategy. China’s leaders used the country’s ample stocks of hard currency to pursue a “go out” strategy—extending Chinese global reach through direct investment and loans. In the developed economies of Europe and North America, Chinese interests seek to acquire new technologies and income-generating assets. In the developing countries, Chinese outbound investment has been infused with clearer and grander strategic ambitions.

To be sure, in important ways China is no different from any nation that seeks to promote its own interests. There is nothing odd about wanting energy security. So far, the bulk of Chinese development assistance has flowed to countries that are rich in energy resources. Open-source data compiled by AidData, a research project based at the College of William and Mary, illustrate this. Between 2000 and 2014, China made energy projects abroad the target of US\$131 billion of the almost \$300 billion that it committed to various kinds of aid flows, both “concessional” loans (that is, offered on better than market terms) and “nonconcessional” loans (made on market or near-market terms). Not surprisingly, countries whose diplomatic support seemed likely to help Beijing isolate Taiwan also ranked high on the list of the PRC’s beneficiaries.<sup>3</sup>

China’s arrival as a major player in the foreign-aid field is recent. From 2000 through 2008, the Chinese aid program, including both concessional development assistance and nonconcessional financing, averaged just \$7.6 billion a year (see Table 1). After 2009, the trickle became a flood. The average annual flow of both kinds of aid from then through 2014 exceeded \$38 billion.

What makes Chinese foreign assistance distinct—and controversial—is its apparent preference for autocratic regimes (see Table 2 below). During the years from 2000 through 2014, China’s concessional aid and nonconcessional official flows totaled \$81.2 billion and \$216.2 billion, respectively, according to AidData. Of the top ten recipients of Chinese

**TABLE 2—RECIPIENTS OF CHINESE FOREIGN AID (2000–2014),  
BY REGIME TYPE**

Concessional Aid			Nonconcessional Aid		
Country	US\$ Billions	Predominant Regime Type*	Country	US\$ Billions	Predominant Regime Type*
Cuba	\$6.7	Auth.	Russia	\$36.6	Auth.
Côte d'Ivoire	\$4.0	Auth.	Pakistan	\$16.3	Comp. Auth.
Ethiopia	\$3.7	Auth.	Angola	\$13.4	Auth.
Zimbabwe	\$3.6	Auth.	Laos	\$11.0	Auth.
Cameroon	\$3.4	Auth.	Venezuela	\$10.8	Comp. Auth.
Nigeria	\$3.1	Comp. Auth.	Turkmenistan	\$10.1	Auth.
Tanzania	\$3.0	Comp. Auth.	Ecuador	\$9.7	Democracy
Cambodia	\$3.0	Auth.	Brazil	\$8.5	Democracy
Sri Lanka	\$2.8	Comp. Auth.	Sri Lanka	\$8.2	Comp. Auth.
Ghana	\$2.5	Democracy	Kazakhstan	\$6.7	Auth.
<b>TOTAL</b>	<b>\$35.8</b>	-	<b>TOTAL</b>	<b>\$131.5</b>	-

Sources: AidData ([www.aiddata.org/china](http://www.aiddata.org/china)) and Freedom House.

\*Predominant regime type during the period 2000–2014: authoritarian (Auth.), competitive authoritarian (Comp. Auth.), and democracy. Classifications by the author.

concessional aid, six are outright dictatorships and three are competitive authoritarian regimes, where autocratic ruling elites maintain power mainly through rigged electoral processes. These nine states received \$33.3 billion (41 percent) of China's total concessional aid during 2000–14; the six autocracies alone received \$24.4 billion, or 30 percent. The tilt toward autocracies in China's nonconcessional financial flows is even more pronounced in this period. Five of the ten top recipients are autocracies. Together, they received \$77.8 billion (36 percent of the total).

If Chinese foreign-assistance programs heavily favor autocratic regimes, Beijing's recent efforts to expand its global economic footprint embody unabashedly grand geopolitical ambitions. The projects launched since Xi's coming to power in late 2012 include the creation of two multilateral (but Chinese-led) international financial institutions: the New Development Bank (NDB) and the Asian Infrastructure Investment Bank (AIIB). There is a vast infrastructure scheme that spans Asia, Europe, and Africa (the Belt and Road Initiative, or BRI) as well as the New Silk Road Fund, a vehicle to finance Chinese investment in Asia. These initiatives are far more costly, risky, and difficult than anything China has ever tried. Yet they are products of a coherent strategic intent. If they succeed, China will have significantly reshaped the geopolitical and economic landscape of Asia and indeed the world at large.

Among the potential payoffs from these gambles, Beijing envisions a rerouting of international commerce that will make China the new global trade and financial hub. These projects are meant to make trade with the PRC so much easier and cheaper that the countries connected to them will fall into Beijing's orbit just as countries hooked on commerce

with the United States after 1945 fell under Washington's influence. Another long-term goal of the new Chinese initiatives is to break the grip that the United States and its Western allies have on multilateral international financial institutions. The NDB and the AIIB, with China as their founder and largest shareholder, could become alternatives to the World Bank, the International Monetary Fund (IMF), and regional development banks in development financing.

Less than a year after becoming CCP general secretary, Xi announced the "One Belt, One Road" scheme (later renamed the BRI) to spend more than \$1 trillion on infrastructure across the vast region of Afro-Eurasia. Enticed by the prospect of subsidized Chinese loans to pay for badly needed infrastructure projects, about seventy countries had by the end of 2017 agreed to take part. When China hosted the first "BRI Summit" in Beijing in May 2017, it was attended by 29 heads of state or government and representatives from 130 countries and international organizations.

Actual progress toward turning Xi's grand vision into reality, however, has been hard to discern. Beijing has opened its wallet, directly investing about \$40 billion between 2014 and 2016.<sup>4</sup> How much of that went into bona fide infrastructure projects? No one can say. By the close of 2016, the total amount of Chinese lending to the BRI countries had reached a staggering \$292 billion. The share of the loans used to finance infrastructure projects is also unclear. In a sign that orders from Beijing were behind the placing of this huge financial bet, all but \$8 billion of the loans came from China's state-owned banks and the China Development Bank (which alone lent \$110 billion).

Bank loans from China came with strings attached, of course. Recipient countries were required to use Chinese contractors to build Beijing-financed projects. Construction contracts signed by Chinese companies in BRI countries yielded about \$200 billion across the years 2014 through 2016.<sup>5</sup> Since infrastructure projects tend to take a long time to finish, it is impossible to evaluate whether the projects financed and built by China since the BRI launched are economically profitable. If anything, there seems to be reason to think that many of China's major infrastructure projects may be unsustainable; some are already mired in financial difficulties.

Whether or not this plan to transform the geopolitical and economic landscape of Asia and Europe is feasible, the AIIB is playing an integral part. While China has capital of its own to spend or loan out on BRI-related projects, creating a multilateral financial institution under Chinese direction is a more desirable approach: It promises to give Beijing not only a bigger pool of funds, but an extra gloss of international legitimacy and prestige to go with them. And if things really work out in China's favor, the AIIB could evolve into an institution weighty enough to compete with the World Bank and the IMF on equal terms.

China proposed the AIIB concept in October 2013. A year later, representatives from 21 Asian countries signed an agreement to create the bank. The official launch came another eight months after that, in June 2015, with 57 countries and territories as founding members. Every U.S. ally in the region except Japan rushed to join, dealing U.S. prestige a humbling blow.

Beijing may have succeeded too well, however. Driven by fear of allowing China to become the bank's dominant shareholder, so many countries signed on and put up capital (the bank started with \$100 billion) that ownership is now more widely distributed than China must have hoped would be the case. China is the AIIB's largest stakeholder and names its president, but China's voting rights, at 26 percent, are well short of overwhelming dominance. The bank's activities in its first year of operation (2016) were modest, amounting to just \$1.7 billion in infrastructure loans.<sup>6</sup> This suggests that China may have to wait a long time before its AIIB investment pays any meaningful geopolitical or economic dividends.

The AIIB is not the only multilateral financial institution established under China's aegis. The NDB, popularly known as the "BRICS bank," is another recent attempt to challenge the Western-led international financial institutions. In July 2014, Brazil, Russia, India, China, and South Africa announced that they were establishing this new multilateral financial institution to specialize in development financing. Each of the five gave \$10 billion to capitalize the bank, and for good measure they joined in underwriting a Contingency Reserve Arrangement worth another \$100 billion. The lion's share (\$41 billion) of that came in the form of a Chinese pledge.

If Beijing thought that its financial heft would allow it to dominate the NDB, it was mistaken. As in the case of the AIIB, China's partners have been wary of ceding too much control. The NDB has a complicated governance structure that features a president (an Indian was the first occupant of the office), a board of governors (initially chaired by a Russian), and a board of directors (chaired first by a Brazilian). China's only prize has been the right to have the bank headquartered in Shanghai. Like the AIIB, the NDB is starting out as a minor player in development financing. In 2016, its first year of operation, the bank loaned only \$1.5 billion.

Taken together, Xi has made the biggest overseas financial gamble since the PRC's 1949 founding. The obstacles are daunting, and the early results look unpromising. Yet even if these projects yield only partial material returns, they could advance Chinese strategic interests significantly.

### **Flexing Military Muscle in Asia**

Like its expanding economic influence, China's increasingly assertive regional security posture also dates from several years before Xi's rise.<sup>7</sup> Starting in 2009, Beijing became embroiled in diplomatic standoffs

that soured its relations with its neighbors and with Washington. Chinese rhetoric regarding the South China Sea hardened in 2010. In April 2012, Chinese naval forces seized Scarborough Shoal, a reef that lies a thousand kilometers from China's Hainan Island but only two-hundred kilometers west of the Philippines, which also claims sovereignty over the reef.<sup>8</sup> Five months later, Beijing needlessly escalated a dispute with Tokyo over uninhabited territory after the Japanese government, acting to preempt a planned purchase by Japanese nationalists, bought the disputed Senkaku (Diaoyu) Islands in the East China Sea.

However worrisome these actions may have been, they seem tame compared to the moves that China has made since Xi took power. While the muscle-flexing exercises of his predecessors (the Scarborough Shoal situation aside) were largely limited to rhetoric and one-off confrontational acts, Xi's efforts to assert China's growing power have been so bold and persistent that it is fair to say they indicate a new and offensive-oriented mindset.

The first sign that China was about to take much bigger risks to assert itself came on 23 November 2013, about a year after Xi became the head of the CCP and the Chinese military. That day, the PRC Defense Ministry announced the establishment of an air-defense identification zone (ADIZ) for the East China Sea. It is not unusual for countries to set up such zones. This was China's first. What made the move problematic was the way the new Chinese ADIZ overlapped those of South Korea and Japan and explicitly covered the islands disputed by Beijing and Tokyo.

This was a qualitative escalation of the disagreement, since with the declaration of the zone all foreign aircraft entering it would be required to identify themselves to the Chinese military. To fail to do so would be to risk whatever "emergency defensive measures" Chinese authorities might deem fit. In other words, the East China Sea ADIZ implicitly asserted the Chinese claim of sovereignty over the islands, and backed that claim with threats of force. It is worth noting that Chinese military officers had floated the idea of the ADIZ back in 2010, but had received no backing from on high because then-President Hu Jintao had thought the proposal too provocative. Everything changed once Xi took the reins. The proposal came back up in May 2013, and won quick approval.<sup>9</sup>

In response to China's move, the United States immediately flew two B-52 bombers into the new ADIZ and over the disputed islands without notifying the Chinese military. Japan showed its defiance by dispatching a pair of F-15 fighters into the Chinese ADIZ and instructing its two major air carriers, Japan Airlines and All Nippon Airways, not to file flight plans over the ADIZ with Chinese authorities. South Korea reacted not only in the air but on the sea as well, giving the Chinese no advance word before sending patrol aircraft and an Aegis-missile destroyer into the part of the zone that contains a submerged



rock on which Seoul has built a helipad-equipped platform to serve as an ocean-research station.

Despite this pushback, however, the East China Sea ADIZ remains a *fait accompli* about which the United States and its allies have been able to do little: Both Seoul and Washington, for example, have instructed their civilian airlines to file flight plans with China before crossing the zone. The ADIZ experience, moreover, seems to have taught Beijing that it might be able to get away with a more daring move—escalating its claims in the South China Sea—by using the same tactic of exploiting gray areas in international law.

China's actions in the South China Sea, which came almost immediately after the East China Sea gambit, might be described as something like a modern bluewater blitzkrieg. With no fanfare, Beijing sent a large fleet of dredging ships to the seven reefs that it controlled in the Spratly Islands in early 2014. Within eighteen months—and before any other claimants or the United States could mount a meaningful response—China changed the facts on the seabed by building the small reefs into artificial islands featuring more than eight square kilometers of reclaimed land. Despite protests from rival claimants and Washington, Chinese workers began to construct infrastructure and military facilities, including a runway on one island (Fiery Cross Reef) long enough to handle strategic bombers. In July 2016, the intergovernmental Permanent Court of Arbitration at The Hague ruled against Beijing's South China Sea claims. Chinese authorities have simply ignored the decision. When U.S. warships and military aircraft conducted freedom of navigation operations (FONOPs) to challenge China's claims that these artificial islands are Chinese territories, the Chinese military responded by sending its own vessels and jet fighters to harass them and created several dangerous incidents.<sup>10</sup>

Should China succeed in forcing other claimants to accept its *fait accompli* in the South China Sea, Beijing will have accomplished two major goals. The first is solidifying its de facto grip on a vast swath of ocean across which goods worth more than \$5 trillion sail every year. By applying its tried-and-true “salami-slicing” tactics, China might declare economic-exclusion zones measuring 200 nautical miles around these built-up islands, and could start enforcing its claims in areas that should be international waters. The second and even graver long-term aim is psychological: It is to undermine the confidence that China's neighbors feel in U.S. commitments to regional security and the balance of power in the Asia-Pacific.

By taking this fateful step and throwing down the gauntlet as it has, Beijing is trying to show countries in East Asia that China is the strongest player in the region, while the United States is not to be relied upon. Washington's inability to stop the island-building campaign has seriously weakened the credibility of the long-term U.S. security com-

mitment in East Asia. For Beijing, driving a wedge between the PRC's neighbors and the United States is the first and indispensable step on the road to restoring China's position as regional hegemon.

### A Soft-Power Offensive

The third pillar of China's more assertive grand strategy is the aggressive projection of its "soft power" (or "sharp power") in recent years.<sup>11</sup> Like its efforts to throw its economic weight around and flex its military muscle, China's launch of its soft-power offensive came before Xi's arrival in power, but the effort has gained impetus and more resources under his rule. The main aim is to burnish the CCP regime's image around the world. Keenly aware of its lack of ideological appeal, the entrenched dominance of the Western media, and the overwhelming U.S. advantage in soft power, the CCP has chosen to play a long game. Growing economic clout is a path to an improved image, which in turn is the basis for a challenge to the West's dominant role in shaping international discourse and world opinion.

In 2003, Politburo Standing Committee member and CCP propaganda chief Li Changchun announced that China would have to take an active part in what he called the "international public opinion struggle."<sup>12</sup> Since then, Beijing has pursued soft power via a three-pronged approach that teams external propaganda with the promotion of Chinese culture and the cultivation of friendly political forces abroad.

The turning point for the PRC's propaganda efforts came in the wake of the 2008 Summer Olympics in Beijing. Flushed with confidence after successfully hosting the games, CCP leaders opted for a dramatic expansion of their efforts to burnish China's image abroad. In January 2009, Beijing set aside billions of dollars to expand the overseas operations of three CCP-controlled media organs: Central China Television (CCTV), the Xinhua News Agency, and the *People's Daily* newspaper.<sup>13</sup>

With the fresh cash in hand, the three went on a global spending spree. Xinhua set up more offices and began to provide new services. With 180 overseas bureaus, it now has a greater global presence than all but the three biggest Western news agencies (Agence France Press, the Associated Press, and Reuters). In 2010, China's official news agency began broadcasting 24 hours a day in English. It hired Western journalists whose bylines appeared on its dispatches. In a much-noted symbolic move, Xinhua in May 2011 moved its North American headquarters from the New York City borough of Queens to a fancy office tower on Manhattan's Times Square. Xinhua spent millions leasing one of the huge LED signs for which the area is famous, advertising the availability of CCP-sponsored news alongside the brightly lit digital icons of such leading Western and Asian companies as Coca-Cola, Prudential, Samsung, and Hyundai.<sup>14</sup>

Where Xinhua led, other major Chinese official-media outlets followed. In April 2009, the *Global Times*, a Chinese-nationalist tabloid affiliated with the *People's Daily*, launched its English-language edition. A U.S. edition came four years later. The *People's Daily* itself commenced English-language publishing in October 2017. In 2012 came the launch of CCTV Africa in Nairobi, Kenya, and CCTV America in Washington, D.C. In October 2017, as part of an apparent attempt to chip away at the dominance of Western outlets such as CNN and the British Broadcasting Corporation, CCTV rebranded its international network as the China Global Television Network (CGTN) News Center.<sup>15</sup>

The promotion of Chinese culture, the second prong of Beijing's soft-power offensive, hinges on the Confucius Institutes. Established in 2004 and run by the Chinese Ministry of Education, the Confucius Institutes program is an ostensibly benign effort to promote the teaching of the Chinese language around the world. Confucius Institutes typically join educational institutions outside China (mostly colleges and universities) in setting up language programs. The PRC provides teachers and some of the money. As of the end of 2017, there were 525 Confucius Institutes spread across 146 countries and territories. Most of the institutes are located in Europe (173) and the Americas (161).<sup>16</sup> Promoting the study of the Chinese language is uncontroversial, but the direct control that the PRC government has over the curricula of this initiative strikes critics as a threat to academic freedom. At least seven schools in four countries (Canada, France, Sweden, and the United States) have already dropped their Confucius Institutes.

The third prong of China's new strategy—acquiring political influence in democracies—is undoubtedly the most controversial and insidious front in Beijing's soft-power campaign. According to a lengthy *Financial Times* investigation, the CCP's United Front Work Department is overseeing the effort. The large Chinese diaspora, numbering about sixty-million people around the world, is a prime target. Individuals of special interest include those holding or running for public office and those who have good relations with politicians by virtue of being campaign contributors.<sup>17</sup> The PRC shrouds these activities in secrecy, making hard information about them difficult to come by. Media reports suggest that Beijing has been making inroads among the well-to-do Chinese immigrants who have moved to Australia and Canada in large numbers during recent years.<sup>18</sup>

## Risks and Limits

China's efforts to expand its influence around the world have yielded mixed results. Security of access to energy supplies and vital raw materials has improved; Chinese influence in Southeast Asia has grown; and a number of African, Latin American, and Middle Eastern countries that

like the idea of a competitor to the United States have extended their diplomatic support and good will. Pew Research Center surveys show that people in those three regions see China more favorably than do citizens in other parts of the world.<sup>19</sup> China's tactical alliance with Moscow has moderately strengthened Beijing's hand in dealing with Washington. Most importantly, Xi's South China Sea gambit has paid off, at least for now, since the United States appears unable to make China halt its construction activities or even pay much of a price for them.

China's assertive grand strategy carries with it a risk of imperial overreach, however. Already the West and some of China's neighbors are starting to push back. The method of promoting geopolitical influence by means of economic heft may be hard to sustain: It has been requiring Beijing to throw good money after bad, pumping vast sums into countries that are too poor or too hopelessly mismanaged ever to repay them. Consider the case of Venezuela. Dazzled by the spectacle of a vocally anti-American strongman ruling an oil-rich land on the southern doorstep of the United States, China began making loans to the regime of President Hugo Chávez in 2007. A decade later, these totaled more than \$62 billion.<sup>20</sup> The money kept flowing to Caracas even as Chávez (who died in 2013) and his successor Nicolás Maduro implemented one catastrophic economic policy after another in their pursuit of "twenty-first-century socialism." As his country's economy imploded in November 2017, Maduro announced that he would need to restructure Venezuela's massive foreign debt. Should Venezuela default, China may be among those left holding the bag, unable to recover much if any of the funds that it had once so confidently loaned.

Pakistan, a key Chinese strategic ally but also a country with a record of chronic economic mismanagement, had as of April 2017 received \$62 billion in loans from Beijing for work on the massive and complex China-Pakistan Economic Corridor.<sup>21</sup> This multifaceted project includes ambitious improvements to Gwadar, a port on the Arabian Sea that is supposed to tie the Belt and Road Initiative to the Maritime Silk Road project. Mountainous, landlocked Laos, whose total annual GDP is just \$12 billion, has received a \$6 billion Chinese loan to build a high-speed railway.

The voters of Sri Lanka turned Mahinda Rajapaksa out of the presidency of their South Asian island nation in January 2015, but not before he had borrowed billions from Beijing to pay for an array of infrastructure projects. Among them was an international cricket stadium. It hosts few matches, but it boasts 35,000 seats and opened with Rajapaksa's name on it. Several of the other big digs, including an international airport at Mattala and a deep harbor at nearby Hambantota on the south-eastern coast, have also proved major money losers. The deep harbor went into deep debt, and the Sri Lankan government had to lease the facility to China for 99 years.<sup>22</sup>

Discomfited by China's assertiveness abroad and protectionism at home, Beijing's main trading partners, the European Union and the United States, have begun to reassess their longstanding policies regarding trade with China. In 2001, both Brussels and Washington welcomed Beijing into the World Trade Organization. In 2017, however, both refused to grant China the coveted "market economy status" that would have barred them from imposing antidumping tariffs on imports from China. Likewise, both EU and U.S. decision makers are readying measures to tighten controls on Chinese investments and technology transfers.

The most significant pushback against China has occurred in Asia. Washington's countermeasures against Beijing began in 2010 with the announcement of a "pivot to Asia," a comprehensive strategy to use U.S. economic and military might to balance against China. The economic pillar of the "pivot" was supposed to be the Trans-Pacific Partnership (TPP), a twelve-nation Pacific Rim free-trade agreement that excluded China. Although the administration of President Barack Obama managed to negotiate the agreement, it was unable to win Congressional approval before the 2016 election.

President Donald Trump, like his rival Hillary Clinton, had opposed the TPP during the campaign. One of the first executive orders he issued following his January 2017 inauguration pulled the United States out of the TPP. While Trump's much-criticized move may have given China new opportunities and space in East Asia, Beijing's relief may be short-lived. Japan has managed to revive a version of the pact (known as TPP-11) without U.S. participation. This "TPP light" will not be able to match the economic heft that the TPP would have enjoyed with U.S. membership, but it will give Asian-Pacific countries that want to keep a certain distance from China's economic orbit a modest alternative.

Even more worrisome for Xi, the United States has begun to push back on the security front against aggressive Chinese moves in the region. The recently released U.S. National Security Strategy and National Defense Strategy underline this. Both name China as a U.S. strategic rival on par with Russia. While Trump's TPP pullout has removed the economic hinge of the "pivot to Asia," the pivot's military hinge remains. In addition to deploying more military assets to the Western Pacific, Washington has shored up its ties to Japan, South Korea, and Taiwan and intensified its cooperation with India, another powerful regional rival of China that feels alarm at Beijing's growing power and assertiveness.

Intent on deterring any Chinese attempt to coerce Japan in the East China Sea, Washington and Tokyo have strengthened cooperation between the U.S. military and the Japan Self-Defense Forces. Both Obama and his final defense secretary, Ashton Carter, publicly affirmed that the U.S.-Japan Security Treaty of 1960 covers the disputed islands.

Trump's defense secretary, James Mattis, has repeated the affirmation, in effect warning that if a Sino-Japanese conflict breaks out over these islands, the U.S. armed forces will come to Japan's aid. With rising India looming as the potentially most potent regional counterweight to China, Washington has also made a point of upgrading its defense cooperation with New Delhi. Major recent initiatives include strategic consultations, transfers of advanced weapon systems, the 2014 signing of the India-U.S. Declaration on Defense Cooperation, and frequent visits back and forth by senior defense officials.<sup>23</sup>

In a long-term strategic move to check Chinese advances in the South China Sea, the United States has also reached out to the Philippines and Vietnam. Washington encouraged Manila to bring the arbitration case against China that succeeded at The Hague in 2016. Four decades after the Vietnam War ended, relations with Hanoi have blossomed as well. Vietnam has claims in the South China Sea, and fought a skirmish with China at Johnson South Reef in the Spratlys in 1988. In 2011, Hanoi and Washington agreed to work on defense cooperation, and Defense Secretary Leon Panetta visited the former U.S. naval base at Vietnam's Cam Ranh Bay in 2012. When Obama visited Vietnam in May 2016, he announced an end to the U.S. arms embargo. The following year saw U.S. aid to strengthen Vietnam's coastal-patrol capabilities, and Vietnam took delivery of a decommissioned U.S. Coast Guard cutter plus six U.S.-built Metal Shark fast patrol boats.

These economic, diplomatic, and security measures suggest that China's efforts to gain greater power and influence may be backfiring. Western and especially U.S. pushback is raising the costs that China must pay and making it less secure. In the worst-case scenario, the outcome could be a repeat of the Cold War.

## Challenge and Response

The Chinese challenge is not going away. For the next decade and beyond, Western democracies will have to deal with Beijing's efforts to use its power and resources to subvert the liberal world order. The task of countering these efforts, daunting at best, seems all the more formidable when one contemplates the political turmoil in the democracies, and the partial abdication of global leadership by the United States. Without U.S. leadership, a concerted long-term strategy to respond to the China challenge is impossible.

Yet one can see signs of a sea change in how the West has come to view China in light of its newly assertive foreign policy. A consensus is fast emerging—nowhere faster than in the United States—that the policy of “engagement” has failed to integrate China into the liberal world order. Acknowledging this reality is the first step toward framing a coherent and effective long-term response.

It is too early to assume that China's new grand strategy will succeed. Its flaws and limits will strain its staying power. Grandiose infrastructure schemes and costly alliances with poor, mismanaged autocracies will sap Beijing's resources. An arms race with the United States, which seems likely, will test the CCP's capacity to deliver both guns and butter. Can the Chinese economy achieve 6 percent growth a year for the next decade? The country's large debts, sharp domestic inequalities, aging demographics, and chronic inefficiency born of state domination of the economy all say no. So does the rising protectionism that China's crucial exports are starting to face.

But perhaps the key factor limiting the CCP regime's capacity to achieve East Asian hegemony and global parity with the United States is the existential threat posed by the transformation of Chinese society itself. The vast resources that it will take to suppress internal forces challenging Communist Party rule will limit what Beijing can do to project Chinese power abroad.

The China challenge must be taken seriously, but it does not merit panic or overreaction. As with previous autocratic regimes seeking global or regional dominance, China may look too strong to stop. So did the Soviet Union at one time. In the late 1970s, many serious observers believed that it was set to go from strength to strength, its power growing inexorably. Yet looking back, we know that in truth it was only a little more than a decade away from the ash heap of history.

## NOTES

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