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Chinese futures: Horizon 2025

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Reports



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FOREWORD

Not long ago, when the first signs of the end of an era (be it the ‘unipolar moment’ of the post-Cold War years or even the ‘American century’) were becoming apparent in the wake of the 2007-08 financial crisis, some analysts and commentators started talking about the epilogue of five hundred years of Western dominance of the world. The main reference was to the rise of China, the Middle Kingdom that isolated and insulated itself half a millennium ago (in conjunction with the rise of the West) and was now regaining its position - regionally as well as globally. The spectacular inauguration of the Beijing Olympics on 08.08.08 seemed to mark that shift also symbolically, in the eyes of both China and the rest of the world.

Ever since, the signs have become even more explicit, with China’s rise turning into a potential game changer in Asia and (albeit still less evidently) worldwide. The big question mark now is how linear and how sustainable such a rise will be in the years to come. It should therefore come as no surprise that the EUISS decided to devote the third of its series of ‘futures’ Task Forces – after the Arab world (2015) and Russia (2016) – specifically to China, while keeping the same 2025 time horizon as a reference point. Perhaps inevitably, the ensuing Task Force Report looks more similar in structure to the one on Russia than to the first Report on Arab Futures, which covered a multiplicity of states and regions with no centralised institutions and policies. Yet the approach has remained roughly the same for all – to try and project current trends into the medium-long term, look at the present with an eye on the future, and extrapolate some indications for EU policymakers.

This Report is based on the three workshops of a dedicated Task Force – coordinated by Eva Pejsova and Jakob Bund – held in Paris and Brussels between December 2016 and March 2017 and involving key China experts from think tanks and academia as well as the world of diplomacy. It therefore reflects the peculiar mix of expertise and experience that the EUISS always tries to generate in order to inject fresh and relevant thinking into current and future policy.

*Antonio Missiroli
Paris, July 2017*

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The Chinese Futures Task Force focused on assessing developments in China's domestic sphere, regional posture and performance as a global actor en route to 2025. Special mention is reserved for Alice Ekman, Mathieu Duchâtel, François Gode ment and Gudrun Wacker, who as members of the Task Force's Steering Group were essential in breaking ground on this project and helped lay its foundation.

The Task Force convened a range of eminent European and Chinese analysts, hailing from a diverse set of disciplines, who in introducing new angles and challenging old assumptions provided additional nuance and enriched the perspectives of the resulting Report. Participation of current and former members of the European External Action Service helped to ground discussions, focusing attention on their practical relevance for decision-makers.

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INTRODUCTION: CHINESE FUTURES

Eva Pejsova

The rise of China has become the defining feature of the ‘Asia-Pacific century’. Beyond its economic might, the country’s emergence as a major political and security actor has not only redefined the balance of power in Asia; its growing international profile and ambitions will continue to significantly shape the global strategic landscape in the years to come.

As Europe seeks to project its power and influence in an increasingly polycentric world, the way in which it approaches and interacts with the Asian giant will be an important test for its foreign and security policy. EU-China relations, which have progressively deepened over the past three decades, are acquiring more concrete forms, with growing trade flows, investments and infrastructure initiatives across the Eurasian landmass binding both actors closer together than ever before. While strengthening cooperation in the economic, as well as in the development and security fields, is becoming a necessity, policymakers in Brussels proceed with caution and handle bilateral relations with care.

China’s military modernisation and build-up, coupled with its aggressive pursuit of its territorial claims in the South and East China Seas, keep raising the stakes for the region’s traditional security actors, worried about regional stability and the future of a rules-based international order. The development of trade hubs in Africa and China’s growing military presence in the Indian Ocean underscore Beijing’s overall outward-looking strategic ambitions, as well as a growing eagerness to protect its interests abroad. Its determination to become an influential global actor is backed by its initiation of brand new multilateral governance structures, such as the Asian Infrastructure Investment Bank (AIIB) and the Belt and Road Initiative (BRI). What kind of global actor can we expect China to be? What do current trends indicate regarding the direction of its future foreign and security policy in Asia and beyond? And how can Europe engage with its Chinese partner while securing its own position and interests?

Indeed, given the distinctive nature of China’s domestic political environment, many questions arise regarding the sustainability of its development model and the trustworthiness of its foreign and security ambitions. While it is impossible to foresee the future, a careful analysis of the current trends and challenges lying ahead

of the political leadership can help to sketch the main contours of Beijing's foreign policy in the short term, in an effort to anticipate its effects on global affairs.

Looking at the horizon of 2025 necessarily involves attempting to assess the legacy of President Xi Jinping, whose mandate is expected to terminate in 2022, and evaluating the achievements of the ambitious domestic, economic, and foreign and security policy reforms undertaken under his leadership. By 2020, China should see the results of its 13th Five-Year-Plan – including pledges to double its GDP, complete its transition to a modern, developed country, and build a ‘moderately well-off society’. In 2021 China will celebrate the 100th anniversary of the foundation of the People's Republic – a landmark that will testify to the legitimacy of the Chinese Communist Party. The question of regime stability will be crucial. What will happen to the promise of the ‘China dream’ and what domestic reforms will China manage to implement over the next 10 years?

This Report is structured according to the logic defining the priorities of Chinese policymakers. While the main focus lies on Beijing's future foreign and security policies, these depend on the many domestic political, economic and societal challenges that need to be addressed to sustain regime stability in the first place. Accordingly, the first section of the Report examines various facets of China's domestic environment. The way China engages with its own neighbours and asserts its interests in the region, revealing much about China's understanding of its role, as well as its *modus operandi* in international affairs, is examined in the second section. The third and final section looks into China's global actions and ambitions, trying to assess its potential and willingness to positively contribute to global governance, and examines their repercussions for the global order – and Europe specifically.

China's domestic environment

Power consolidation and regime stability constitute the top priorities of China's political leadership, and the next decade will be one of critical transition. Kerry Brown's opening chapter outlines the array of political, economic and societal challenges – all intimately interlinked – facing the CCP elites. Demographics, environmental degradation, the need for fiscal reform and the pervasive problem of inequality within Chinese society are some of the key issues identified among the many daunting challenges that need to be addressed through effective reforms. Whether through rigid control or more flexibility remains to be seen, but the way the one-party government will handle domestic issues will also determine China's position as a global power.

Elaborating on societal challenges, Kristin Shi-Kupfer looks deeper into some of the main phenomena jeopardising the state-society balance, which oscillates between tight social governance on the one hand and the demands of the growing and increasingly powerful middle class on the other. Environmental concerns, food

safety, health care and pension system reforms are among the highest priorities in the years to come. While building a ‘harmonious society’ is one of the main goals of Xi’s leadership, the country remains plagued by social inequalities that continue to undermine regime stability. However, there are no organised attempts to overturn the existing political order in sight.

The reliance on growth as a source of domestic political legitimacy and stability has made the need for successful economic reforms the number one priority. What are the main challenges lying ahead of their implementation and how will China’s market orientation develop in the coming years? These are questions Michal Makocki addresses in his contribution. The modernisation of the industrial sector and the development of a service-based economy is the basis of the new growth model that China’s leaders need to develop in order to steer clear of the ‘middle income trap’. While the reform of state-owned enterprises (SOEs) seeks to balance between promoting growth and social stability, effective governance remains key.

Finally, given the close interconnectedness between domestic goals and foreign policy, Alice Ekman analyses the drivers of China’s increasingly ambitious and proactive diplomacy in the region and beyond. Economic development and growth emerge here again as the main motivations for its outward expansion, seeking to provide new market opportunities and securing access to energy and raw material. While ideological forces of nationalism and the pursuit of ‘the great rejuvenation of the Chinese nation’ are still powerful in the Chinese discourse, they leave space for more pragmatic considerations and should not be overestimated. As a vocal promoter of multilateralism and globalisation, China is likely to seize the momentum and position itself as a leader in emerging fields of global governance.

China’s regional posture

The second section of the Report looks into the drivers of China’s foreign and security policy in Asia, focusing on the underlying patterns framing the Chinese foreign policy discourse: the importance of sovereignty, China’s neighbourhood policy, and the role of the US and its allies in the Asia-Pacific – considerations which are likely to remain constant in China’s strategic calculus and future orientation.

The protection of national sovereignty and territorial integrity constitutes a cornerstone of the CCP’s ‘core interests’. In many ways, the way Beijing handles its approach to Taiwan, Hong Kong, as well as the territories to which it lays claim in the East and South China Seas, has come to define its political legitimacy. Charles Parton explains the importance of the concept of sovereignty and non-interference in Chinese political thinking, highlighting its impact beyond territorial issues. The next decade is likely to see a continuation (if not strengthening) of current policies *vis-à-vis* its claimed territories. Their success and the future course of events in the

South and East China Seas specifically will therefore largely depend on the positioning of the United States.

A peaceful, stable and prosperous neighbourhood is essential to China's national security and economic growth. Over the past decades, Beijing developed a unique approach to deal with its partners in Southeast, Northeast and Central Asia, trading investments and economic development for political support and security guarantees. Economic benefits, appeals to historical ties, and ideological or cultural proximity are part of China's 'charm offensive', often deployed in tandem with coercive language and assertive actions. 'More carrots, more sticks' summarises, in the view of Mathieu Duchâtel, the new foreign policy tactics adopted by Xi Jinping. The future of Chinese foreign policy will be defined by a sophisticated and systematic use of a broad range of instruments, including economic statecraft, military power, soft power and institution-building.

The US military presence and security commitments in Asia have always been a determinant feature on the regional strategic chessboard, influencing not only the position and actions of Washington's allies, but especially China's own behaviour. While traditionally reactive, Beijing has demonstrated its readiness to promote its national interests with more vigour and determination under Xi's leadership. Elena Atanassova-Cornelis examines China's long-term regional leadership aspirations in light of the cost-benefit calculus in the short and medium term. A major objective is to prevent the formation of anti-Chinese alignments by reassuring its neighbours, increasing economic incentives and building a 'network of friends', in a strategy of 'selective domination', which is likely to prevail until 2025. At the same time, given the unlikelihood of the military engagement of the US and its allies being scaled down in the short term, Beijing will continue boosting its defence to increase its relative military presence in the region.

China and the world

The final section of the Report looks at China's international profile and ambitions. What kind of global power will China be and how can we expect to interact with it ten years from now? To answer the question, it first examines the way Beijing views other major powers and how it conceives of its role within the international system, before focusing on its participation in existing governance structures. Bearing the above in mind, the closing chapter ponders more specifically on the future of EU-China relations.

According to Frans-Paul van der Putten, China's approach towards great powers over the next decade will be determined by two main trends: the need to neutralise the potential threats posed by some great powers to its national security on the one hand; and the need to cooperate with others to manage a stable international environment conducive to economic growth on the other. Currently, the perception of

the US as an existential threat to Chinese interests and sovereignty prevents Beijing from fully concentrating on and investing in its cooperation with others. Although the agreed formula of ‘non-confrontation and win-win cooperation’ may seem to have defused tensions in the US-China relationship temporarily, the climate of mutual mistrust persists and time is playing in favour of China.

As the US retreats from its international commitments, China is stepping up its support for multilateralism and existing governance structures. However remarkable, China’s change of tune should be taken with a pinch of salt, argues Mikko Huotari. Indeed, China’s participation in global governance has evolved substantially, reflecting its progressive socialisation within the system, but also its ambition to reform the system in line with the shifting balance of power. Beijing’s ‘differentiated approach’ to global governance is determined by the state of play in a specific issue-area, the nature of China’s interest in it, and its effective diplomatic leverage or technical capacity in the domain. There is no doubt that China’s role in transforming the current governance system will continue to grow, and with it also the possible fragmentation, decentralisation and ‘de-Westernisation’ of the international order.

All in all, should China continue in its current trajectory, Europe will need to come to terms with more Chinese presence and influence in its neighbourhood and within its member states. Gudrun Wacker explores the options and opportunities for the EU to engage with its Asian counterpart in such a way as to secure and maximise its own interests. There are numerous areas for enhanced cooperation, ranging from a more proactive role in the Belt and Road Initiative, cooperation on emerging issues requiring global governance (climate change, cybersecurity, space), closer coordination in development aid and peacekeeping, as well as in innovation and technology. The key challenge for Europe will be to stay open to changes within the international system, all the while upholding its own fundamental norms and values.

Section 1

CHINA'S DOMESTIC ARENA

I. POLITICAL ENVIRONMENT: CHALLENGES AHEAD FOR THE CCP

Kerry Brown

Introduction

The next decade will be a period of critical transition in which the People's Republic of China will undergo fundamental change. The challenges facing the country will divide broadly into the economic and political spheres. These two sets of challenges will, however, be intimately linked. This is because of the ways in which, right from the start of the Reform and Opening Up period in 1978, the Communist Party of China (CCP) has sought greater political legitimacy by delivering economic growth and prosperity. Throughout this period, elite leaders from Deng Xiaoping to Jiang Zemin and Hu Jintao have made it clear that economic prowess and stewardship of the state economy by the Party was the key means by which it would justify its monopoly on political power. The social contract over this period, despite periodic upsets (the most significant of which was the 1989 student uprising), has been based on the premise that as long as society was materially developing, people's lives were improving and prosperity and wealth increasing, the Communist Party was able to maintain and justify this privileged position. Organised opposition, as and when it has appeared, has been brutally repressed. Even the collapse of the Soviet Union in 1991 did not significantly sway the CCP from this strategy.

An economy in transition

In 2017, we can conclude that so far this strategy has served the CCP well. It now presides over a country with the world's second-largest economy, which has witnessed double-digit growth for most of the period from 1980 to 2010, and exerts geopolitical influence undreamed of four decades ago. Since the advent to power of President Xi Jinping in 2012, however, the narrative of the Party has needed to change. The rate of economic growth, inevitably, has slowed down. The Party has within its sights the first centennial goal – 2021, the hundredth anniversary of its foundation – when it states it wants to establish a middle income country, with a per capita GDP of around \$13,000. There is a high awareness among experts that in any other comparable environment, this moment has been accompanied not just by economic change, but also by major social and political transformations. A middle class has, in effect, emerged, which will want greater participation in decision-making. This cohort in society, constituting perhaps more than 50% of the popula-

tion in China at present, will see living conditions, wages and living standards rise. They will be a source of taxation for a state where the main government enterprises will no longer represent such a large source of revenue. The emergence of this new middle class will entail demands for a better social welfare system, pensions and public goods – mirroring the standards of living seen in the West, and referred to by Xi himself when he unveiled his ‘China Dream’ political manifesto in 2013.

The economic reforms over this period, therefore, will also involve profoundly political issues. China will be attempting to undertake something which has never been seen before – the creation of a sustainable single-party system in a country with a hybrid economy – part marketised, part state-controlled. In the USSR, the one-party system lasted 74 years. By 2023, China will have overtaken this record. It will need to make viable a system in which Marxism-Leninism, with Chinese characteristics, will preside over a society of great complexity. The question is whether this is doable.

To answer that question, there needs to be a good understanding of the overall context in which the CCP will be trying to achieve this. Economic growth over the last four decades has transformed the country. It is now fundamentally different to the place that existed in 1977. The non-state sector back then constituted only 1% of economic activity. Now it accounts for more than half of all GDP growth. Then the per capita income was \$300, with widespread poverty. Now China has more dollar billionaires than anywhere except the United States. Chinese cities now look like they are from a different planet than those that existed in the era of high Maoist socialism.

Despite this, the one thing that remains the same is the dominance of the Party and its control over the space where organised political activity is allowed in China. Of course, the tactics, shape and philosophy of the CCP are different today. It functions more like a massive coordinating and strategic body, undertaking high-level risk management, ceding large areas of activity in the economic realm to non-state or hybrid actors. These openings in the economic space notwithstanding, even a short conversation with human rights lawyers or dissidents in China shows that those seen as challenging the Party’s legitimacy are dealt with as brutally these days as the activists involved in the brief Democracy Wall movement back in 1979. Their demand then for the ‘Fifth modernisation’, democratic and political reform – harking back to the 1919 May Fourth Movement – and attempts over the decades since to promote an authentically indigenous Chinese vision of liberalism and political pluralism have all failed. In 2017, we seem no nearer to seeing this vision being realised. While not impossible, it looks unlikely we will see any fundamental change in China’s political structures in the next decade.

Challenges ahead

Despite this, the CCP is likely over the next ten years to have to formulate and then implement reforms which are in essence more political than economic. It faces a formidable array of problems, and these will need a high level of social consensus and unified response to be surmountable. Perhaps the most difficult challenge of all will be that the Party State in confronting each of these issues in the years ahead will need to take decisions that will create clear winners and losers in society. It will also have to make some very tough choices. Given the current fairly centralised, unitary and hierarchical political model, it is unclear how the Party will manage to consult about these issues and ensure everyone involved feels their voice has been heard. It is also uncertain just how resilient the Party State will prove should significant infighting about how to best address contentious issues mar efforts to mitigate social grievances. In this endeavour, the Party's considerations about where to protect its prerogatives and where to cede ground to new forces in society over the coming years will be of crucial importance – with little room for miscalculations given the complexity and the swiftness of change in China.

Demographics: China has an ageing population, with a gender ratio of 106 men to 100 women proportionally. This is partly a result of policy choices in the past (the one-child policies in particular) and partly of family choices (having more children entails more expense, meaning many families chose to have one child rather than more). It has resulted in a society where those still working will be expected to look after increasing numbers of elderly retired citizens. As in developed economies elsewhere, there is a good chance that the next generation of Chinese will have tougher lives than their immediate predecessors, creating social resentments and tensions. China's pension crisis is immense. There is no effective national system. Care for the elderly, still largely in the hands of the nuclear or extended family, has been compromised by the more fragmented, mobile, migrant society that China has now become. On top of this, the health profile of Chinese is the same as in Europe or the United States with high average life expectancy but increases in chronic diseases like cancer or heart problems. Even if manageable, this constellation of issues will demand a huge amount of resources, and major reform of welfare and healthcare systems. At the 19th Party Congress in late 2017, the promotion of certain officials with a certain administrative record and profile will give an indication of just how bold China will be in trying to undertake further social, as opposed to merely economic, reform in the following five years. Securing and bolstering pensions, a healthcare and social welfare system and related livelihood provisions are hugely expensive undertakings and will involve significant deployment of resources – something made even more challenging by the slowdown in GDP growth and wealth creation.

Environmental issues: Climate change and environmental damage have had an immense impact in China. Four decades of intense industrialisation have degraded air and water quality. Chinese urban centres have been blighted during Xi's presidency by appalling thick smog, with adverse consequences for the health and quali-

ty of life of Xi's core constituency – the emerging urban-dwelling middle class working in the service sector. China's quest, in partnership with the rest of the world, for a technological solution to this set of problems will be a key theme of the coming decade. Its immense 'clean up' operation will be costly, demanding and will create strains on the Party State should it be seen as being too slow, or even failing in this endeavour. China's march to urbanisation has been a consistent characteristic of the reform process. By 2027, as many as 70% of Chinese will live in cities. But these vast urban centres from Beijing to Shanghai and the Pearl River Delta in the South will be fundamentally unsustainable without better supplies of water, and better air. It is likely that the 19th Party Congress will simply reinforce the political priority placed on environmental concerns. It is unlikely, however, that much detail on concrete steps will be supplied.

Fiscal reform: Under Xi, a complex readjustment of China's highly centralised fiscal system has resulted in a greater amount of budgetary decisions being made by provinces rather than Beijing. But in terms of tax-raising powers, China remains a highly centralised country. Of all major, large countries, China alone has resisted any attempt to create a federal system. The maintenance of such a centralised system has been striking – but as differences in terms of socio-economic development between provinces and autonomous regions grow, strains will increase. Certain landlocked regions like Tibet rely for over 90% of their budget on subsidies from Beijing. But Guangzhou and other coastal provinces are net contributors. Pressures on provincial leaders to deliver more services to their populations will create competitive tensions. This issue highlights the immense inequality that exists within China – where regions in the west have much lower per capita GDP levels of wealth and development, while eastern regions have to all intents and purposes already joined the developed world. Demands by provinces to have greater tax-raising powers are only likely to increase, as one of the main sources for discretionary revenue granted to them – land sales – dries up. This issue will see a battle between central demands for control and the local conviction that authorities on the ground know their situations best and should be allowed more decision-making autonomy. From the outside, China looks highly unified, and yet its history has been characterised by periods of deep division and fragmentation. This outcome should not be discounted, even though it looks unlikely at present. The 2017 Congress is likely to reiterate the commitment made in the previous five years to allow some devolving of fiscal powers. It is unlikely, though, to herald a new era in which significant amounts of power shift away from Beijing. The concomitant risk of overly empowering provinces *vis-à-vis* the central government would be too high, especially in the run-up to 2021 and the symbolic landmark of the Party's centenary.

Inequality: Despite enormous success in producing raw GDP growth since 1978, these rapid economic gains have been achieved at the expense of making China a far more unequal place. In the 1980s, the GINI co-efficient for the nation indicated a relatively high level of equality. But by 2010, the country was blighted by the same huge disparities between the wealthy and the poor as other developed economies.

Its GINI measure ranked among the worst in the world. Resentments about issues like failure to pay proper compensation for land taken by local agents of the state, non-payment of pensions and inability to get recourse to justice through courts has led to a surge in social discontent. While exact statistics are hard to come by, Yu Jianrong at the Chinese Academy of Social Sciences in 2010 judged there to have been over 200,000 mass incidents, protests involving ten people or upwards, seeking remedy for their grievances that year. Some protests were pugnacious, involving violent scuffles between security agents and the public. Xi's anti-corruption struggle has attempted to restore the Party's image publicly, rooting out officials involved in large money-making operations. Even so, China often appears to be a deeply divided society, one where rage simmers beneath the surface. This atmosphere accounts for the huge amounts of resources spent on domestic security. Can this level of control be maintained? There is the real possibility that one protest might well gain traction and become unmanageable, igniting immense social unrest and toppling the regime. The CCP is very much aware of the power of such social mobilisation: after all, this is the way it itself came into being and rose to power. The 2017 Congress will be an occasion for the Party to portray itself as improving leadership for the benefit of all Chinese people. The evidence available so far suggests that Xi Jinping's leadership is popular, and that he is seen as standing up for the average Chinese in their life struggles. It is unlikely that the profound structural imbalances driving economic divisions will see a quick fix – and certainly no such attempt will be undertaken before the Party Plena in the ensuing years.

China and the world: In the Maoist era, China was often at odds with the wider world and in conflict with those on its borders. It engaged in wars with India, in Korea and with Russia and Vietnam. Since 1980, China has enjoyed a benign international environment, one in which it has grown wealthier on the basis of trade deals and international rules-based agreements such as those provided by the World Trade Organisation (WTO). This era has created the perception that China is a mercantilist actor, one that only acts out of self-interest and whose role in the global system is at best ambiguous and at worst subliminally competitive and hostile. 'China threat' language has become stronger under the presidency of Donald Trump since January 2017. With the narrative of economic success eroding under the influence of falling growth rates, Chinese leaders have set out to seek a new pillar of legitimacy. Increasingly frequent recourse to language of national rejuvenation and nationalism under Xi has become indicative of attempts to this end. Xi's China seeks, in his words, a 'common destiny' in the Asian region and a 'win-win' deal with the world. Grand frameworks like the vast 'Belt and Road' initiative, embracing over 65 countries, have appeared. China has started to communicate a clearer vision of its global role to the world. But its significant difference in terms of political model means that there remains a trust deficit. China's aims are distrusted. Its regional ambitions are regarded warily by neighbouring countries and external security stakeholders. Its claims over Taiwan and the South and East China Seas have grown more vociferous. These trends are only likely to become more aggressive and pronounced in the coming decade, with the real possibility of nationalistic

pressure within China forcing the leadership to be more adventurist in their foreign policy actions. China will be faced with demands to become increasingly active globally in addressing challenges that otherwise will have tangible implications for the livelihood of its citizens, like climate change, the proliferation of weapons of mass destruction as well as protectionist measures restricting China's exports and access to strategic technologies. But whether it is able to adequately convey a message to the rest of the world that will create greater trust remains to be seen. For the first time in modern history, China will need to make its views, vision and attitudes attractive to the wider world. This will take more than Confucius Institutes, state-led propaganda and the kind of categorical language that pervades the official statements of Chinese leaders.

In 2000, in a different era, the then Chinese President Jiang Zemin talked of a period of 'strategic opportunity' offered by the coming two decades, in which China would be able to build up its internal capacity, address some of its huge domestic issues and take advantage of US preoccupation elsewhere in the world. In the period from 2017, this strategic opportunity still exists for China – and in fact viewed from Beijing is even more exciting than it was two decades before. China has never enjoyed more influence and importance in world affairs. But as it engages with a world that increasingly needs to deal with it and understand it, China also continues to face problems of immense complexity within – as attested by the overview above.

Conclusion

The question is whether the current one-party political model that prevails in China will be an asset or a liability in confronting these internal and external challenges. So far, its ability to preserve unity has been an advantage. But there are plenty of junctures in the coming decade where its rigidity may figure as a disadvantage. The question then is whether the so far highly pragmatic elite leadership of the CCP will compromise, accommodate and mandate reform in the political realm for tactical reasons. Whether they take a flexible or intransigent stance is impossible to predict at the moment. But we can be certain that, more than ever before, the stability and prosperous development of the global system relies on their decision. This is because China is a global power, and its leaders are global figures. The era from 2017 to 2025, therefore – whatever else it might hold – will be one best characterised as the one which saw the final emergence of global China. That, at least, can be predicted safely.

II. SOCIAL FABRIC: MANAGING STATE-SOCIETY RELATIONS

Kristin Shi-Kupfer

Introduction

Since 2013, societal resilience in China, as reflected in the form of an autonomous civil society, has weakened in light of the central government's push to reassert control. Harsh repression coupled with the regime's focus on delivering economic and material improvements to secure popular acquiescence have numbed civil society in the Chinese Communist Party's effort to 'civilise' the public space – reflecting the paternalistic idea of disciplining society under the guardianship of the state as opposed to a self-organised civil society. The everyday struggle of making a living under conditions of overpriced housing, nepotism, industrial pollution and fierce competition within the education system has further diminished the ability of many Chinese citizens to act on their political consciousness.

These politico-economic dynamics have stripped down China's civil society to a hard core of committed social justice advocates. Otherwise, affluent and tech-savvy urban dwellers try to create their own socio-economic spaces, including by sending their children abroad to escape an education landscape that is increasingly fraught with ideological overtones or by securing resident permits in Europe or the United States to escape hazardous environmental conditions as well as to bypass slow and censored internet connections. In the rural parts of the country, peasants and migrant workers continue to campaign for better working conditions and the same citizen rights as the urban population.

In light of these conditions, ensuring a so-called 'stable' (meaning relatively equal, functional and politically loyal) society – as envisioned under Xi Jinping's 'China Dream' – will remain a very challenging task for the Chinese Communist Party (CCP) beyond the 20th Party Congress in 2022.

Since the foundation of the People's Republic of China (PRC) in 1949, state-society relations have been shaped by two patterns: on the one hand, the CCP has oscillated between tight social control to maintain stability (and secure political power) and a *laissez-faire* approach that encourages entrepreneurial thinking and allows for some degree of freedom to operate in select areas, as for instance on environmental issues and social services – albeit still with strict limits on self-organisation. On the other

hand, civil society representatives have constantly reinterpreted and circumvented official restrictions to gain leverage for their own interests and ideas.

The CCP ideologically classified, divided and levelled society during the era of Mao Zedong. However, as Mao mobilised the Red Guards to oust traditional and institutional authorities, they brutally destroyed individual lives and community bonds. Mao Zedong finally needed to call in the army to pacify the situation. This traumatic episode has left deep scars in China's collective memory. At the beginning of the 1970s, the climate of political repression began to ease and civil society settled into a wary relationship with the Party leadership, while remaining largely detached from politics. At the same time, an emerging spirit of entrepreneurship and the need to improvise under the constraints of an ailing economy and dysfunctional socio-political institutions initiated significant economic changes, e.g. the bottom-up emergence of peasant markets and small privately-owned businesses (个体户 *getihu*).

Demands for more political participation have been repeatedly crushed by the CCP's ruthless security apparatus, most notoriously in 1989 in Beijing's Tiananmen Square and in other cities all over China. In the aftermath of this crackdown, with Deng Xiaoping's 'Southern tour', the basis for a socio-political contract of mutual non-interference has been established: the CCP lets the Chinese people pursue prosperity and individual happiness as long as they do not challenge the Party's self-imposed mandate to rule and guide the nation. Against this backdrop, the 1990s and the first decade of the 2000s witnessed China's entry into global production chains and trade regimes, which spurred rapid socio-economic change, improving the standard of living for many.

A 'harmonious society'

Since 2004, the concept of a 'harmonious society' (和谐社会 *hexie shehui*) has become a central strategy and vision of the CCP. The Chinese leadership under Hu Jintao aimed for a more balanced socio-economic development, tackling problems of social inequality and injustice caused by rapid economic growth and unfair enrichment. In the Confucian tradition of a seemingly benevolent patriarch, the CCP has sought to define a basic framework that would guarantee social and political stability. While popular demands for judicial independence or freedom of the press are suppressed by the CCP as challenges to the basic political order, the Chinese leadership has taken steps to alleviate poverty and curb the worst excesses of illicit acquisitions of wealth that are treated as legitimate grievances within the Party's own narrative of moral leadership and for which it assumes responsibility as 'custodian of the people'. On many other issues, the Party has just been passively monitoring the unfolding dynamics – which has allowed for the emergence of a vibrant but cautious civil society of professional lawyers and journalists, NGOs committed to advance environmental protection and labour rights as well as charity organisations

and religious activities. For all the restrictions it has levied, the Party has yet to rein in rampant corruption and create social justice on a systemic level.

The centrifugal forces of rising inequality – unleashed due to the officially encouraged pursuit of personal wealth and power – were temporarily arrested by the activism and social advocacy efforts undertaken by journalists, lawyers and scientists campaigning on behalf of the economically disadvantaged. Confronted with a new global wave of democratisation set in motion by the ‘colour revolutions’ and substantial support across different segments of society for the political reforms of the ‘Charter 08’,¹ the CCP leadership started to rigorously suppress civil rights activities, blocked foreign social media platforms and websites and persecuted and intimidated bloggers and journalists. However, the outgoing leadership of President Hu Jintao and Premier Wen Jiabao appeared to be overwhelmed and not in control of these measures aimed at clamping down on the public space for free discussion. Given its monopolistic claim on power and fear of any socio-political instability as a potential prelude to loss of control, the CCP leadership was unable to envision state-society relations in terms other than a judicious oscillation between control and *laissez faire*.

Under Party-State leader Xi Jinping this has changed. Xi has put forward a much more clear-cut and ambitious policy concerning social governance that prioritises control and oversight at the expense of the *laissez-faire* approach. Any potential opposition to the ideational and organisational monopoly of the CCP – including bloggers, journalists, lawyers, social scientists and non-governmental organisations with cross-regional links – has been systemically persecuted or co-opted. In addition, Xi Jinping has called on all party members to maintain political discipline, including by ‘not speaking ill of central government policy’ (妄议中央 *wangyi zhongyang*). ‘Western’ concepts of political order, like universal values or constitutionalism, have been banned from discussion in the Party, the media and the education system.

Building on measures set in motion by the Hu-Wen government, the CCP leadership under Xi has made significant progress in expanding social security programmes to near universal coverage, especially by reaching out to rural areas. Xi has also started to set up costly integrated social service schemes, overcoming the previous division between citizens with rural and urban household registrations.²

Most importantly, the Chinese leadership has been developing a subtle system not only for surveillance but for directly influencing behaviour of citizens and regulating companies – a system that is currently being field-tested at the city-level in

1. For an English translation of the ‘Charter 08’, see: <http://www.2008xianzhang.info/english.htm>.

2. Matthias Stepan, ‘How sustainable is China’s social security system?’, China Policy Institute Analysis, University of Nottingham, 14 October 2016. Available at: <https://cpianalysis.org/2016/10/14/the-social-policy-agenda-under-xi-jinping-from-self-restraint-to-big-spending-how-sustainable-is-the-expansion-of-chinas-social-security-system/>.

over thirty localities.³ The so called Social Credit System (SCS, 社会信用体系 *shehui xinyong tixi*) is based on collecting data from individuals and companies to track and impact not only economic honesty and credibility but also social and potentially political behaviour. The SCS is designed around incentives for behaviour defined by the CCP as ‘good’ and penalties for ‘bad’ behaviour.⁴ As social and economic activity increasingly shifts to or at least becomes anchored in the internet, information and communication technology (ICT) offers the CCP vast potential for surreptitious control and monitoring. Facial recognition software and mobility tracking based on portable networked devices already demonstrate the far-reaching consequences today. Yet, innovations in the ICT space also provide societal actors with the opportunity to circumvent censorship mechanisms and keep up advocacy networks mobilising public support for social causes.⁵

The capability of the CCP to maintain control over society depends mainly on two factors: first, continuous, stable economic growth to finance social welfare programmes and justify its paternalistic governance – including tight control over society, strategically important companies and the security apparatus; and secondly, a unified party apparatus to effectively implement relevant decisions and to control information flows and their interpretation as linked to narratives of stability, wealth and power.

Looming challenges: Xinjiang and nationalism

On the road to the 20th Party Congress and beyond, two issues are likely to evolve as the most serious societal challenges for the CCP leadership.

The first of these concerns the vicious cycle of oppression and violence in Xinjiang. Since Xi Jinping came to power in 2012, the frequency of violent incidents, including politically motivated riots, assassinations and terrorist attacks has increased. Violent attacks by extremists have spread to other parts of China. The 2013 incident on Tiananmen Square in Beijing and the 2014 attack at the Kunming Railway station are examples of this. Growing evidence suggests that a number of Uighur Muslims have joined the ranks of the so-called Islamic State (ISIS). In January 2017,

3. ‘China’s Social Credit System: Black Mirror or Red Herring?’, Interview with Shazeda Ahmed, *China Digital Times*, 16 February 2017. Available at: <http://chinadigitaltimes.net/2017/02/qa-shazeda-ahmed-on-chinas-social-credit-system/>.
4. ‘China invents the digital totalitarian state’, *The Economist*, 17 December 2016. Available at: <http://www.economist.com/news/briefing/21711902-worrying-implications-its-social-credit-project-china-invents-digital-totalitarian>; Miriam Meissner, ‘China’s Social Credit System: A big-data enabled approach to market regulation with broad implications for doing business in China’, MERICS *China Monitor* no. 39, 24 May 2017. Available at: https://www.merics.org/fileadmin/templates/download/china-monitor/merics_ChinaMonitor_39_englisch_Web.pdf.
5. See Jinghan Zeng, ‘China’s date with big data: will it strengthen or threaten authoritarian rule?’, *International Affairs*, vol. 92, no. 6, November 2016, pp. 1443–62.

ISIS released a video showing a Uighur fighter declaring his intention to extend the group's operations to China.⁶

Apart from the security risk for Chinese citizens at home, the growing ties of radicalised Uighur Muslims with international terror networks also jeopardise Xi Jinping's ambitious 'Belt and Road' (一带一路 *yi dai yi lu*) initiative which aims at building a trade and infrastructure network spanning from China to other parts of Asia, Africa and Europe. Xinjiang features as a geo-strategic hub in this project.

Due to the expansion of surveillance and repression, an increasing part of the Uighur population feels marginalised and disenfranchised by the Chinese government. Given the lack of political mechanisms for negotiations and therefore the absence of any real chance of delivering a solution to the issue, Xinjiang – particularly the southwestern areas of the region – will very likely remain stuck in a cycle of increasing state repression and surveillance, open ethnic resentment and recurring violent unrest.⁷

The second issue relates to nationalist pressure for more assertive CCP leadership. Facing tough economic reforms and uncertain growth prospects, the CCP considers nationalist sentiment as an ever-more important source of legitimacy. Xi Jinping's 'China Dream' (中国梦 *Zhongguo meng*) outlines the promise of China's (renewed) rise as a wealthy and strong world power and appeals to nationalist sentiment.

But the CCP has come to recognise that nationalist sentiment is a double-edged sword. Nationalism is a powerful mobilising force that helps to build an imagined national community to divert attention from internal crisis and attribute policy failures to outsiders or alleged enemies. However, nationalist rhetoric is also a highly volatile instrument that can easily turn against the leadership if it is perceived as not being tough or vociferous enough. In the 1990s and 2000s, the CCP leadership faced difficulties in calming down nationalist, xenophobic protests against the United States and Japan. In March 2017, Party-controlled media outlets supported and even called for boycotts of South Korean businesses and discouraged Chinese tourists from visiting South Korea as a reaction to the deployment of the US-made Terminal High Altitude Area Defense (THAAD) missile system. Still, central Party authorities have been careful, adopting balanced rhetoric that gives voice to popular

6. Bethany Allen-Ebrahimian, 'Report: More Than 100 Chinese Muslims Have Joined the Islamic State', *Foreign Policy*, 20 July 2016. Available at: <http://foreignpolicy.com/2016/07/20/report-100-chinese-muslims-have-joined-isis-islamic-state-china-terrorism-uighur/>; Nodirbek Soliev, 'How Serious Is the Islamic State Threat to China?', *The Diplomat*, 14 March 2017. Available at: <http://thediplomat.com/2017/03/how-serious-is-the-islamic-state-threat-to-china/>.
7. Joseph Hincks, 'Uighur Militants Reportedly Threaten China in ISIS Video', *Time.com*, 1 March 2017. Available at: <http://time.com/4686836/isis-video-china-uighur/>; Adrian Zenz and James Leibold, 'Xinjiang's Rapidly Evolving Security State', *China Brief*, vol. 17, no. 4, 14 March 2017. Available at: <https://jamestown.org/program/xinjiangs-rapidly-evolving-security-state/>.

anger while avoiding doing anything that might generate large-scale violent disturbances.⁸

Popular nationalist pressure is also linked to the government's ability to protect Chinese citizens overseas. With China's growing global economic presence, larger numbers of its people have found themselves in harm's way abroad and become victims of crime (including rape) and terror attacks.⁹ Moreover, the growing expectations of affluent Chinese to be able to travel to major tourist destinations without going through cumbersome visa procedures also contribute to pressure on the central government to make headway internationally. If the Chinese leadership is seen as reacting too timidly, when confronted with harsh trade sanctions or verbal and physical attacks on Chinese citizens, resulting popular protests, motivated by nationalist forces, might pose the greater challenge to the CCP.

Conclusion: Pursuing Xi's 'China dream'

Currently, there are no signs of any organised attempts to overturn the existing political order. The above-mentioned dynamics in Xinjiang and nationalist sentiment notwithstanding, no segment of the population appears motivated and capable of organising and mobilising a broad social movement of sufficient strength to topple the regime. Moreover, if the current crisis of liberal democracies and regional cooperation regimes continues, any potential political alternative to a seemingly efficient one-party rule system will only become less attractive to many Chinese.

Nevertheless, ongoing or even deteriorating environmental degradation and pollution of air and water – resulting in a loss of quality of life and increasing cases of respiratory diseases and related health problems – hold a strong potential for nationwide protests, affecting all citizens alike, regardless of their socio-economic background and political mindset. Given its relative material security, the demands and ambitions of China's upper middle class – composed of IT specialists, engineers, attorneys, journalists and doctors – will be key both for fostering social and political change (including already repeatedly voiced demands like 'no taxation without representation') and for maintaining social and political control, as seen from the perspective of the CCP.¹⁰

Without a dramatic event of the magnitude of a major cross-regional environmental scandal catalysing popular discontent, large-scale protests beyond occasional

8. See Suisheng Zhao, 'The State as the Mobilizer and De-mobilizer in China's Nationalist Protests', Paper at International Conference on State-mobilised Contention, The University of Hong Kong, January 2017. Available at: http://www.socsc.hku.hk/smc/pdf/2017/pp_12.pdf.

9. Benjamin David Baker, 'After Deadly Attack in Mali, How Will China Protect Its Citizens Abroad?', *The Diplomat*, 29 November 2015. Available at: <http://thediplomat.com/2015/11/after-deadly-attack-in-mali-how-will-china-protect-its-citizens-abroad/>.

10. See Kristin Shi-Kupfer and Sebastian Heilmann, 'Urban society and new social forces', in: Sebastian Heilmann (ed.), *China's Political System* (Lanham, MA: Rowman & Littlefield, 2017), p. 259.

and localised expressions of grievances remain unlikely. As long as a majority of the population retains basic trust in the narrative of the CCP and its honest efforts to tackle a problem which also plagued Western countries for decades, a spirit of passive endurance will probably prevail. In the event of a significant slowdown in economic growth, a major financial crisis or collapse of the housing market, industrial workers and middle-class home owners would be most likely and able to raise their fears and discontent with the CCP leadership. Still, large-scale protests of one of these groups are only conceivable under the influence of a severe economic crisis with either massive layoffs or tumbling real estate prices.

In summary, in the absence of major economic malaise and no overt divisions within the CCP that might lead to a loss of control over security forces and information technology, the space for an independent civil society will remain extremely constricted. Xi Jinping might very well prove successful in controlling and shaping the Chinese society in pursuit of his 'China Dream.'

III. IT'S THE ECONOMY: CHINA'S TRAJECTORY

Michal Makocki

Introduction

Projecting Chinese growth into the future used to be a straightforward exercise. For the last 30 years, since the start of the reforms launched by Deng Xiaoping, the Chinese economy kept growing at a stellar pace, hardly shaken even by the global economic crisis of 2008. China has become the world's largest economy (in purchasing power parity terms). However, these days the Chinese economy has grown more complex and the challenges it faces more daunting. China's leadership seems to realise as much and on several occasions, in a departure from its usual upbeat propaganda tone, has announced that the Chinese economy is unbalanced and unsustainable. The 'new normal' of the Chinese economy is not whether China will slow down but whether this will be a fast or gradual process.

This altered economic outlook spells two major challenges for the Chinese Communist Party. Firstly, the economy still relies on relatively high rates of growth to generate employment for the continuous (though diminishing) flow of internal migrants, and thereby stability. But generating high rates of growth is now far more complicated given China's burgeoning debt bubble (every dollar of credit delivers ever-decreasing returns in an economy saturated with investments) and an unfavourable external environment (exports may suffer because of looming global protectionism).

The second challenge relates to shifting the gears of the economic engine through supply-side reforms. While politically difficult, rebalancing from investment to consumption and from industry to services will prove critical in keeping China steady on its economic trajectory. Chinese leaders rightly fear that without significant reforms China may find itself stuck in the middle-income trap. There is no shortage of plans for reforms, but as always when trying to predict China's trajectory, analysing the government's ability to implement them is the key.

This chapter looks at whether the Chinese economy will manage to sail safely through the turbulent waters of reform till 2025, while steering clear of the middle-income trap. Before venturing into the future, this analysis will first take stock of the current state of the Chinese economy.

The Chinese economy today: an unsustainable growth model?

2016 has not been the brightest spot in recent Chinese economic history. Arguably, one of the most watched indicators, rebalancing toward domestic consumption, has seen some progress. Key reforms on exchange rates and interest rates have also been implemented, while the central bank embarked on tightening of monetary policy aiming to reduce the alarming levels of what has become the world's largest non-financial corporate debt.

But, overall, China's economy has lost momentum. Growth is slowing down, even if it remains impressive by Western standards. In 2016, 6.7% GDP growth has been achieved largely by successive stimulus measures (even though each new package has been more conservative than the last). Total debt reached 260% of GDP by the end of 2016. Conditions for credit may have tightened, but more importantly banks continue to funnel credit to politically connected state-owned enterprises (SOEs) rather than to the vibrant sector of small and medium-sized enterprises (SMEs). Unregulated shadow banking is responsible for a growing share of the financial system.

The stock market crashed in summer 2015 and has not yet fully recovered. The boom in the property market is gone for good, too. Exports are less competitive as labour costs rise. Finally, China also faces major structural problems, such as demography and environmental degradation, both substantial drags on future growth prospects.

The underlying dynamics of the current economic and social model have famously been declared 'unstable, uncoordinated, unbalanced and unsustainable' by the leadership itself. The economy will have to change or collapse, threatening the Party's legitimacy and its survival. On the way to 2025, the horizon for this Report's projections, China will pass several milestones. Xi Jinping's second term will end in 2023 but he intends to reshape the economy already by 2021, the first of the CCP's so-called centenary goals, which marks the Party's 100th birthday. By then, the Party declares, China will have become 'a moderately prosperous country in all respects'.

Blueprints for economic reform

To the credit of the leadership, recent years have seen a proliferation of reformist blueprints. Xi's reform programme is set out in the measures adopted at the 3rd and 4th Plena. The 13th Five Year Plan (FYP) was prepared under Xi's guidance and rolled out last year. Economic plans such as Made in China 2025 and the 'Belt and Road' initiative further provide details on Chinese industrial policy and global

expansion. The result is more clarity on where the Party would like China to go, but much less clarity on how to get there. It is worth taking a closer look at these plans.

Not long after Xi Jinping took over at the helm of the Party in 2012, the 3rd Plenum blueprint emerged promising ‘unprecedented economic reforms’. The main message was that market forces will play the dominant role in the economy, an aspiration standing in stark contrast to the reality of the state sector’s primacy. This idea was translated into more specific goals by the 13th FYP, the key theme of which is that economic strategy must ensure rebalancing towards services and consumption, upgrading of industry and boosting innovation while expanding industry’s global reach. The plan also puts emphasis on ‘supply-side reform’, i.e. cutting red tape, overcapacity reduction, reform of SOEs (read: improving their efficiency, not privatisation) and reform of the financial system to improve the efficiency of capital allocation.

Domestic reform will be supported by the ‘Belt and Road’ initiative, a plan often referred to by Chinese officials as the third wave of reform and opening up (after Deng’s reforms and accession to the WTO). The plan’s objectives are multiple and include support to export overcapacity and aid the global expansion of Chinese enterprises – especially for technologically advanced sectors, with higher added value – and develop China’s poor inland provinces by increasing their connections with the global economy. The plan also aims to reduce regional economic disparities and stabilise politically volatile areas such as Xinjiang through economic development.

Industrial policy is tackled by yet another blueprint – Made in China 2025. This document describes in detail aspirations for the Chinese manufacturing sector – most often in direct opposition to Western interests. Chinese industries are supposed to take over all the areas in which Western companies have been successful so far and which have underpinned Chinese modernisation - from transport to IT and medical equipment. Some describe the plan as a list of targets for economic espionage or a shopping list for foreign acquisitions. And indeed, Chinese firms are upgrading their technology in sectors listed in the blueprint by acquiring foreign firms, but this is already generating a backlash in the EU, one of the hitherto most liberal jurisdictions for Chinese acquisitions.

The level of understanding of the challenges of the Chinese economy by the Party leadership is reassuring. But ever since Deng’s reforms, China’s problem has not been conceptualisation but rather implementation. Will Xi be able to implement his ambitious vision, overcome resistance from vested interests and in the meantime avoid collapsing under the burden of debt?

Priority: growth and employment or reform?

Growth at any cost is not possible anymore. Nor is it necessary, as the flow of internal migrants is slowing to a trickle, so fewer jobs need to be created. What is more necessary is reform of the growth model. Yet ever-rising prosperity is the pillar of the Party's legitimacy (and social stability), and with its well-developed instinct for self-preservation, so far the Party seems to have prioritised the goal of maintaining growth over the reform agenda. The latest rounds of stimulus have been more conservative than the mega stimulus of 2008, which helped China sail smoothly through the global economic crisis. But the same logic as before will define growth prospects through 2025: reforms will progress only if the internal and external environment generates growth and thus facilitates structural changes.

However, the external environment for the Chinese economy is more hostile than ever. Since its accession to the WTO, China has become part of the global economy and a poster child for globalisation. China ramped up employment, efficiency increased as people moved from agriculture to working in factories and growing consumption by new urbanites started to give new impetus to the internal market. These efforts were recognised as positive developments internationally. Chinese assembly prowess helped streamline supply chains, kept inflation low and facilitated the shift of the Western economies towards innovation and services, sectors with higher added value than manufacturing. That consensus is starting to fray, not least due to the hostile rhetoric of President Trump, who takes aim at globalisation in general and China in particular.

Control or not control

The logic of 'growth first, reform later' is evident when assessing the successes in the implementation of the government's self-proclaimed goal of increasing the role of market forces. Xi and the Party appear happy to defer to the markets as long as the markets behave 'patriotically'. The moment they stop being patriotic (i.e. start behaving as markets do, in a volatile and unpredictable way) they have to be regulated back into a patriotic state, as the government's massive intervention to stabilise the crashing stock market in 2015 showed. The growing complexity of its structures implies that China is becoming more of a normal economy, in which the government cannot control too many market developments. But at the same time the volatility inherent in markets is anathema to the stability so prized by the Party. To the extent that market reforms help achieve stability, China will pursue them, but there will be many exceptions, such as those seen during the market crash of 2015.

Reform of the state sector is another example of such conflict. The dominance of large, ineffective and indebted SOEs clashes with the desire to unleash market forces and let the market play the decisive role in the economy. China is not aiming for privatisation; SOEs are supposed to remain state-controlled, but leaner and capable

of competing globally with their Western peers. The idea is to have the best of both worlds: market-oriented SOEs acting according to the market's requirements, with no need for government support, but also acting as patriotic agents when the state needs this for political purposes. But even such piecemeal SOE reform is lagging behind, because it runs against so many vested interests.

Streamlining governance

Any change must overcome vested interests deeply embedded in the Party itself. Following Deng's market reforms, local cadres were among the biggest winners. Leveraging their political position, they seized opportunities for enrichment, most often by directing resources through state-owned banks to local government-owned investment vehicles, which capitalised on rising real estate prices. But these opportunities will disappear if it is the market, rather than political power, that decides the allocation of resources.

Two key reforms, financial and fiscal, will face similar challenges. Investments by local governments have underpinned the Chinese growth miracle, but reckless borrowing to fund them is now weighing on growth. Local government authorities demand more tax revenues for themselves (rather than these being controlled by central government) and higher borrowing autonomy, together with a functioning local bond market. They do have a point. Estimates indicate that central transfers and local taxation account for no more than 50% of local governments' revenues but they are obliged to cover 80% of the cost of implementation of central policies. However, solving this imbalance would mean more autonomy for local governments, which runs counter to the Party's desire for a total grip on the economy.

Innovation

Innovation is yet another area that throws the Party's dilemma into stark relief. China does need to become more innovative to overcome the middle-income trap. At the current stage of economic development China excels in technology absorption – it makes money by applying technologies developed in other countries in its huge market. Yet in general it still lags behind its Western peers in terms of an innovation-enabling environment. The high number of IT startups in China may be proving all those who are sceptical about Chinese innovation capacity wrong, but the IT sector is an exception.

Unlike other parts of the Chinese economy, it is devoid of vested interests, big, politically-connected players, private rather than state-dominated and it is one of the truly national markets offering massive economies of scale (other markets are mired in local protectionism at the level of provinces). Innovation on this scale in the Chinese IT sector means creative destruction and therefore disruption. Will China be

supportive of such an innovation system in other sectors of the economy and allow market forces to choose the losers and winners? The prospects of bankruptcy and temporary unemployment will make China leery of such a high-risk, high-reward environment as the one in Silicon Valley, a model the Party nonetheless aspires to emulate. Another impediment to innovation may be in China's political system. Authoritarian systems may not be able to deliver the necessary level of rights protection across the entire economy and censorship will pose hurdles for industries relying on information handling and statistics. China's leadership also has to become more realistic about building new industries from scratch on the basis of foreign technology, as the growing backlash against Chinese strategic acquisitions heralds that this will be increasingly difficult in the future (although the government may turn back to cyber espionage as a remedy in response).

Will the 'Belt and Road' initiative deliver?

The 'Belt and Road' initiative advances the vision of a Sino-centric, interconnected global economy, lubricated by Chinese largesse and working according to a Beijing (state-led) rather than Washington (liberal) consensus. But ever since the plan's proclamation, the environment for its implementation has substantially changed. For the moment, Trump and Xi may have found a way to defer economic hostility by inking a deal linking trade concessions and cooperation on North Korea with an agreement on dropping accusations of currency manipulation against China. Yet, Trump's economic protectionism and the choice of China trade hawks for key government positions suggests that trade disputes may still become a major source of friction in US-China relations. China faces a backlash in Europe, too. Discussions on Market Economy Status and strategic acquisitions of industrial jewels (such as KUKA, a German robotics company) have triggered a massive outcry against further liberalisation of economic ties with China. Economic corridors through such vast underdeveloped and politically unstable areas as Central Asia are not only economically unviable. They are simply not implementable even when costs do not play any role. The model behind the plan – credit-fuelled growth – is hitting a wall: in Sri Lanka, for instance, repayments of Chinese interest gobble up a suffocating share of the country's budget.

Conclusion: China in 2025

Given all those challenges, what is the prediction for China's economy in 2025? Devising numerous contingencies or scenarios is beyond the scope of this chapter. But for all intents and purposes, instead of collapsing into a financial crisis or becoming

the world's greatest innovation powerhouse, the most probable scenario for China remains that of muddling through.

Current figures for China's GDP per capita suggest that the country still has a lot of room to grow (Japan kept growing rapidly until it exceeded 80% of US average income). China still has a lot to do to catch up in terms of urbanisation, and the government seems to be betting that the resulting necessary investments in infrastructure will extend the current growth trajectory into the future. President Xi has publicly said that China must maintain a 6.5% GDP growth target through to 2020, reflecting the assumption that China's potential growth rate is much higher than Japan's was when it faced a similar debt overhang. That would mean China has plenty of 'catch-up' growth left.

But such expectations may run afoul of the interplay between politics and economic development. The assumption that economic growth underpins the Party's legitimacy will at a certain stage have to give way to the realisation that, historically, political reforms tend to happen at higher income levels. The richer a society grows, the more political reform it demands. That does not necessarily mean more democratisation but rather better, more efficient governance. Political accountability is the precondition for this, although not a regular trait of authoritarian governments.

Privatisation of large SOEs is off the cards. Private and foreign companies may be granted access to more sectors currently dominated by SOEs. But this will be done through mixed ownership, so as to allow the state to keep ultimate control. State interference in China will continue and will be a challenge for Western companies. China will develop niches in strategic industries, in which it will be among the leaders globally. But most of this will happen in new industries, such as IT, where the lack of vested interests allows for bolder experimentation.

Giving local authorities new sources of revenue, such as property and consumption taxes, might be launched as pilot projects, but China may not be able to outgrow its debt. Reining in the growth of credit (resulting in a lower rate of investment) will only be possible if the Chinese economy finds an alternative source of growth. Exports will not pick up the slack. Despite the massive financial subsidies underpinning the 'Belt and Road' initiative and accompanying international and domestic funds, Chinese exports will have to find a way to contend with growing protectionism.

IV. FOREIGN POLICY: THE DOMESTIC DRIVERS

Alice Ekman

During Deng Xiaoping's era of reform and opening-up, China's foreign policy was inward-looking: the priority lay with domestic economic development and China could not afford an ambitious foreign policy. 35 years later, this approach has undergone significant adjustments. Under Xi Jinping, China's foreign policy is less encouraged to 'keep a low profile' (韬光养晦 *tao guang yang hui*) than to 'strive for achievements' (奋发有为 *fen fa you wei*). In light of these doctrinal shifts, China's diplomacy has become much more proactive, taking initiatives in the Asia-Pacific region and beyond.

Economic development as a key driver of foreign policy

Undoubtedly, China's foreign policy continues to be shaped primarily by domestic economic development objectives, even as other factors such as the personality of Xi Jinping or the ideological framework promoted by the Communist Party of China (CCP) gain in prominence. The reasons for this are rooted in the long-standing gap in economic development between the eastern and western parts of China and the crucial role the Party's ability to deliver economic growth plays in underpinning its legitimacy. The New Silk Road infrastructure development plan (or 'Belt and Road' in official terms) launched by Xi Jinping in autumn 2013 is specifically designed to address the country's economic weaknesses – most notably through the opening up of the country's poorest provinces and the search for market opportunities abroad in sectors that are currently dealing with significant overcapacities (construction, steel and coal, among other industries, are particularly affected).¹ With transport infrastructure development, China also wishes to strengthen infrastructure networks (including ports, airports, roads, railways, pipelines, telecommunications, submarine cables and satellites) within its broader neighbourhood, which could in due course facilitate trade within the region and, most importantly, bring Chinese goods to European markets via alternative routes that circumvent the chokepoints of the Malacca Strait. The 'Belt and Road' initiative can be seen as a more ambitious follow-up to the 'going out' policy launched in the late 1990s with the aim to internationalise Chinese firms and as another indication of the centrality of domestic economic development concerns in shaping China's international posture. This internationalisation trend, which has now been ongoing for more than three decades, has significant foreign policy implications, exposing China to external shocks far away from its borders, in regions where it has heavily invested, such as Sudan,

1. For a more comprehensive analysis of the domestic objectives underlying the 'Belt and Road' projects, see for instance Alice Ekman, 'China in Asia: What is behind the New Silk Roads?', *Note de l'Ifri*, July 2015.

Burma/Myanmar, or Libya. Even as China chooses not to get directly involved in internal or regional conflicts, the Chinese government – along with major state-owned companies – has to better assess and anticipate risks in countries where it is present to prevent potential harm to its citizens and financial losses.

Domestic energy and raw material needs have also driven China's foreign policy orientations to a great extent over the last two decades – as China's net energy demand has expanded dramatically, almost tripling from 1.134 million tons of oil equivalent in the year 2000 to 3.080 million tons in 2015.² As a result, Chinese investments in the energy sector have swiftly increased during this period, expanding energy infrastructure both at home and abroad – increasing China's presence in a number of regions, including Africa and the Middle East. These outbound investments further accentuate the economic-security nexus, highlighting the abovementioned need to protect Chinese nationals and assets abroad as a rising concern for both Chinese diplomacy and companies.

Xi Jinping: a more ambitious and proactive foreign policy

Although much continuity in China's overall foreign policy orientations is observable from one president to another, the personality of each president does matter. Since the nomination of Xi Jinping as President of the People's Republic of China (PRC) in March 2013, China's foreign policy ambitions and methodology have been marked by a series of significant readjustments. Xi swiftly consolidated his leadership of the foreign policy decision-making process (supervising most internal meetings related to foreign affairs, reinforcing 'top-level policy design' and coordination, launching new concepts and plans and increasing the number of visits to foreign countries), with the ambition to set a long-term foreign policy strategy for China's neighbourhood and beyond. Under his leadership, the overall number of initiatives taken by Chinese diplomacy both at bilateral and multilateral levels has been increasing at a fast pace. China is reinforcing its presence in existing multilateral gatherings (such as the G20) and consolidating new ones that it has created (such as the Asia Infrastructure Investment Bank, regional cooperation frameworks or 'Belt and Road' summits).

In addition to institutional activism, conceptual innovation is also encouraged under the current leadership. China has recently created new foreign policy concepts – such as the 'Belt and Road' but also the 'Community of Common Destiny', the 'New Type of Major-Country Relationship' and the 'New Type of International Relations' – and is now promoting them through significant public diplomacy efforts with the ultimate aim to establish them as mainstream regional and international concepts. Given the vast human and financial resources devoted to these efforts deployed through a range of promotion channels (led by government, with the sup-

2. Enerdata, *Global Energy Statistical Yearbook 2017*.

port of government-affiliated media, academic institutions, diaspora associations, state-owned enterprises, among others), chances that such concepts filter into foreign policy terminology in the coming years are high. Already, Chinese diplomats have managed to include explicit references to them in statements emanating from multilateral gatherings (including a UN Security Council resolution,³ a G20 joint statement and ‘Belt and Road’ forum speeches and agreements)

Overall, in both practical and conceptual terms, Xi Jinping turned the page on Deng’s ‘expectant’ foreign policy and its legacy. This being said, China’s foreign policy positions appear much more strategic, anticipative and clear-cut as they relate to core interests in the region – as, for instance, on cross-Strait relations with Taiwan and sovereign claims in the East and South China Seas – than on other issues that unfold further away and are seen as less directly related to China’s immediate priorities – such as the Syrian or the Ukraine crises.

The ideological dimension of China’s foreign policy

China’s diplomatic approach is often considered pragmatic, calibrated to the concrete situation on the ground and the nature of the national interests at stake. This has been true since Deng Xiaoping, who departed from the more ideology-driven foreign policy orientations of the Mao era. At the same time, some traditional ideological dimensions of this era continue to permeate Chinese foreign policy today and should not be easily discounted. In direct contrast with his predecessor Hu Jintao, Xi Jinping’s foreign policy approach ascribes a greater role to its ideological foundation.

First of all, China’s proactive foreign policy today is motivated by a strong sense of national pride and the belief that it is time to restore the Chinese nation to a position of international recognition and respect. Beijing considers that it now has the economic capabilities to support a more ambitious foreign policy, which would lead to the ‘great rejuvenation of the Chinese nation’ and supersede the collective trauma of the ‘100 years of humiliation’ that dates back to the First Opium War. This being said, although China’s official communications are imbued with nationalistic references, the pressure of popular nationalism and the weight of domestic public opinion in general on foreign policy should still not be overestimated. The Party is well aware that nationalism represents a double-edged sword for political stability and oversees or even censors public opinion through various online and of-

3. UNSC Resolution 2344, passed on 17 March 2017, contained mentions of the ‘Belt and Road’ initiative and alluded to the concept of a ‘Common Community of Destiny’, first proposed by Xi Jinping in late 2012. For the full text of the resolution, see <https://www.un.org/press/en/2017/sc12756.doc.htm>.

fine tools – pre-emptively or whenever the Party considers that its expressions have strayed too far from the official line.

In addition to nationalism, China's traditional antagonism against Western liberal democracies – and the United States first and foremost – shapes much of its foreign policy discourse and orientations. Increasingly, China is promoting an alternative model of international relations which is based on partnerships and not an alliance system (certainly not a US-led one).⁴ China is also advancing an alternative development and governance model, putting into question the 'Washington consensus' and positioning itself as a 'solution' provider, explicitly pointing to perceived weaknesses of the Western liberal democratic system. This manoeuvring is supported through training programmes directed at officials from developing and emerging countries, which often include an ideological component in addition to practical training.⁵ China also seeks to bolster its image as a 'solution' provider through its international media outlets – now broadcasting in local languages in a growing number of countries – and in the multilateral gatherings in which it participates (such as the World Economic Forum in Davos 2017, for instance) or organises itself (such as the 'Belt and Road' Forum in Beijing, held in May 2017).

These ideological currents of nationalism, historical resentment against the West and aversion to alliances are often intertwined. While not exhaustive – other ideological considerations, such as a realist view of world politics, also influence decisions – they form the general framework of China's foreign policy communication and orientations today.

2025 forecast

So far, the pace of China's foreign policy initiatives does not seem to be affected by the slowdown in economic growth. Initiatives are not less numerous, and they do not appear less ambitious. On the contrary, in the case of the 'Belt and Road' initiative, an increasing number of countries and sectors are now included, with significant infrastructure projects in the pipeline and new calls to expand the network of affiliated institutions and cooperation mechanisms.⁶

Occasional hiccups, so far, have not led to a downsizing of China's foreign policy ambitions primarily because China has adopted a long-term perspective with

4. On this, see China's White Paper on China's policies on Asia-Pacific security cooperation, published by China's State Council Information Office on 11 January 2017. Full text (official English version): http://english.gov.cn/archive/white_paper/2017/01/11/content_281475539078636.htm; Xi Jinping, opening speech at the Belt and Road Forum, 14 May 2017. Full speech (official English version): http://news.xinhuanet.com/english/2017-05/14/c_136282982.htm.

5. Yun Sun, 'Political party training: China's ideological push in Africa?', *Brookings*, 5 July 2016. Available at: <https://www.brookings.edu/blog/africa-in-focus/2016/07/05/political-party-training-chinas-ideological-push-in-africa/>.

6. See Xi Jinping's opening speech at the Belt and Road Forum 2017, in which he announced the creation of new international networks (among others the 'Belt and Road free trade network', 'multi-tiered Belt', 'network for co-

regard to its foreign policy. The centenary of the founding of the PRC in 2050 is seen as a significant milestone for the abovementioned ‘great rejuvenation of the Chinese nation’ and full implementation of the diplomatic initiatives launched so far. China’s leadership is hoping to deliver significant domestic and foreign policy returns by then, with first results already expected for 2020, for the centenary of the CCP, whose nationwide celebrations will take place two years before the 20th Party Congress and the possible end of Xi Jinping’s mandate. By these deadlines, China will try to connect the various initiatives of its proactive economic diplomacy across regions (in particular investments in strategic infrastructure under the ‘Belt and Road’ framework mentioned above that consists of ports, airports, railways, pipelines, telecommunication, submarines cables and satellites) to gain logistical and geostrategic ascendancy beyond its immediate neighbourhood. Given the large-scale publicity surrounding the ‘Belt and Road’, failure to deliver results by these set deadlines would have severe implications for the domestic assessment of Xi’s era and legacy.

Ambitions and expectations are high, but the Chinese leadership views the current international climate as generally favourable and appears increasingly self-confident in its own ability to make the most out of this context. This conviction has been reinforced since the global financial and economic crisis that emerged in autumn 2008 and the Chinese economy’s relatively strong resistance to the after-shocks of the crisis, which helped elevate China’s economic and political profile at the global level. The rather positive international reception to China’s diplomatic overtures overall, especially the ‘Belt and Road’ initiative and the Asian Infrastructure Investment Bank (AIIB), further reaffirmed Chinese diplomacy’s self-confidence. Although it is too early to assess their eventual prospects, the launch of these initiatives itself was considered a success by Beijing, given the wide media coverage internationally and the large number of countries that indicated interest in participation at an early stage.

With this renewed self-confidence and perception that the current context is favourable, it is likely that Beijing’s diplomacy will continue to increase and diversify the number of its institutional initiatives. China is likely to remain proactive in fields of existing international governance structures, such as finance and trade. But China has likewise signalled readiness to take advantage of the opportunity to shape global governance where still under construction, including in non-traditional areas like cyberspace,⁷ space and climate change (a more detailed analysis of China’s coming role and contributions to global governance will follow in the third section of this Report.) Determined to lead (‘guide’, according to official terminology) the global governance restructuring process, Beijing will continue to position itself as

operation among NGOs’, ‘Joint Laboratory Initiative’, ‘Technology transfer initiative’, ‘big data service platform’).

7. Long Zhou, the coordinator of cyber affairs at China’s Ministry of Foreign Affairs, announced plans for a ‘China solution’ of governing the Internet. AFP, 2 March 2017. See also China’s ‘International Strategy of Cooperation on Cyberspace’, released on 14 January 2017. Full text (official English version): http://news.xinhuanet.com/english/china/2017-03/01/c_136094371.htm

the prime supporter of multilateralism and globalisation. The election of Donald Trump was a watershed moment in this regard. In his speeches in Davos and Geneva in January 2017, Xi Jinping distanced himself from Brexit, 'America First'-like protectionism and the US withdrawal from the Trans-Pacific Partnership by positioning himself as the stalwart defender of 'economic globalisation', a phrase which he repeated more than 30 times during his address. Brexit and the election of President Trump are also seen in Beijing as opportunities to consolidate China's image as a successful and proactive country and contrast it with Western liberal democracies, portrayed as anaemic and in retreat from the world.

Even as China is seizing the immediate opportunities that it sees arising from Trump's election, its ambitions are informed by a longer-term global governance strategy, which few countries can rival in terms of planning, coordination or financial support. This institutional backbone indicates that, beyond rhetorical statements, China could indeed succeed in restructuring global governance in line with its ambitions. Given the determination of Xi Jinping, only a severe economic downturn and loss of resources could lead to these ambitions being downgraded. Even under such circumstances, it would be unlikely for China's foreign policy to return to the 'low profile' approach of the Deng Xiaoping era, given Xi Jinping's significant shift away from it and the extent of China's economic and diplomatic presence and interests abroad today.

An increasingly proactive attitude in China's foreign policy will not mean that China will necessarily become more involved in international crises that it considers secondary or too costly to solve. Rather, China will seek more influence and a stronger voice in institutions that may address these issues – not least to reinforce its ability to avert international intervention in its interests.

Undoubtedly, the personal vision and style of Xi Jinping is shaping China's foreign policy to a great extent. Any forecasting exercise on China's upcoming foreign policy orientations also needs to take into account the domestic political agenda and above all the number of years that Xi Jinping will stay in power. Most likely, he will remain president at least until 2022. But the upcoming 19th Party Congress in autumn 2017 will provide further indications of the exact number of years and the potential of an extension beyond the customary two terms. Even if Xi Jinping steps down in 2022 or before, he has modified China's foreign policy concepts, methodology, institutions and ambitions to such a large degree that these changes are likely to last beyond his mandate.

Section 2

CHINA'S REGIONAL POSTURE

V. TERRITORIAL SOVEREIGNTY: CONCEPT AND PRACTICE

Charles Parton

Introduction

Any appraisal of Chinese policy must start from a basic assumption: the prime aim of the Chinese Communist Party (CCP), to which all other policy considerations are subordinated, is to stay in power. Foreign policy and sovereignty issues are the handmaidens of this domestic imperative.

A second basic assumption is that the Party is increasingly preoccupied with shoring up and consolidating its legitimacy. Nowadays strong legitimacy is essential to keep an educated and increasingly prosperous middle class on board. The regime's strategy in this respect is based on three main themes:

- a continued rise in economic prosperity and maintaining high employment rates;
- convincing the Chinese people that only the CCP can achieve reunification of the nation by restoring China's historic frontiers;
- progress towards the fulfilment of the 'China Dream' (meaning the end of 175 years of foreign bullying and China's restoration to its 'rightful place' as a great power in the international order, able to realign global governance and values towards its own interests).

These elements mean that China's regional (and global) policy focuses on securing resources, markets and investment to maintain rising prosperity and employment; on safeguarding territorial integrity; on controlling the near seas to ensure its security; and on making sure that its values and governance model are better accepted, so that in a globalised world, where Chinese citizens increasingly come into contact with 'Western values', what flows back into China is less harmful to the CCP's interests.

All the above components play a vital role in China's view of sovereignty and its interpretation in its behaviour towards Hong Kong, Macao, Taiwan and the East and

South China Seas. They explain why at times the CCP policymakers act in ways that are inimical to China's (but not the CCP's) broader interests.

It is worth noting that terminology typically used by the CCP in the foreign affairs domain ('win-win', 'community of interest' – the 'Belt and Road' lexicon) is often deployed to distract from these vital considerations.

China's evolving view of sovereignty

If the emperors had ever been asked to define sovereignty, they would have been puzzled. What was historically China's was China, in its most extensive definition. When outsiders (Mongols and Manchus) conquered China, the territories from which they originally hailed became part of China. Owing to rebellion and weakness of the central imperial administration parts of China were sometimes not under sovereign control, but from the perspective of the imperial court they nevertheless remained parts of the civilised world, which was synonymous with China.

Thus the Chinese define their sovereignty through the prism of history, and moreover through a maximalist view of it. This is not the Western view, which inclines to an agreed definition, sanctified and protected by international law or treaties. Like Humpty Dumpty ('When I use a word, it means just what I choose it to mean – neither more nor less.'), for the Party, Chinese sovereignty is largely what the Party chooses it to mean. History, especially in a Leninist, authoritarian state, is a malleable instrument. Thus, while Western capitals may look askance at Chinese claims to sovereignty over Arunachal Pradesh or over maritime outcrops thousands of nautical miles from Hainan, the Party and the majority of Chinese citizens brought up on persistent Party propaganda do not.

The underlying principle that the Party's version of history defines sovereignty has not changed. The realities of power have, of course, defined how that principle has been implemented: Xinjiang, Tibet, Hong Kong and Macao could be recovered; Outer Mongolia, Arunachal Pradesh (South Tibet to Beijing) and the Diaoyu/Senkaku islands could not; Taiwan, the East and South China Sea maritime features contained within the famous 'Nine Dash Line' – which, extending from south China, touches the coasts of the Philippines, Brunei, Malaysia, Indonesia, and Vietnam – remain the objects of ongoing efforts to assert sovereignty

Whether the concept of 'One Country, Two Systems' – originally devised for Taiwan but adapted to facilitate the return of Hong Kong and Macao to Chinese rule – represents a lasting change to the Chinese concept of sovereignty is doubtful. In the context of 1997 and 1999, the transfer of sovereignty back to China allowed for considerable regional autonomy, which was necessary to preserve stability in Hong Kong and Macao. But recent events have witnessed an increasing readiness to curtail that autonomy, and no one knows what will happen after 2047 and 2049, when

the minimum fifty years of ‘no change’, agreed upon in the Joint Declarations with the British and Portuguese governments, expire.

China’s emphasis on sovereignty and non-interference by outsiders extends beyond purely territorial considerations. Internet sovereignty is perhaps the most salient example, but sovereignty in other guises means that foreigners have no right to comment on how China rules within its historically defined territory, be that in the field of human rights, education, NGO activity or cultural affairs.

A new assertiveness

The starting point for China’s rising assertiveness can be traced back to the early 1970s. China attached little importance to maritime sovereignty before the negotiations over the United Nations Convention on the Law of the Sea (UNCLOS) drew attention to the value of Exclusive Economic Zones (EEZs), which give rights to exploit mineral, fish and other resources up to 200 nautical miles from territories recognised as falling within a nation’s sovereign jurisdiction. However in the twentieth century, China was not sufficiently strong to assert sovereignty – although in 1974 it did oust South Vietnam from some of the Paracel Islands.

China’s emergence as the world’s second-largest economy is another obvious factor. This has led to a call for greater respect for Chinese interests. Xi Jinping’s own political ambitions, possibly, and his China Dream, certainly, have added impetus.

But a crucial driver is fear of increased questioning of the legitimacy of a one-party state system which benefits certain Party members at the expense of the masses. This goes back to the three sources of legitimacy sketched out at the beginning of this chapter. The corruption, repression, arbitrary use of power and inequality will be tolerated just as long as prosperity continues to rise for the majority of the population and employment holds up. This has been the unspoken pact between Party and people since 1989. But all economies go through a down cycle. Furthermore, past and present leaderships have declared the economic and social model to be ‘unbalanced, uncoordinated and unsustainable’;¹ hence the need for comprehensive reform. This transition to a new model, if successful, will mean temporary economic dislocation; if unsuccessful, a prolonged economic downturn.

In this respect the need to lay claim to the resources of the China Seas offers one reason for increased assertiveness. Another is the need to ensure the economic welfare of the 400,000 or so people employed in the fishing industry and its protection in the south of China: if deprived of their source of livelihood, they could become a threat to stability. Finally, PLA priorities cannot be ignored. The military remains

1. Wen Jiabao, ‘Premier: China confident in maintaining economic growth,’ *Xinhua*, 16 March 2007. Available at: http://news.xinhuanet.com/english/2007-03/16/content_5856569.htm.

the ultimate guarantor of the Party's continuation in power, which, as noted at the very beginning of this chapter, is the heart of the matter.

The other two legs of the legitimacy tripod must also be strengthened. Only the Party can regain the territories which rightfully (according to its view of history belong to China, and ensure reunification. Correspondingly, acts of 'historical nihilism', the denial of the Party's narrative of the continuum of its own history, have been clamped down on under Xi Jinping. Secondly, progress towards attaining the China Dream can be measured by no longer having to defer to Japan or the United States in the East and South China Seas or over Taiwan. Because it has now rejoined the ranks of the great powers, no one can be allowed to dictate to China, particularly if dictating behaviour in line with Western values poses a threat to the Party domestically. The Party, therefore, fuels the flames of nationalism to shore up its own legitimacy.

Regional consequences

It is worth looking briefly a little further ahead than 2025, to 2049, which marks the second 'centennial goal' of China becoming a modern socialist country, because that goal is likely to affect China's policies and actions in the next eight years.

Hong Kong and Macao

The Hong Kong Basic Law and the Macao Basic Law (in effect their constitutions) are guaranteed for 50 years. Beyond 2047 and 2049 lies the unknown. The 'One Country, Two Systems' concept is not assured to last beyond mid-century, although the CCP might wish it to do so, with adjustments. But to reassure citizens and investors, a vision of the future will have to be articulated well before 2047. The Party will not yet have decided, but current actions and policies suggest that it inclines increasingly to 'One Country, One System'.

Unsurprisingly, the long-term aims are reflected in the Party's policies and actions up to 2025, which attest to its determination that nothing happens which could pose a threat to mainland stability, Party values/ideology and its continuation in power. The CCP is therefore likely to centre on:

- controlling the election process in Hong Kong both for the Chief Executive and the Legislative Council (Legco) seats in a way that nods in the direction of universal suffrage but in reality ensures pro-Beijing candidates;
- restricting freedom of speech, of the press and the online information flows as on the mainland;

- ensuring that national security joins defence and foreign affairs as areas which come under Beijing's control;
- interfering, where necessary, in judicial matters which affect Party interests;
- binding the economies even more closely to the Pearl River Delta area and making Macao less reliant on gambling and gaming revenues.

The last few years, particularly since the publication of the June 2014 White Paper on the Practice of the 'One Country, Two Systems' Policy in Hong Kong, have seen moves towards accomplishing these aims. Overt examples have been the White Paper's failure to assert the independence of the judiciary, which reacted vehemently; the abduction of five booksellers, including from within Hong Kong, because they were selling books containing gossip about the private lives of senior Party leaders; the recent abduction, again from within Hong Kong, of the billionaire Xiao Jianhua; the National People's Congress Standing Committee's interpretation of the Basic Law which resulted in the banning of two elected members of Legco for not taking the oath properly. Less overtly, the United Front Work Department (UFWD) has been encouraging its adherents in Hong Kong to exercise greater control over academic freedoms, to promote a more 'patriotic education' and to mobilise against those seeking a freer definition of democracy.

In sum, the CCP will tend to interpret sovereignty over Hong Kong and Macao, 'democracy' or 'autonomy' in a way which minimises the contrasts with and influences on a less free mainland. It will adopt an increasingly harsh tone towards outsiders who, in the words of the conclusion of the White Paper, 'use Hong Kong to interfere in China's domestic affairs' or 'act in collusion with outside forces'.² This incidentally sets the scene for further friction since Hong Kong citizens do not regard sovereignty as a flexible concept.

Nevertheless there are restraints on overemphasising the 'One Country' aspect at the expense of 'Two Systems'. Too great a curtailment of freedoms could lead to an outflow of capital, investment and people from the territories. Too great an interference in the rule of law would undermine the bedrock of Hong Kong's economic success (the abduction of a billionaire businessman from a Hong Kong hotel earlier this year is a worrying development in this respect). Hong Kong remains important too as a base for the internationalisation of the RMB (although this is likely to remain on hold for the foreseeable future). Storm clouds over the future of Hong Kong would also undermine a possible extension of the 'One Country, Two Systems' approach to Taiwan.

2. Information Office of the State Council of the People's Republic of China, 'The Practice of the "One Country, Two Systems" Policy in the Hong Kong Special Administrative Region,' *White Paper*, June 2014. Available at: http://english.gov.cn/archive/white_paper/2014/08/23/content_281474982986578.htm.

Taiwan

The Party aims to establish sovereignty over Taiwan as part of its reunification strategy and seeks to integrate Taiwan into China's fold as a Special Autonomous Region (note that many both in and outside Taiwan would question whether the words 'sovereignty' and 'reunification' are apposite). In the meantime, Beijing insists on two things: that the Democratic People's Party (DPP) and its leader Tsai Ing-wen do not advocate independence; and adherence to the '1992 Consensus', which Beijing defines as respecting the basic principle that there is only one China and therefore only one sovereign country, which must be represented by one government. Overall, despite the rhetoric, China has little choice but to continue the policies of the last decade. While much has been made of Xi Jinping's statement in September 2014 that China could not be patient forever, over a decade earlier President Jiang Zemin had said the same. More importantly, given the urgency of reforming China's 'unsustainable' economic and social model, Xi cannot afford tensions, which might lead to major disruption and even war, to influence cross-Straits economic and investment relations. The resulting downturn and likely rise in unemployment in Fujian and Zhejiang would not be worth the risk which this would pose to stability, unless the economic situation was already so bad that the Party deemed it necessary to stir up nationalist fervour

So Beijing must continue to hope that closer economic and investment links, more educational and cultural exchanges, plus UFDW work behind the scenes will eventually convince the Taiwanese of the validity of the 'One Country, Two Systems' concept. Meanwhile events in Hong Kong might argue otherwise, and polls show increasing numbers of Taiwanese identifying themselves as Taiwanese rather than Chinese or Taiwanese/Chinese (in 2016 58% v 3.4% v 34%).³

But Xi Jinping is also applying more pressure by insisting that the DPP endorse the '1992 Consensus' as opposed to just not denying it. Perceived failure to toe Beijing's line is being met by a graduated response (allowing more of the 21 small states which still maintain diplomatic relations with Taiwan to switch to Beijing; reducing tourism flows from the mainland to Taiwan; buying fewer agricultural and other products; curtailing preferential investment policies; halting further negotiations between the Mainland Affairs Council and the Association for Relations Across the Straits; keeping Taiwan out of the WHO and economic and financial organisations, e.g. the AIIB, RCEP and TPP).

The next few years are likely to see the tightening of the above measures and a fierce Chinese reaction against external actors perceived to be helping Taiwan to resist the increased pressure. Again, what lies behind all the above is the fact that an independent Taiwan, or at least one which does not acknowledge that sovereignty

3. 'Taiwanese/Chinese Identification Trend Distribution in Taiwan (1992/06~2016/12)', Election Study Center, National Chengchi University, 2016. Available at: <http://esc.nccu.edu.tw/course/news.php?Sn=166#>.

resides in Beijing, undermines the narrative of the China Dream and, by extension, one of the three pillars of Party legitimacy.

The ‘One China Policy’ is fundamental to the Party’s legitimacy. It seemed initially as though the advent of the Trump administration in the White House would strain US-China relations, with the early adoption by the new President of a confrontational stance towards China and criticism of the ‘One China Policy’. President Trump has since been more conciliatory and the likelihood is that Beijing and Washington will wish to continue much as before: for Xi, there are the more important matters of consolidating power and reform to consider; for Trump, trade issues and ‘making America great again’ would be undermined by tension or hostilities – something which neither the American people nor ASEAN governments are likely to support unless indisputably provoked by Beijing. Nevertheless, Trump has introduced an element of uncertainty, allowing room for miscalculation and mishap. Furthermore, if he crosses what Beijing deems to be non-negotiable red lines on the ‘core issue’ of Taiwan, the Xi leadership will select from a menu of punitive options, including measures against major US companies doing business with China, cessation of current levels of cooperation on North Korea, and substantially increased political, economic and military pressure against Taiwan itself.

In the absence of any mishap or destabilising actions engineered by Washington, Xi has little choice but to take his ire out on Tsai (which is why she may not welcome being used as a pawn in Trump’s battles with China). Even then, Xi cannot push her too hard, if he is to avoid unpleasant economic and investment consequences being visited on the mainland, to say nothing of creating further alienation among the young (and not so young) in Taiwan. The Party may find that its instrumentalisation of history, used as a justification for sovereignty claims, may not be so effective across the Strait as it is on the mainland.

The East and South China Seas

Taiwan is important for another reason. It is strategically located between the East China Sea (ECS) and the South China Sea (SCS). It is here that China’s sovereignty claims based on history (which ‘shows’ that the Chinese were the first to discover, name, fish, navigate through and land on the islands) have met the greatest resistance.

At first sight it seems odd that China chose to move sharply away from its old policy of parking sovereignty to one side and getting on quietly with consolidating its interests in the China Seas. In this manner, China had sought to avoid tensions with Japan, a key trading and investment partner, and alienating ASEAN countries, among whom China wishes to establish economic and eventually political leadership. Joint exploitation of resources both in and under the sea would inevitably have favoured Chinese companies, bringing benefits without tensions. Beijing’s outright

rejection of the ruling of the Permanent Court of Arbitration's (PCA) in the SCS case that the Philippines brought against China has marked a new and uncompromising posture. This has exposed China to the accusation that it does not respect international law and has encouraged greater defence spending by ASEAN countries and Japan.

However, events become altogether clearer if put into the context of the need to shore up the Party's legitimacy. The large maritime interest group of fishermen and those who protect them needs to be taken into consideration. More potent yet are the dictates of the 'China Dream' and of China regaining its rightful place in the world as a great power, fuelled by nationalist sentiment. Furthermore, if China is eventually to become a great power, it must first secure military control of its maritime backyard. Nor would Xi be the first world leader to reinforce the military by enhancing its role in pushing forward the country's interests. Indeed, since the PLA is the ultimate guarantor of the Party's power and since Xi is both reforming it and asserting his personal control, the domestic political imperative to safeguard the primacy of the Party is a major reason for acting against China's wider interests of stability.

The Party's long and shorter-term goals in the China Seas

The logic of current Party pronouncements suggests that China's longer-term aims are:

- recognition of its sovereignty over islands and maritime features;
- acknowledgement that these features are entitled to an EEZ (200 nm);
- military control over all of the ECS and SCS. This would mean restrictions on both military and intelligence-gathering activities within China's EEZs and the building of bases not just in the Paracels and Spratlys, but also on the Scarborough Shoals, creating a triangle from which all the China Seas could be covered, thus protecting China's submarine base in Hainan and preventing US threats to the Chinese mainland (and a recovered Taiwan).

In the shorter term, Beijing appears to be aiming to:

- undermine the PCA verdict of July 2016, which denied EEZs to many features in the SCS;
- prevent ASEAN countries and Japan from making common cause against its interests in the SCS;

- consolidate the military bases in the SCS, upon which work has already begun;
- reduce US influence and involvement in the region.

Traditionally, the Party has used three methods to advance its foreign policy:

- an insistence on bilateral dealings to solve conflicting interests;
- *faits accomplis* (e.g. building a runway and then negotiating about it);
- multilateralism if that suits China's position (permanent membership of the UN Security Council has proven an asset in this regard).

Recently a fourth tool has grown in salience: financial and economic support. In the China Seas, bilateralism is particularly appealing because it helps to bring to bear the stick and carrot of economic clout. *Faits accomplis* are defended under the cover that sovereignty allows China to do what it wishes with its own islands. Multilateralism is a less visible tool in the SCS, although the influence exerted over the ASEAN Foreign Ministers' meeting in July 2016, where China achieved the withdrawal of a final communiqué, which was critical of its stance in the SCS, offers some illustration.

Conclusion: Likely developments in the SCS up to 2025

Developments in the China Seas largely depend on US actions. This introduces a fair share of ambiguity. Does the president's slogan 'Make America Great Again' trump his more isolationist slogan 'America First'? Will he seek to impede the rise of China as a great power? Will he use support for Japan, Taiwan and ASEAN countries as leverage to advance trade interests with China?

It remains to be seen whether President Trump's recent more conciliatory stance towards China continues. In the longer term he may seek to avoid the impression that a weak United States is being pushed around by China. Therefore increased tension may well be the hallmark of the next few years. China sees room for two superpowers, but if Trump's advisers do not, the place where the latter must start to impose their vision is in the China Seas – in particular by denying China the possibility of constructing military facilities in the Scarborough Shoals. So far, China has resisted the temptation to test US resolve by attempting any construction there. Yet, the logic of China's past and current tactics of small incremental steps, none by itself big enough to warrant overt counteraction, is that eventually China will try to establish a base. This may well lead to a clash. In the meantime, if the US comes to adopt a more aggressive US presence in the SCS, through more frequent but less predictable freedom of navigation operations, this could lead to incidents during unplanned

air and maritime encounters. While these could spiral out of control, it is unlikely that Xi Jinping would want to allow that to happen or that elements within the PLA would go against their commander in chief's policy – unless a severely deteriorated domestic economic and political situation pushes the leadership to engage in sabre-rattling in the SCS to distract Chinese citizens from pressing woes at home.

The other important variable is the degree of support in Taiwan and other countries involved in the China Seas disputes for a more aggressive US posture. The evidence so far is that, with the exception of Japan, countries are not prepared to stand up to China or to lose trade and investment opportunities. Nor has President Trump's ambiguity and talent for insulting other countries helped reinforce trust that he would not leave them in the lurch if US trade or other national interests so demanded.

In sum, in the years leading up to 2025 we are likely to see China continuing its current policy of gradually consolidating its hold on the China Seas while proclaiming its peaceful intentions and invoking history as a justification for its claims of sovereignty. It will continue to build up the presence of its coastguard and of fishing vessels with an armed defence capability. Regional countries, especially Japan, will react in a similar vein, raising the likelihood of clashes and mishaps. China will continue to prioritise the buildup of the PLA Navy. Trump's threat to increase the US Navy fleet assumes that there is the requisite budget support in Congress and comes with a time lag. But in the meantime it is a question more of Trump's willpower than firepower (US forces are likely to remain superior to China's up to and beyond 2025). The rise in Sino-American tensions, and how successfully these are managed, will ultimately depend on how strenuously the United States resists China's aggressive tactics.

VI. NEIGHBOURHOOD POLICY: TACTICS AND TOOLS

Mathieu Duchâtel

Introduction

More carrots, more sticks: this could sum up the change in China's foreign policy under the leadership of Xi Jinping. Since the 18th Party Congress (November 2012), President Xi Jinping has spared no effort to consolidate his power within the Communist Party and the People's Liberation Army (PLA), using political promotions and taking advantage of the anti-corruption struggle. At the end of 2016, 86 PLA officers at the rank of major general or above and 127 officials holding the rank of vice-minister or above had been targeted by the anti-corruption campaign.¹

This process of power centralisation, which will consolidate further at the upcoming 19th Party Congress, has taken place after a period when many in Beijing were critical of the country's foreign policy under the collective leadership around Hu Jintao. Power was said to be too diffuse, and the decision-making hijacked by various special interest factions; talk of fragmentation was the currency of the day. It was only after the demise of Bo Xilai, Zhou Yongkang, Xu Caihou and Guo Boxiong that observers realised the magnitude of the challenge that power struggles had posed to the policymaking capacity of the Chinese state. Xi Jinping has concentrated in his first term on overcoming fragmentation and indecisiveness, taking bold foreign policy initiatives, and developing a new narrative to tell the world the story of China as a great power, progressively filling the widening vacuum resulting from the irreversible relative decline of the United States. After the 'Belt and Road' Initiative Forum held in Beijing in May 2017, the Chinese media were full of allusions to Xi Jinping's ambition to "do something big" (做些大事 *zuo xie dashi*).

This chapter examines the change in China's foreign policy under Xi Jinping from the perspective of tactics and tools. It develops three arguments. First, China's foreign policy has now fully incorporated the use of economic statecraft. After a long and slow transition, sanctions are now clearly part of the toolbox, while the 'Belt and Road' initiative can be interpreted as a stratagem of economic inducement to gain political influence. Second, military power is better integrated into foreign policy goals, with deterrence and the threat of coercion supporting China's posture on its national security priorities in East Asia, namely Taiwan, maritime disputes and the rivalry with the US-Japan alliance. At the same time, the new imperative to

1. Andrew Wedeman, 'Four Years On: Where is Xi Jinping's Anti-corruption Drive Headed?', *CPI Analysis*, 19 September 2016. Available at: <https://cpianalysis.org/2016/09/19/four-years-on-where-is-xi-jinpings-anti-corruption-drive-headed/>.

defend China's overseas interests (海外利益 *haiwai liyi*) is reshaping China's footprint on international affairs, benefiting from stronger power projection capacities, leadership commitment and sizeable budgets. Third, Chinese foreign policymakers are currently only showing limited interest in soft power and institution-building. However, the inward-looking tendency of the Trump administration has been interpreted as an opportunity to reshape the global narrative on the rise of China, seen in Beijing as too negative and unfair. This approach has encountered success but only concrete results will matter over the medium term – there is a limit to the degree perceptions are shaped by skilful communication. The chapter concludes that these tactics and tools are determined by a grand strategy seeking leadership status for China in international politics.

Economic statecraft: sanctions and inducements

China's foreign policy under Xi Jinping is fuelled by a powerful economic engine, the transformation of China as a leading investor in foreign countries. In 2016, Chinese investment overseas increased by 40% compared to the previous year, reaching €180 billion (including €35 billion in the EU).² This trend will continue during the second term of Xi Jinping, affecting China's relations with its many partners across the world to which it brings new opportunities for economic development but also new challenges of maintaining ownership over critical infrastructure and strategic sectors.

The 'Belt and Road', Xi Jinping's signature foreign policy initiative, is an attempt on an unprecedented scale to leverage Chinese economic power and guide outward investment and loans towards key target countries. In his opening speech at the May 2017 Belt and Road Forum in Beijing, Xi Jinping pledged scaling up financial support for the initiative by committing an additional 100 billion RMB to the Silk Road fund, among other financial instruments.³ Among Chinese academics and experts, endless debates about whether the new Silk Roads are driven by economic interests or by geopolitics and whether market forces should be given more space have ensued. Without access to the inner proceedings of the Standing Committee of the Politburo and the Leading Small Group on implementing the 'Belt and Road' initiative, evidence to conclude that China is intentionally leveraging economic statecraft to acquire political influence remains circumstantial. However, whether there is an intention or not to expand political influence is to a large degree irrelevant, as foreign investment and loans inevitably translate into an accumulation of political influence, even if this was not the primary intention – especially when they centre on critical infrastructure, such as energy and transportation. Investments in infrastruc-

2. Thilo Hanneman and Mikko Huotari, 'Record Flows and Global Imbalances, Chinese Investment in Europe in 2016', Rhodium Group/MERICs, no. 3, January 2017. Available at: <http://rhg.com/reports/record-flows-and-growing-imbalances-chinese-investment-in-europe-in-2016>.

3. 'Full text of President Xi's speech at opening of Belt and Road forum', *Xinhua*, 14 May 2017, Available at: http://news.xinhuanet.com/english/2017-05/14/c_136282982.htm.

ture entail deeper political ties at many levels between China and recipient states, while Chinese development banks acquire leverage through loans.

While economic inducements are in full play under Xi Jinping, China's approach to the use of sanctions has evolved gradually over the years. At the multilateral level, nuclear proliferation crises in Iran and North Korea have led China to reconsider UNSC sanctions. While a degree of reluctance and scepticism remains, China has moved from being ideologically opposed to sanctions to openly discussing how they can be more effective. The recent report of the UN panel of experts monitoring the implementation of UNSC sanctions on North Korea – to which China has contributed with an expert from the defence ministry helping the investigation and signing the report – shows that many cases of sanction evasion happen on Chinese soil.⁴ There is much that China's Ministry of Public Security can do to curb these activities, and China has yet to cut vital energy supplies to the Democratic People's Republic of Korea (DPRK). But if there is more that China can do to increase pressure on Pyongyang, the five nuclear tests and the numerous tests of ballistic missile technology have led China to support a highly constraining sanctions regime, which seriously limits North Korean economic development and proliferation opportunities. In 2006, after the first nuclear test, China was only willing to agree to cosmetic and symbolic sanctions.

At the level of bilateral relations, however, China's use of sanctions deserves special attention because of a very specific *modus operandi*: plausible deniability. After the South Korean government agreed to the deployment of the US missile defence system Terminal High Altitude Area Defense (THAAD) on its soil, China retaliated on many economic fronts simultaneously, arguing that THAAD was aimed at undermining its own nuclear deterrent (see below). The conglomerate Lotte, which owned the land on which THAAD was to be deployed, started encountering major trouble in China, leading to the closure of 85 of its 99 department stores. The Chinese National Tourism Administration issued a warning about travelling to South Korea and several travel agencies cancelled their tours to the Republic of Korea (ROK). Asked about these combined retaliatory actions, Chinese Foreign Minister Wang Yi commented that they were not 'initiated by the government, but reflect[ed] the sentiment of the Chinese people'.⁵ This pattern of denial can be observed in other cases of bilateral tensions. Under Xi Jinping, targets of Chinese ire have included Norway, the Philippines and Japan but in these cases China never acknowledged publicly that sanctions were being applied. The use of denial makes diplomacy more difficult – as

4. United Nations Security Council, *Report of the Panel of Experts established pursuant to resolution 1874 (2009)*, S/2017/150, 27 February 2017. Available at: <http://undocs.org/S/2017/150>.

5. 'Foreign minister demands China's withdrawal of retaliatory actions for THAAD deployment', *The Dong-A Ilbo*, 20 February 2017. Available at: <http://english.donga.com/Home/3/all/26/852557/1>.

no one officially takes responsibility. Only a show of goodwill at the highest level of top leadership and summit diplomacy can result in sanctions being removed.

The interplay between sanctions and inducements is in full swing in the South China Sea. Off the record, senior diplomats from the Philippines recount how behind closed doors, Chinese negotiating teams have tried to persuade them that relinquishing claims over the South China Sea would be rewarded with major economic opportunities.⁶ Reality has caught up with these secret communications following Rodrigo Duterte's election as president in June 2016. Since Duterte has avoided challenging China in the wake of the arbitration award on the South China Sea, he obtained investment, political support for his violent anti-drug campaign and even access for Filipino fishing boats to the seas around Scarborough Shoal, which had been blocked by Chinese law-enforcement vessels since 2012. The message is clear: accepting a symbolic regional hierarchy dominated by Beijing comes with economic rewards.

Military power: deterrence and coercion

Under Xi Jinping, the militarisation of China's foreign policy has made further progress. In 2004, Hu Jintao incorporated Military Operations Other Than War (MOOTW) into the doctrine of the PLA, opening the way for resorting to the military outside the scope of the defence of national sovereignty. Today the PLA has stepped up efforts at public diplomacy, stressing its contributions to international security, and undertaking much more international engagement than in the past.

In the past five years, military power has affected Chinese foreign relations in three main areas. First, nuclear deterrence remains a strategic determinant of China's foreign policy and China is stepping up counter-surveillance operations against the United States. Chinese military experts argue that US-China nuclear relations are based on an asymmetrical power structure wherein the United States has absolute dominance in terms of offensive capabilities and is making rapid progress in the deployment of defensive ones.⁷

In this environment, China interprets many US actions as driven by an intention to deny the PLA a reliable nuclear deterrence force. The deterioration of the situation in the South China Sea since 2008 and the tensions between China and the Repub-

6. Author's interviews, 2015 and 2016.

7. Lu Yin, 'Reflections on Strategic Stability', in Li Bin and Tong Zhao (eds), *Understanding Chinese Nuclear Thinking*, Carnegie Endowment for International Peace, 2016, pp. 127-48. Available at: <http://carnegieendowment.org/2016/10/28/understanding-chinese-nuclear-thinking-pub-64975>.

lic of Korea since 2016, at least in part, are also an extension of China's sensitivities about the impact of this asymmetric capability distribution on strategic stability.

In 2008, the Federation of American Scientists (FAS), a US non-profit organisation monitoring developments in nuclear weapon holdings and operations, publicly disclosed Chinese efforts to expand the Yulin Naval Base on Hainan island to host ballistic missile submarines. In light of these events, countering US intelligence gathering – conducted through a variety of surveillance means – has become a reinforced priority for Beijing, with intensive collection activities being regarded as one of the 'three obstacles' to the normalisation of US-China military-to-military relations.⁸ The Chinese military will continue to take action, such as intercepting naval or air operations, to undermine the capacity of the United States to conduct surveillance in the South China Sea. The construction of artificial islands in the Spratly archipelago is directly linked to this issue. The islands enable more flexibility in Chinese air operations with their three long airstrips, while the deployment of early warning radars and air defence missiles threaten US air operations. This dimension of the complex South China Sea equation has worsened under Xi Jinping as a result of a negative spiral in the dynamic between surveillance and counter-surveillance operations.

The same logic is at play on the Korean peninsula. The Xinhua agency warned in early March 2017 that the deployment of THAAD in South Korea 'will bring an arms race in the region'.⁹ Many experts have argued that the narrative about THAAD undermining China's land-based deterrence force was exaggerated and political. Chinese security concerns and threat perception should nonetheless be taken seriously. THAAD will enable the United States to collect data on Chinese missile radar signatures, facilitating the key distinction between decoys and warheads.¹⁰ It also hints at a major shift in the longer game of the offense-defence balance. If missile defence one day becomes reliable, it will rest on the successful integration of various systems. From that perspective, the deployment of radars and interceptors in the ROK is a stepping stone towards a future US-led regional missile defence architecture. As the Japanese Self-Defence Forces are similarly strengthening missile defence capabilities and considering the acquisition of THAAD, Chinese counter-

8. Two further obstacles named by Chinese officials include US weapon sales to Taiwan and limitations on military exchanges between the two countries under US domestic law. For additional details see 'China eyes new-type military relations with U.S: Defense Ministry', *Xinhua*, 11 May 2011. Available at: http://news.xinhuanet.com/english2010/china/2011-05/12/c_13870266.htm.

9. 'S.Korea launches de facto THAAD deployment despite continued oppositions', *Xinhua*, 7 March 2017. Available at: http://news.xinhuanet.com/english/2017-03/07/c_136108968.htm.

10. Li Bin, 'The Security Dilemma and THAAD Deployment in the ROK', *China-US Focus*, 6 March 2017. Available at: <http://www.chinausfocus.com/foreign-policy/the-security-dilemma-and-thaad-deployment-in-the-rok>.

measures are expected to follow suit.¹¹ In this sense, strategic stability in the area of nuclear security will continue to be a central determinant of Chinese foreign policy.

As a second expression of China's military power, Xi Jinping's China has stepped up the threat of coercion in territorial disputes without resorting to lethal force. Even though China has been militarising its seven new artificial islands in the South China Sea, the PLA has not used force to seize features controlled by rival claimants. China's use of military power has taken the form of psychological warfare and conventional deterrence. Although the veracity of his assertion can be questioned, President Duterte has claimed that President Xi Jinping had threatened war in a private conversation if the Philippines tried to 'force the issue'. In response to Donald Trump's explosive remarks suggesting the United States might come to conceive of its commitment to the 'One-China' Policy as a point of leverage (a statement he has since retracted), the PLA Navy's aircraft carrier *Liaoning* was dispatched for the first time to the Pacific Ocean, east of the coast of Taiwan, where its air support would offer crucial advantages in a military confrontation. This manoeuvring sent a clear signal, given the historical association of the decision to acquire aircraft-carriers with the goal to obtain the capacity to open a second front against Taiwan. The widely circulated photo of a Chinese H-6K bomber in the airspace over Scarborough Shoal also attests to the use of military power as an instrument of diplomatic signalling and conventional deterrence in territorial disputes – it was issued a few days after the arbitration ruling on the Philippines/China case in the South China Sea.

Third, the Chinese military has taken steps to fulfil its new mission to defend Chinese 'overseas interests'. The notion first appeared in the 2013 Defence White Paper and encompasses 'overseas energy and resources, strategic sea lines of communication (SLOCs), and Chinese nationals and legal persons overseas'.¹² Under Xi Jinping, many developments have followed, giving substantial meaning to the general guideline put forward in the White Paper. The most significant is the confirmation that a decade-long rumour was in fact true – China in November 2015 signed an agreement with the government of Djibouti to construct a 'logistical support facility' to provide assistance to its naval anti-piracy mission in the Gulf of Aden. Although the diplomatic language seeks to downplay the strategic significance of this decision, this amounts to a departure from China's longstanding opposition to overseas bases. Shortly after, in December 2015, China adopted its first legislation

11. Fan Gaoyue, 'Iron Curtain Rises with THAAD in South Korea', *China-US Focus*, 15 March 2017. Available at: <http://www.chinausfocus.com/peace-security/iron-curtain-rises-with-thaad-in-south-korea>.

12. Chinese State Council, *The Diversified Employment of China's Armed Forces*, Defence White Paper, Information Office of the State Council, Beijing, April 2013, chapter 3. Available at: http://news.xinhuanet.com/english/china/2013-04/16/c_132312681.htm.

on counter-terrorism, which contains language on dispatching the PLA overseas on counter-terror missions.¹³

The protection of overseas interests is to a large degree a question of crisis management and capacities. There is political will to act when Chinese security interests are endangered by crises occurring overseas. But will China favour using military power over diplomatic means, and for what kind of missions? The PLA Navy is to commission its second aircraft-carrier in 2020 – the ship is currently being outfitted after being rapidly constructed in Dalian. Plans for the PLA Navy to operate at least three carriers have now been confirmed, with an opinion piece in the *PLA Daily* arguing that the PLA ultimately needed six battle groups and ten overseas bases to be able to defend Chinese national security interests.¹⁴ As shipbuilding continues for the Navy, the Chinese strategic community is engaged in the preparation of the country's first maritime strategy White Paper, which should normally be issued after the 19th Party Congress, and is expected to clarify the future missions of the PLAN in the defence of the country's overseas interests.

Diplomatic persuasion: 'power of discourse' and institution-building

Under Xi Jinping, China is more interested than ever in what it calls the 'power of discourse' (话语权 *huayu quan*) – the ability to shape narratives regarding international affairs, and in particular the story of its own rise. This interest in advancing Chinese terms in the thinking of analysts, policymakers and the general public has emerged in reaction to the China threat theory in the 1990s. Today it has become ubiquitous in foreign policy discussions – including as negative in the form of a lack of 'power of discourse' that remains a central feature in the mainstream perception in Beijing of a world seen as dominated by Western media and concepts.

With Xi Jinping, China is on the offensive. The 'Belt and Road' initiative and the highly divisive policies of the Trump administration on climate change and free trade have opened up new space. President Xi's last-minute decision to attend the World Economic Forum in January 2017 showed that he would not pass on this opportunity. In Davos, he delivered a strong defence of globalisation, portraying China and the 'Belt and Road' initiative as champions of free trade and global governance, and characterised globalisation as an irreversible historical trend that supports human development. Politically, the speech was designed to stand in stark contrast to the protectionist and inward-looking tendencies of the early days of the Trump administration. A similar opportunity was offered to China by the decision of the

13. Mathieu Duchâtel, 'Terror Overseas, Understanding China's Counter-Terrorism Strategy', Policy Brief, European Council on Foreign Relations, October 2016. Available at: http://www.ecfr.eu/publications/summary/terror_overseas_understanding_chinas_evolution_counter_terror_strategy7160.

14. 'China May Build Six Carriers, Ten Overseas Bases', *Maritime Executive*, 21 April 2017. Available at: <http://maritime-executive.com/article/china-may-build-six-carriers-ten-overseas-bases>.

Trump administration to pull out of the 2015 Paris agreement on climate change. The largest emitter of greenhouse gases, China has been reluctant to commit to major reduction targets, preferring a cap on emissions, and remains adamantly opposed to intrusive verification mechanisms imposed by international treaties. Yet, the severe pollution crisis it is facing at home presents a strong incentive to act domestically and to showcase these efforts internationally.

The extent to which China can make lasting soft power gains by selectively occupying the moral high ground in contrast to the policies of the Trump administration remains unclear.¹⁵ Xi Jinping's pro-globalisation stance meets with a favourable echo in liberal circles in Europe, and has the potential to kindle a positive dynamic in Europe-China relations. The 19th EU-China summit in June 2017 offered an occasion to explore new possibilities for EU-China strategic convergence in providing international leadership on climate change. Over the long term, only concrete results will enable China to consolidate the fragile gains it has secured through skilful communication. But at the same time, these gains also help Xi Jinping domestically in advancing a reformist agenda for a more sustainable growth model and market reforms. The potential strategic gains in terms of international leadership are only one part of the story. In the end, China's 'power of discourse' will depend on domestic progress and sustained commitment to deliver on these ambitious promises.

The same logic of seizing openings on issues of global concern, to impose 'Chinese terms', is at play in multilateral diplomacy. The creation of the Asian Infrastructure Investment Bank (AIIB) has produced political effects of a magnitude most probably not anticipated at Zhongnanhai. The decision of the United States and Japan to decline joining, while most European nations became founding members, signalled a major difference in appreciation of China's strategic intentions. While China was accused of seeking international leadership by some, it was seen as a benign force supporting economic development and responding to gaps in the international financial system to improve global connectivity by others. Two years after its foundation, on balance, China has only imposed very soft domination over the AIIB. It has secured a *de facto* veto power by holding more than 25% of the voting rights, when a majority of three quarters is necessary to adopt decisions. Approved loans, so far, have shown a pattern of seeking co-financing with other international organisations, such as the World Bank and the Asian Development Bank, and have integrated social and environmental standards.¹⁶ During the spring of 2017, the possibility of the United States and Japan joining AIIB was no longer absurd, showing how adroitly China has managed criticism and scepticism. But overall, in terms of politics, this has been about gaining international leadership, even though again, the diplomatic success story will be short-lived if the impact on infrastructure de-

15. François Godement, 'Expanded ambitions, shrinking achievements, how China sees the global order', Policy Brief, European Council on Foreign Relations, March 2017. Available at: http://www.ecfr.eu/publications/summary/expanded_ambitions_shrinking_achievements_how_china_sees_the_global_order.

16. Angela Stanzel, 'A German view of the Asian Infrastructure Investment Bank', European Council on Foreign Relations, 21 April 2017. Available at: http://www.ecfr.eu/article/commentary_a_german_view_of_the_aiib_7275.

velopment is minor. By comparison, no serious observer regards the Asian Development Bank (ADB) as evidence of a Japanese success story in world politics.

Conclusion

Under Xi Jinping, China has grown more sophisticated and more systematic in the use of a broad spectrum of instruments of power. The re-centralisation of the foreign policy decision-making process, in reaction to a period of diffusion and fragmentation, has enabled bold initiatives in territorial disputes or in relation to investments overseas. China's foreign policy is now freed from Deng Xiaoping's injunction to remain low-key. More than that, China is now considering leadership over international affairs. 'Resolutely refuse to take the lead' (绝不当头 *jue bu dangtou*) was a central guideline of Deng Xiaoping's foreign policy thinking and had been the continuous *leitmotif* of China's foreign policy from the Deng to the Hu Jintao era. Donald Trump has offered China a unique opportunity to claim a leadership role in environmental governance and as a champion of globalisation. The opportunity has been seized – but so far only at the level of diplomatic posture. It is likely that China will invest in deliverables, to consolidate its international status during the second term of Xi Jinping. At the same time, the defence of China's overseas interests and the change of thinking on the use of military power will lead China to overcome its reluctance regarding interventionism. Only crises will determine the true extent of these changes, but the trends are clear.

VII. ASIA-PACIFIC: THE REGIONAL ORDER

Elena Atanassova-Cornelis

In the years leading up to 2025, China's foreign policy in the Asia-Pacific, including its approaches towards the United States, its Asian neighbours, as well as the regional order, will continue to be conditioned by domestic developments. As discussed elsewhere in this volume, the survival of the Chinese Communist Party (CCP) and the one-party regime will remain of paramount importance to Chinese leaders. This is the starting point for looking at the PRC's positioning in the Asia-Pacific over the next decade.

China's core strategic objectives – maintaining domestic and political stability, defending sovereignty and territorial integrity, pursuing national unification and its great power status¹ – have underpinned China's behaviour in the region, and will continue to do so. Beijing has already demonstrated an increased readiness to stand up to challengers, especially Washington and its Asian allies, and defend the PRC's interests more forcefully, while seeking to avoid the high costs of military confrontation. The PRC has been steadily moving away from its previous reactive and risk-averse behaviour towards a more proactive regional posture. It has shown a willingness to test, if not to directly challenge, US security commitments in Asia, and has started applying its economic leverage against its Asian neighbours. For example, Beijing has stepped up its objections to US intelligence-gathering activities in its Exclusive Economic Zone (EEZ) or to US military exercises conducted jointly with its Asian allies. China has also pursued policies of economic coercion towards its neighbours. In 2010, it banned exports of rare earth materials to Japan in response to Japan's arrest of the captain of a Chinese fishing boat, which collided with two vessels of the Japanese Coast Guard in the East China Sea (ESC). In 2012, Beijing imposed import restrictions on bananas from the Philippines in the wake of a standoff with Manila over the Scarborough Shoal in the South China Sea (SCS). More recently, China has resorted to economic retaliation against South Korea following Seoul's decision to deploy the US anti-missile system, Terminal High Altitude Area Defense (THAAD), set in motion in 2017.

This behaviour seems to form part of a long-term PRC strategy to gain regional supremacy. At least for the next decade, however, it seems unlikely that China will establish itself as Asia's next hegemonic power.

1. See Liu Feng, 'China's Security Strategy towards East Asia', *The Chinese Journal of International Politics*, 2016, vol. 9, no. 2, pp. 151-79.

Conditions for Chinese hegemony

The necessary conditions for China to establish regional hegemony will be its willingness and ability to replace the United States as a provider of global public goods in both the economic and security spheres. Chinese hegemony would also have to be seen as beneficial for the interests of other major players, especially Japan and India, as well as ASEAN, in order for them to accept Beijing assuming this dominant role. The United States would have to retreat, accepting the PRC's supremacy. A consensual China-led hegemonic order would require the PRC to translate its growing power into leadership and to develop an ideological appeal to Asian states through shared norms, values and principles.

A coercive Chinese hegemony, on the other hand, may grow out of Asian states' fear of retribution, conceivably following a US withdrawal from the region and regional states' inability to jointly balance against China's power. It is unlikely, however, that China will embark on military expansion to establish hegemony in Asia, not least due to the massive domestic, regional and international costs that this would entail.

Major constraints on Chinese hegemony

China faces both domestic and external constraints to its assuming a greater leadership role in the Asia-Pacific, many of which are unlikely to recede before 2025.

Domestically, the CCP will continue to be preoccupied with various socio-economic challenges and focused on maintaining political stability, leaving it wary of external overcommitments. As the decades-long regional involvement of the United States demonstrates, responsibilities require the investment of significant resources and the readiness to bear costs, both material and human. The PRC has neither the willingness nor the capacity to do so. To be sure, the PRC under Xi Jinping has been pursuing a more ambitious geopolitical and geoeconomic strategy, centred on economic diplomacy. The main examples of this are the Belt and Road Initiative, the Silk Road Fund, the Asia Infrastructure and Investment Bank (AIIB), as well as its support for the Regional Comprehensive Economic Partnership (RCEP) – a multilateral free trade agreement for the Asia-Pacific region. Nonetheless, these engagements have been highly selective. Overall, China has made very little effort to actually exercise regional leadership in terms of readiness to bear the costs and commitments to provide global public goods. At the same time, Beijing's ability and willingness to lead could be seriously tested in the event of a major crisis, for example, on the Korean Peninsula, and/or a situation of US pullback from the region. On the one hand, such scenarios might present an opportunity for China to assume leadership and thereby pursue its great power aspirations. On the other hand, its failure to step in and act as a 'responsible power' could have a lasting effect on Asian countries' willingness to accept a later move by Beijing to assume leadership in the Asia-Pacific. For the time being, many of the limits that the PRC's international

reach faces remain self-imposed, driven by a pragmatic cost-benefit assessment of China's own national interests.

At the regional level in the Asia-Pacific, two major constraints are likely to remain for China in the years leading up to 2025. First, Beijing's regional behaviour since the early 2010s has reinforced the 'China threat' perception across the region. The PRC has steadily enhanced its power-projection capabilities beyond coastal defence, which has been accompanied by a less restrained pursuit of its territorial claims in the ECS and SCS. China's 'divide and rule' approach towards ASEAN, as well as its economically coercive behaviour towards its neighbours, has alienated many Asian states. While China has become a major economic and trade partner for many Asian countries, it has also come to be perceived as a security adversary, even a threat, in states such as Japan and India. The PRC's foreign policy objectives are viewed with varying degrees of apprehension in the Philippines, Vietnam, Indonesia, Malaysia and South Korea. Given that regional disputes, such as those in the ESC and SCS, and the Taiwan Strait, involve 'non-negotiable' national stakes for China, they essentially undercut any possible leadership ambitions that China may harbour.² Not only are China's policies not contributing to a resolution of these issues, its actions are also exacerbating regional divisions, as seen in the SCS disputes and in Beijing's approach towards ASEAN. As the PRC moves forward with pursuing its geopolitical objectives, China-associated regional anxieties are unlikely to recede by 2025.

Secondly, as long as the United States remains engaged in the Asia-Pacific through its system of bilateral alliances and partnerships, a China-led regional order will not materialise. The US system comprises formal alliances – stretching from North-east Asia, with Japan and South Korea, to Southeast Asia, with the Philippines and Thailand, and further south to Australia – as well as a number of non-allied partnerships, such as those with Singapore, India, and, increasingly, with Vietnam. Despite regional concerns about US disengagement under Donald Trump, at the time of writing, the US administration, for all intents and purposes, has reassured Asian countries of the United States' continuing security involvement in the Asia-Pacific. Although a complete US retreat from the region over the next ten years appears unlikely, selective disengagement (as in the form of US withdrawal from the Trans-Pacific Partnership) may become a characteristic of the United States' adjustment of its Asia-Pacific strategy. All in all, the continuing presence of the United States, alongside the force modernisation efforts and military reorientation of regional players like Japan and India, undermines the prospect of Chinese hegemony.

2. Mark Beeson, 'Comparative Hegemony: How Serious is the China Challenge?', *Global Asia*, vol. 11, no. 2, Summer 2016, pp. 58-63.

Pursuing selective regional domination

Over the next decade, China will not be able or ready to lead the Asia-Pacific. Beijing, nevertheless, will steadily seek more regional influence and even domination on select issues, whenever it considers it possible to escape significant costs. The success of this strategy will in large part depend on the PRC's continuing economic growth. In the long term, China will not accept continuing US leadership in the Asia-Pacific. In the short- to medium term, the United States will remain the power that presents the greatest potential challenge to China's regional ambitions. Therefore, Beijing's primary objective in the coming decade will be to undermine, in an indirect and non-confrontational way, Washington's regional influence and limit US interference in regional affairs. The PRC will also want to ensure that Asian countries refrain from pursuing (collective) actions detrimental to Chinese interests. China will do so by increasingly relying on its growing economic leverage over its Asian neighbours, including core US allies, and by strengthening and enlarging its 'network of friends'.

In order to deal with the numerous domestic and socio-economic challenges, a stable and peaceful regional environment, including positive relations with its neighbours, will remain of critical importance for the PRC. The recent escalation of tensions in the ECS and SCS has led to a reinforcement of US alliances and partnerships in the Asia-Pacific, while undermining China's regional reassurance strategy pursued since the 1990s. In an effort to remedy this, Beijing has placed great emphasis on bringing benefits to the region from China's economic growth by seeking to extend its reach with concrete initiatives, such as the AIIB. Over the next ten years, China will continue to rely on economic and institutional instruments of foreign policy to steadily expand its political and economic clout in the Asia-Pacific. From Beijing's perspective, if the US alliance system were to fail, in particular as a result of America's inability or unwillingness to continue bearing the costs and risks of engagement, smaller countries currently protected by it may submit to China. While the United States is unlikely to disengage in the short term, which means that many Asian countries will continue to seek its security protection, the PRC does have an interest in weakening this system and peeling away US allies, by wooing them with economic and infrastructural incentives. In this way, the PRC will aim to shape the regional order in China's favour, while also subtly undermining US regional influence.

A major objective for China will be to prevent anti-China coalition building in the region that may or may not include the United States but could be led by major rivals, such as Japan. In this regard, a clear trend can now be observed in the PRC's regional security strategy towards its Asian neighbours. China has increasingly replaced its past approach of comprehensive reassurance – pursued towards all regional players – with conditional reassurance in specific circumstances – pursued

in combination with coercion towards targeted countries, such as Japan.³ Beijing has applied economic coercion in its relations with some Asian states, rewarding those that submit to its interests and punishing those that go against them. As the PRC's relative power in the Asia-Pacific grows, this combination of cooperation and confrontation may become an integral component of China's strategy for selective domination by 2025. Through the use of threats of economic retribution and incentives, Beijing will seek to keep various rivals dependent on China economically, but separated from one another strategically.⁴ This will undermine regional attempts at the formation of anti-China alignments.

At the same time, it is unlikely that the PRC will establish formal alliances to counter the US in the Asia-Pacific in the coming decade. Alliances are practically absent from Beijing's conceptualisation of its foreign and security policies. China is wary of treaty-based commitments that restrict flexibility and impose responsibilities. The major exception to this is the formalised partnership with the Democratic People's Republic of Korea (DPRK), which entails security guarantees to Pyongyang in case of an external unprovoked aggression against North Korea, and the more substantiated ties with Pakistan. However, the DPRK has increasingly become a strategic burden to Beijing. North Korea's provocative behaviour under Kim Jong-un has led to rising tensions in China's neighbourhood. Japan has stepped up its security 'normalisation' and South Korea has agreed to the THAAD deployment, thereby reinforcing the US footprint in Northeast Asia.

Instead of building alliances, China has been establishing a global network of partnerships with countries that share its concerns about US dominance or hold similar perceptions of the challenges they are facing. In some instances, Beijing has sought to exploit cracks in bilateral relations of Asian countries with the United States to pull them into its (economic) orbit and away from Washington. Cases in point are China's overtures towards Thailand following the 2014 military coup and towards the Philippines after the election of Rodrigo Duterte. In the coming decade, the PRC will continue on this path, strengthening its system of flexible partnerships with various Asian countries. China will explore ways of reaping the benefits of alliances, especially to shield itself against the United States and Japan, without actually bearing the high costs associated with formalised commitments. The PRC will seek to strengthen its economic and other issue-specific partnerships, paralleled by increased confidence-building measures and defence engagements, such as naval port calls and joint military exercises with different countries, in order to obtain, in return, support for its foreign policy initiatives as well as acceptance of a certain measure of Chinese leadership in the Asia-Pacific region.

3. Liu Feng, *op.cit.* in note 1, p.165.

4. See Aaron Friedberg, 'The Geopolitics of Strategic Asia, 2000-2020', in Ashley J. Tellis, Andrew Marble and Travis Tanner (eds.), *Strategic Asia 2010-11: Asia's Rising Power and America's Continued Purpose*, The National Bureau of Asian Research, 2010, pp. 25-44.

China and the uncertain regional order by 2025

China believes that the ongoing power shift in the Asia-Pacific is tilting in its favour. Although it expects that, in the long term, the United States will gradually reduce its military presence, it realises that this is unlikely to happen by 2025. In order to counter the United States, as well as other Asian rivals, especially a ‘normalising’ Japan and a rising India, the PRC in the decade ahead will significantly invest in increasing its relative power.

China will move forward with building a strong national defence and the modernisation of its armed forces, paying particular attention to its navy and the defence of the first island chain. It will continue to press its territorial claims in the ESC and the SCS, prepare for a contingency with Taiwan and seek to significantly limit US power projection and ability to freely operate in the Western Pacific. China will try to avoid outright confrontation with the United States and its allies, such as Japan, or with smaller ASEAN claimants in the SCS. Yet, the PRC’s rising power and corresponding expansion of its national security interests, together with the growing calls domestically for Beijing to stand up to possible competitors, will likely lead to more frequent acts of Chinese assertiveness in the decade ahead. While military escalation comes at a high cost – with the potential to jeopardise domestic and regional stability and tarnish China’s international image – unintended conflict cannot be ruled out under these conditions.

In the years to 2025, the main task for Beijing will be to ensure that the present uncertain regional order will evolve into one favourable to Chinese interests and leadership ambitions. At this point, it remains unclear, however, whether China has a distinct alternative vision for the regional order – one that would replace the current system. Beijing has aspirations for more influence and leadership, but is reluctant to bear the costs. It seeks to advance a ‘new model of major power relations’ with the United States, yet this seems merely an attempt to weaken the US-led alliance structure. The PRC calls for common security in the region and accommodation of the ‘legitimate security concerns of all parties’,⁵ while trying to undermine the interests of other major powers, such as Japan’s, and sowing division among smaller ASEAN states. It may well be that Beijing is simply testing the waters in this uncertain strategic environment. However, the discrepancy between China’s declarations of intent and its actual actions only serves to reinforce regional distrust of China.

Admittedly, the type of regional order that will emerge in the Asia-Pacific will depend on a number of variables that are beyond China’s control. These include, in particular, the US’s ability and willingness to uphold its regional commitments, as well as other Asian countries’ response to China’s behaviour. Additionally, Japan’s and India’s regional positioning, ASEAN’s ability to maintain cohesion, and the situation on the Korean Peninsula all factor into this equation. These external

5. Ministry of Foreign Affairs of the People’s Republic of China, ‘China’s Policies on Asia-Pacific Security Cooperation’, January 2017. Available at: http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1429771.shtml.

variables will prove critical in determining whether the future regional environment will be confrontational or cooperative – and what China’s position in it will be. For the decade ahead, mindful of its own vulnerabilities, the PRC will seek to lay the groundwork for a post-American regional order, inclusive of China’s concerns and leadership aspirations. Whether this will be a step towards future Chinese hegemony remains uncertain.

Section 3

CHINA AS A GLOBAL ACTOR

VIII. GREAT POWER RELATIONS: THE RULES OF ENGAGEMENT

Frans-Paul van der Putten

China's approach towards great powers is shaped by two overarching aims. The first is to neutralise potential threats to China's security that originate from major powers. The second is to work with great powers towards an international environment that is stable and conducive to constructive economic interaction. This chapter identifies trends in Chinese foreign policy that relate to these two aims. Its purpose is to provide an assessment of China's likely approach to great powers in the years leading up to the mid-2020s.

China's view on great powers

In the 1970s, Mao Zedong distinguished between three categories of countries: superpowers, developed countries, and developing countries. According to this view, the United States and the Soviet Union were two superpowers who together constituted the first world. In the words of Deng Xiaoping, when he presented Mao's worldview in 1974 at the United Nations General Assembly: 'A superpower is an imperialist country which everywhere subjects other countries to its aggression, interference, control, subversion or plunder and strives for world hegemony.'¹ The two superpowers were seen to dominate carved-out spheres of developed countries (the second world) and to compete with each other for control over the developing countries (the third world). According to Deng, as a developing country, China had a duty to counter the hegemonic tendencies of the superpowers.

Although Mao's three-world model and the term 'superpower' are no longer part of China's official discourse, a hierarchical view of the global order still informs Chinese foreign policy. The hierarchy of the three worlds, however, has evolved to a dualistic model: today, the Chinese government distinguishes between 'major countries' and 'small and medium-sized countries'. These official terms may appear to refer to geographic or population size but these are not the main criteria: China identified Japan as a major country in the Asia-Pacific region, but not Australia or Indonesia. The term 'major country' (大国 *daguo*) in Chinese official statements refers more to international influence than relative size and should be understood in a way similar to the English term 'great power'. In this context, it is worth noting

1. Speech by Chairman of the Delegation of the People's Republic of China, Deng Xiaoping, at the Special Session of the UN General Assembly, 10 April 1974. Available at: <https://www.marxists.org/reference/archive/deng-xiaoping/1974/04/10.htm>.

that China's preferred translation of the term (as 'major country' instead of 'great power') deliberately seeks to eschew association with the superpowers of the past to avoid awakening memories of hegemonism. Besides Japan, other countries or actors that the Chinese government seems to regard as great powers are China itself, the United States, Russia, India, the EU (together with its largest member states), and possibly Brazil and South Africa.²

The fact that China identifies itself as both a great power and a developing country implies that the Chinese government makes a distinction between two types of great powers: those who are a *developed* country and those who are a *developing* country. Analogously, Chinese leaders have repeatedly referred to China as the world's largest developing country and the United States as the world's largest developed country. This hints at a further partition of great powers, with the United States and China as *de facto* spearheading the remaining body of great powers.

Neutralising threats from other great powers

Traditionally, the overriding aim in the foreign policy of the Chinese empire towards great powers was to neutralise the possibility that they would harm its national security. This essentially was a matter of 'peripheral' geopolitics, aimed at managing relations with strong neighbouring polities. Preventing or countering military interventions by regional powers in China's weaker neighbours was a part of this approach. After the middle of the nineteenth century, China's great power approach became internationalised under external influence. The main threat now came not just from within the neighbourhood but also from Europe and the United States. The great powers of the day were Britain, Russia, Japan, the United States, Germany, and France. Whether they were geographically close or not was no longer decisive when it came to their potential to harm China. Empowered by their military and economic superiority these modern great powers colonised most of China's neighbours and extracted far-reaching privileges from China that undermined its sovereign control. This experience continues to shape China's approach to current and future technologies that further diminish the protection afforded by geography, as is particularly apparent in the Party's apprehension about the threat that free global online information flows might pose to its ideological security. Similar concerns about cyberspace as a geography-defeating threat vector persist with regard to

2. A recent White Paper explicitly lists the countries China regards as 'major countries' in the Asia-Pacific. 'China's policies on Asia-Pacific security cooperation', published by China's State Council Information Office on 11 January 2017. Full text (official English version): http://english.gov.cn/archive/white_paper/2017/01/11/content_281475539078636.htm.

potential vulnerabilities planted in critical infrastructure components by a foreign adversary through the global supply chain.³

With the end of the Cold War, China's perception of Russia as a primary threat subsided, leaving the United States as the main remaining source of concern among the great powers that had besieged China in the nineteenth century. China's historical experience suggests that any global power that is more powerful than China is inclined to weaken the Chinese state, whether out of economic, geopolitical or ideological motives. In other words, the Chinese government will continue to feel threatened as long as it perceives other countries as more powerful than China. Although Sino-US geopolitical rivalry takes place largely in East Asia, China views this in its global context. Its main security interests now go well beyond its periphery and include access to raw materials, markets and technology around the world. The United States, as a global power, has the ability not only to interfere in Chinese domestic affairs or in its relations with neighbouring countries but also to obstruct Chinese access to overseas regions.

The Chinese strategy to counter the ability of the United States to harm Chinese interests has further evolved from the approach of the Cold War era, when China opposed superpower interventions in its periphery, exploited rivalry among the superpowers and built on anti-colonial sentiments in developing countries.⁴ China developed and refined its strategy in all three directions.

First, China is engaged in an attempt to gradually undermine the security ties between the United States and its main Asia-Pacific allies. By slowly advancing China's strategic position in the South and East China Seas, it becomes ever more difficult for the US government to assure its regional allies that it will be able to counter-balance China's growing influence in the long run. Ultimately, Japan is the most important target of this approach. The United States can maintain its status as an extra-regional balancer in East Asia only for as long as Japan is able and willing to act as the United States' key regional ally. China is not rushing to force US influence out of the region, but it is steadily laying the groundwork for a post-US regional order in the Asia-Pacific.

Second, China has been promoting the idea of a multipolar world. By doing so, it stimulates major regional powers such as Russia, the European Union, major Eu-

3. Under China's new Cybersecurity Law, which entered into force on 1 June 2017, critical information infrastructure operators are required to use network equipment certified as secure by state agencies or face hefty fines. For an unofficial English translation of the law see <https://chinacopyrightandmedia.wordpress.com/2016/11/07/cybersecurity-law-of-the-peoples-republic-of-china/>. The effective scope of entities that will be subject to this Cybersecurity Review Regime remains ambiguous. The implementing Interim Security Review Measures for Network Products and Services, with little discrimination, extend the purview to all 'important network products and services procured for use in networks and information systems that touch on national security'. An unofficial English translation of the Security Review Measures is available at <https://chinacopyrightandmedia.wordpress.com/2017/05/02/interim-security-review-measures-for-network-products-and-services/>.
4. China's Cold War era strategy was rooted in its approach to great powers during the late nineteenth and early twentieth century, when China's leaders and diplomats struggled to end the so-called unequal treaty system and to achieve full autonomy.

ropean countries, and more recently also India, Brazil and South Africa, to conduct external policies autonomously from the United States. China's support for the BRICS grouping (which also involves Brazil, Russia, India and South Africa) is motivated in part by the aim of fostering multipolarity.

Third, in its relations with developing countries, China has long emphasised the right of all countries to follow their own development path. The implicit message is that the foreign policies of the United States, Japan and Europe, which emphasise the centrality of liberal values in their programmes for development cooperation, do not necessarily align with the interests of the developing countries. Thus the Chinese government attempts to weaken ties between the United States, plus its major allies, and developing countries.⁵ At the same time, Beijing often points out that China shares a common experience with developing countries as a former victim of (Western) colonialism and imperialism. China thus offers the concept of respect for political diversity in international relations as an alternative to the liberal values promoted by the West. In 2013 China further strengthened its approach to developing countries when it announced its 'Belt and Road' initiative. Through this initiative the Chinese government signalled its assessment of traditional development cooperation, as practised by the United States and its allies, as insufficient to meet the needs of the developing world. Instead, by way of the 'Belt and Road' initiative China offers large-scale financing to dramatically speed up development across a large number of regions. Neither China's overall approach to developing countries nor its 'Belt and Road' initiative are exclusively driven by the aim of expanding Chinese influence at the expense of Western influence, but it must be assumed that China's leadership is very much aware of the long-term impact of its policies on China-US geopolitical relations. The US government faces the difficult choice between opposing China's initiative (with the risk of being seen as spoiler in a major development effort) and supporting it (with the risk of delegitimising its own, longer standing, development activities). Exercising strategic patience and remaining passive could prove advantageous for the United States if the bet is that China's approach to global development will fail in the long run. However, at least for now, non-engagement would also translate to leaving China a free hand in further developing and implementing its 'Belt and Road' strategy.

China's current approach towards potential threats from major countries other than the United States is closely linked to its strategy *vis-à-vis* the United States. Although Japan, India and Russia are large countries that could potentially harm China's interests, from a Chinese perspective they are mostly regional, not global, powers and far less powerful than the United States. Europe, Brazil and South Africa are not perceived by China as potential threats. US-centrism in Chinese foreign policy towards other powers applies most clearly to Japan. As a US ally, Tokyo has limited ability to conduct an autonomous geopolitical strategy towards China. The main threat from

5. See Frans Paul van der Putten, 'Harmony with diversity: China's preferred world order and weakening Western influence in the developing world', *Global Policy*, vol. 4, no. 1, 2013. Available at: <http://onlinelibrary.wiley.com/doi/10.1111/j.1758-5899.2012.00196.x/abstract>

Japan is that it strengthens the US position, but at the same time Washington has a strong interest in preventing a Sino-Japanese conflict. At least for now, this removes the possibility that Japan adopts an aggressive anti-Chinese policy, and makes China's security policy with regard to Japan effectively a subset of its security approach to the United States. Still, there are limitations to Washington's ability to manage Sino-Japanese relations and conflict between China and Japan cannot be ruled out, even as the United States upholds security guarantees for Japan.

It is also because of the common threat perception of the US that Beijing shares with Moscow that a return to the confrontational Sino-Russian relationship of the Cold War is not likely. From a Chinese point of view, the disintegration of the Soviet Union as a powerful counterweight to the United States has greatly strengthened the US position *vis-à-vis* China and, from Beijing's perspective necessitates a limited yet irreducible degree of strategic alignment with Russia. Complementing this context for the relationship between China and Russia is the fact that the two countries have resolved all their border disputes and their membership of the Shanghai Cooperation Organisation (SCO). The SCO has helped stabilise Sino-Russian relations in Central Asia, where Russia has been the traditional great power and where Chinese influence is on the rise. The organisation can also play a role in containing conflicts of interest between Russia and China in Central Asia as the 'Belt and Road' initiative takes off. Still, it is mainly the shared view of the United States as a major threat that remains the basis for cooperative relations between China and Russia. With regard to India, China has long relied on military deterrence and its close ties with Pakistan to keep possible security threats from India in check. These threats used to be limited mainly to border disputes and the role of Tibetan exiles in India. However, both China and India are set to become more active in each other's neighbourhoods, and strategic ties between Delhi and Washington are gradually strengthening. It seems likely, therefore, that China's concerns about the United States will increasingly play a role in its foreign policy towards India.

Managing the international environment

The second, still relatively new, main aim of the Chinese approach to great powers is maintaining a stable global order that is supportive of the country's main interests. It was only after the People's Republic of China itself gained great power status, including its assumption of China's permanent representation at the UN Security Council, that it was able to develop an approach to cooperate with other great powers for joint management of the international order.

The Security Council remains the most important multilateral mechanism for China to coordinate with other major powers on international stability. Each resolution passed by the Security Council is in effect a case of cooperation among the P5 powers. The voting behaviour of China on Security Council Resolutions has changed notably over the past few decades. Whereas China initially often abstained from

voting unless it felt that key Chinese security interests were at stake, the country now plays a more active role.⁶ Proposals for UN peace operations in Africa are generally supported by Beijing. This approach is not driven by attempts at weakening US influence in Africa or elsewhere, but rather by China's interest in strengthening the UN system and its role within it. The wish to protect Chinese economic interests in Africa plays a role but is not the primary driver, as was clear for instance in the case of China's contribution to the UN mission in Mali.⁷ The Chinese government has also engaged with other major powers to address stability on the Korean peninsula (in the Six Party Talks) and with regard to Iran's nuclear programme (in the E3/EU+3 talks). In each case, the Chinese government saw a need to work with other major powers to create mechanisms for regional stability. Also, in these cases, Beijing did not attempt to isolate the United States from other great powers. On some issues, China even regards the United States as its primary partner. The 2014 Sino-US agreement on climate change, which was the foundation for the multilateral Paris climate deal, is a notable example (albeit a short-lived one, due to President Trump's rejection of the deal in 2017).

China and the other great powers in the 2020s

The current phase of Chinese great power strategy has two main components. The first is the Chinese government's continuing fixation on the United States as a potential threat. The second is coordination and cooperation with other great powers to manage the international system, which is playing an increasingly important role in China's foreign policy. The next phase of China's approach to great powers will start when Beijing no longer regards the United States as an existential threat. Engaging with great powers for a stable international environment will then be an ever more important feature of Chinese foreign policy. At the same time, Beijing's strategy to deal with possible threats from great powers will be different from today's. Foreign powers are then less likely to pose existential threats, and China may be able to address tensions with other great powers bilaterally or within a regional setting. This would enable China to focus on cooperation at the global level.

Predicting how long the current phase will last is, of course, an intricate endeavour. By the mid-2020s, China is expected to have reached its government's official aim of becoming a 'moderately well-off society' (a target officially set for 2021), and therefore be on its way to its next main target (set for 2049), that of being a 'rich, strong, democratic, civilised and harmonious socialist modern country'.⁸ As today's China

6. Xue Lei, 'China as a permanent member of the United Nations Security Council', Friedrich-Ebert-Stiftung, Berlin, 2014. Available at: <http://library.fes.de/pdf-files/iez/10740.pdf>.

7. See Frans-Paul van der Putten, 'China's Evolving Role in Peacekeeping and African Security: The Deployment of Chinese Troops for UN Force Protection in Mali', Clingendael, September 2015. Available at: <http://www.clingendael.nl/sites/default/files/Clingendael%20Report%20-%20China%E2%80%99s%20Evolving%20Role%20in%20Peacekeeping%20and%20African%20Security%20sept%202015.pdf>.

8. Information Office of the State Council, 'Full text: China's Peaceful Development', Section II, September 2011. Available at: http://news.xinhuanet.com/english2010/china/2011-09/06/c_131102329_3.htm.

already is a strong country by many measures, becoming ‘strong’ as a long-term target might imply achieving a situation in which no foreign power, including the United States, is able to pose an existential threat to the Chinese state. A significant decline in the US ability – or willingness – to intervene militarily in the relations between China and its neighbours would be an important milestone on the way towards such an outcome. Even if the Chinese leadership were to expect changes to this effect to occur somewhere between 2021 and 2049, this process would be beyond China’s unilateral control. This uncertainty applies not just to the duration of the process, but also to the question whether Beijing and Washington will be able to prevent a major military conflict among each other.

For now, China views the United States as a major threat because it is a global power. But it is due to the same reason that China engages with the United States as a partner on certain issues. A key question for the coming years is how this tension between the two aims of neutralising threats from the United States and working with it to stabilise the international system will manifest itself in China’s foreign policy. China’s leadership has proposed a formula for the management of Sino-US relations in this context of uncertainty: ‘no conflict, no confrontation, mutual respect and win-win cooperation’.⁹ This implies that the two countries can work together – potentially in an informal G2-type setting – as long as they respect each other’s main interests. In Xi Jinping’s words: ‘In our Sunnylands meeting in 2013, President Obama and I reached the important agreement to jointly build a new model of major-country relationship between the two countries. This was a major, strategic choice we made together on the basis of historical experience, our respective national conditions and the prevailing trend of the world.’¹⁰ The problem, from a US point of view, is that the proposed formula buys time for China while it gradually gets stronger. The United States faces a future in which China increasingly expands its global posture, while the extent of China’s respect for US core interests in the long run remains ambiguous. At the same time, it is far from clear how the United States will deal with this uncertainty. The United States can either try to resist China’s rise, which could result in direct confrontation, or it can try to use the advantage it still has as the world’s leading power to bargain with China and/or to create an international context that well into the future keeps incentivising China to behave in ways that respect the international rules-based system. China, on the other hand, perceives time as its ally, at least for as long as the United States continues to lose in relative power. China, thus, has a strong incentive to avoid major conflicts and keep increasing cooperation with the other great powers (including the United States) to strengthen a stable global order.

9. Ministry of Foreign Affairs of the People’s Republic of China, ‘Xi Jinping holds talks with President Barack Obama of the US’, 12 November 2014. Available at: http://www.fmprc.gov.cn/mfa_eng/topics_665678/yjtjhzzdrscldrfzshy-jxghd/t1211022.shtml.

10. ‘Full text of Xi Jinping’s speech on China-US relations in Seattle’, *Xinhuanet*, 24 September 2015. Available at: http://news.xinhuanet.com/english/2015-09/24/c_134653326.htm.

IX. GLOBAL GOVERNANCE: A DIFFERENTIATED APPROACH

Mikko Huotari

Introduction

China's engagement with global multilateralism reached a turning point in 2016/2017. In contrast with signs of a US retreat from international commitments, the Chinese leadership has used high-profile speeches such as the keynote address delivered by Xi Jinping at the World Economic Forum in Davos in January 2017 to position China rhetorically as a champion of the existing international order and the global governance system.

While many aspects of this rhetorical repositioning need to be taken with a grain of salt, China's role in global governance has already changed fundamentally. New China-led institutions such as the Asian Infrastructure Investment Bank (AIIB) and the New Development Bank (NDB) have started to operate; China's position and weight has been upgraded in the Bretton Woods institutions, probably best symbolised by the inclusion of its currency in the basket of reserve currencies of the International Monetary Fund (IMF) to determine Special Drawing Rights (SDR) in autumn 2016. Combined with new material contributions, Beijing has also taken a much more prominent role in some UN activities, particularly on peacekeeping and the UN's development agenda. Epitomising this new-found role, China also successfully hosted the G20 summit in Hangzhou in September 2016 and was key to finalising the Paris climate agreement in December of the previous year. At the same time, China was also central to prominent conflicts about key elements of the global governance system in 2016: Beijing openly rejected a ruling by a tribunal established pursuant to the UN Convention on the Law of the Seas (UNCLOS), and has lodged separate complaints against the EU and the United States for not recognising it as a full market economy member of the World Trade Organisation (WTO).

These contradictory developments highlight the uncertainty of China's future trajectory in the global arena – requiring a fine-grained analytical approach. By 2025, China's policies towards global governance will have varied strongly across regimes, yielding different results in terms of Chinese compliance, influence, and the extent of cooperation and conflict. China will be neither purely a saviour nor wrecker of global governance, defending the *status quo* in some areas, pushing for reforms in others, and occasionally being openly revisionist in still other spheres. An oversimplistic perspective focused on either revisionism or full integration fails to cap-

ture the intricacies of China's differentiated approach. It also fails to recognise that global governance should not be seen as a static set of arrangements but a moving target in flux, currently still 'infused with the power relations of the post-Cold War world'.¹

China's initiatives have not been structured in a way that would make them suitable to supplant the existing order; rather, their main thrust is to concentrate on modernising and adapting specific aspects of the international order according to China's interest. In doing so, Beijing finds itself in a predicament with its global governance overtures jeopardised by the prospect of two equally inauspicious outcomes. Perceptions of China doing too much feed allegations of revisionism and a 'China threat' to the existing international order and could lead to more aggressive pushback from antagonised 'guardians of the current order' (the 'Thucydides Trap'). China doing too little to support international frameworks and assume its share of the burden in providing stability, however, may also lead to the weakening of global structures essential to managing and resolving conflicts (the 'Kindleberger Trap').²

China's participation in global governance reflects both China's continued 'socialisation' into the global community and the simultaneous adaptation of global institutions and actors to China's growing activism. By 2025, Beijing's interests and its evolving vision of global order will be much more prominently expressed in regional and global multilateral institutions. While this will be accelerated by the pull factor of a partial US retreat, changing Chinese interests remain the central driver behind Beijing's growing engagement in the international system.

Changing interests and differentiated strategies

China has come a long way in terms of its embrace of multilateralism and global and regional governance institutions. With some critical exceptions (see below), the default mode of China's global governance role today has become at least one of rhetorical support, 'playing along' and general compliance. Yet, China's approach to multilateralism and existing governance structures is much more dynamic than generally assumed, partly related to a deeply rooted perception among Chinese elites that the current international system is immature and (necessarily) undergoing profound changes.

China's approach to global governance is changing rapidly, also as an expression of much broader shifts in the way China's leaders have conceptualised and practised foreign policy since 2013. To oversimplify, they have clearly left behind Deng Xi-

1. Tim Summers, 'Thinking Inside the Box: China and Global/ Regional Governance', *Rising Powers Quarterly*, vol. 1, no. 1, 2016, p. 25.
2. See Joseph S. Nye, 'The Kindleberger Trap', Project Syndicate, 9 January 2017. Available at: <https://www.project-syndicate.org/commentary/trump-china-kindleberger-trap-by-joseph-s-nye-2017-01>.) and Graham Allison, *Destined for War: Can America and China Escape Thucydides's Trap?* (Houghton Mifflin Harcourt, 2017).

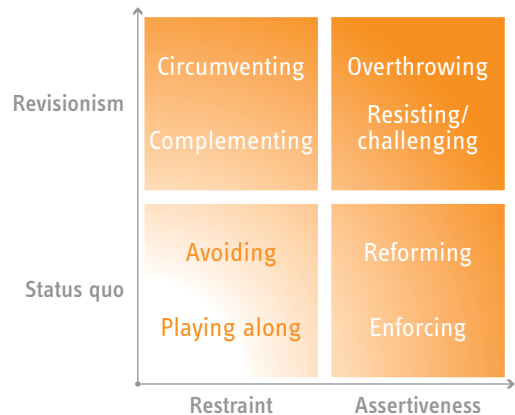
aoping's maxim for China 'to bide its time, hide its brightness' (韬光养晦 *tao guang yang hui*) and other principled constraints for a more proactive, sometimes assertive foreign policy. 'Striving for achievements' (奋发有为 *fenfa youwei*), taking strategic initiative and conducting a confident and distinctive 'major country diplomacy' (大国外交 *daguo waijiao*) are now the mantras of the day. There is clearly a new sense of confidence and enhanced national strength that underpins an increasingly dominant assessment that it is 'fully possible for China to make a unique contribution to global governance.'³

Together with several other key foreign policy conferences held since 2013 and willingness to undertake increased 'international responsibilities' indicated in the 13th Five Year Plan, a Politburo Study Session on global governance reform (全球治理体系变革 *quanqiu zhili tixi biange*) in September 2016 provides some insights into how (much) China's leadership intends to 'reshape' global governance in the future. Highlighting Chinese ambitions, Xi Jinping's speech at this session labelled 'global governance system reform' as the 'trend of the times' in line with a shift in the international balance of power and increasing global challenges. Two further assertions by Xi summarise well China's power-sensitive and domestically-oriented approach to this system reform: 'Global governance structure depends on the international balance of power and reforms hinge on a change in the balance' and China should 'hone-in [*sic*] on economic development and domestic affairs, and [to] increase China's voice in international affairs.'⁴

While the general trajectory will be one of increasing engagement, three factors determine Beijing's differentiated strategies (see Figure 1) with regard to how it will position itself *vis-à-vis* sub-fields of multilateral governance.

First, *the state-of-play in a specific issue area*, i.e. whether this is about old or new fields of governance and how other countries, particularly the 'incumbents' of existing governance frameworks, position themselves, determines the degree of resistance China has to overcome to pursue its own interests. Second, *the nature of China's interests and preferences*, which very crudely can be

Figure 1: Mapping China's strategies for its global governance engagement



3. Da Wei and Wang Wen, 'Towards Better Global Governance', in *China-US Relations: Exploring a New Pathway to Win-win Partnership*, Chinese Academy of Social Sciences, 2017, p.238.

4. Quoted passages reflect Xi Jinping's remarks at the study session as summarised by Xinhua, 'Xi calls for reforms on global governance', *Xinhua*, 28 September 2016. Available at: http://news.xinhuanet.com/english/2016-09/28/c_135720719.htm.

distinguished according to orientations supporting and challenging the *status quo* affect the way that China conducts its international engagement. These interests can be related to Beijing seeking more autonomy and influence, i.e. issues of institutional power struggles and international clout. They can also be related to effective means to influence the substance and norms embedded in governance arrangements and the pursuit of very specific policy priorities. Both substantive and power-seeking interests are inherently linked to China's quest for global power status, role performance and image promotion (at home and abroad). Finally, *China's technical capacity and effective diplomatic leverage* as well as constraints related to its conflicted international roles (such as tensions between its regional and global behaviour, or in China's double role as great power and developing nation) are key determinants of how restrained or assertive China will be in pursuing its ambitions.

Five likely outcomes of China's differentiated approach towards global governance

Until 2025, China's differentiated approach is likely to lead to the following five outcomes, each posing specific challenges for European counterparts.

- 1. China's avoidance of or resistance to certain distinctively 'liberal' elements of global governance will become more pronounced and often lead to more explicit Chinese counter-proposals to reform or circumvent relevant arrangements.**

China will continue to be extremely careful to avoid or resist elements of global governance even if they only latently undermine the CCP's legitimacy or can in any other sense be construed as threatening to current domestic policy priorities. A subtle but critical expression of China's ongoing resistance to liberal global governance is Beijing's reluctant stance *vis-à-vis* the new wave of trade and investment liberalisation embedded in the (failed or stalling) 'trade mega-regionals' (TPP, TTIP) including rules and regulations on transparency, labour standards and cross-border data flows, anti-trust provisions curtailing privileges of state-owned enterprises (SOEs), strengthened market-based competition (particularly on government procurement) and advanced investor-state dispute settlement.

Moving away from mere avoidance, Beijing will also more forcefully engage with but continue to resist existing and new 'solidarist trends' related to liberal interventionism, international criminal justice and critical conventions, including on first-generation human rights (as enshrined in the International Covenant on Civil and Political Rights) and the ban of landmines and the death penalty. Reflecting changing domestic conditions, Beijing's stance on several labour rights conventions as well as on some elements of trade and investment liberalisation (e.g. China's participation in the WTO Information Technology Agreement) are likely to slowly converge with European positions: a successful conclusion of negotiations

of the WTO Environmental Goods Agreement – deconstructing barriers to trade in ‘green goods’ with the intention to mitigate environmental degradation and climate change – or progress in the negotiations of the bilateral investment agreement would be good indicators for this partial convergence. There are also signs that China’s drive towards a more global security posture could force it to adopt a more supportive stance regarding critical norms on export controls, non-proliferation, freedom of navigation etc.

2. **China will slowly take on limited leadership roles and drive reforms inside a set of core global governance institutions including the UN system, the World Bank and the IMF.**

China’s leaders recognise only a rather limited institutional core of the current international order to which they feel a ‘sense of belonging’ and see China as a beneficiary, ‘initiator’ and ‘contributor’⁵: This mainly encompasses the international institutions within the United Nations structure of which China is an equal member. In addition, the Bretton Woods institutions IMF and the World Bank, the WTO, and the newly embraced G20 are seen as ‘the world’s only set of fairly mature multilateral governance regimes that covers all sovereign states.’⁶ For the time being, China’s leaders clearly recognise that China’s future opportunities for development depend on participating in and supporting these fundamental building blocks of global governance and that they offer China ‘the platform for exercising greater international role [*sic*].’⁷ Shouldering more responsibilities and usually acting in a constraining manner (resisting change), Beijing will rapidly learn how to lead inside these frameworks.

China’s overall attitude towards these global governance mechanisms will be ‘to support their operations, enhance their authority, efficiency, and execution’ with more material and conceptual contributions. Yet, Beijing will also seek to ‘properly supplement and reform them so that they will develop in a stable, open, inclusive, comprehensive, and sustainable direction.’⁸ What this implies is a reform-oriented *status-quo* behaviour,⁹ pushing for what China’s leadership calls a further ‘democratisation’ of international institutions, i.e. giving China a stronger voice inside the IMF and World Bank and promoting Chinese state-centred policy preferences (on capital controls, industrial policy, etc.). Seeking to more actively shape normative debates also within the UN, China will less often employ a strategy of outright rejection, for instance of Western security concepts, and shift to a more flexible pick-and-

5. Fu Ying, Chairperson of the Foreign Affairs Committee, National People’s Congress of the PRC, ‘Under the Same Roof: China’s View of Global Order’, *Huffington Post*, November 2015. Available at: http://www.huffingtonpost.com/fu-ying/china-global-order_b_8537918.html

6. Da and Wang, *op.cit.* in note 3, p. 243.

7. Fu Ying, *op.cit.* in note 5.

8. Da and Wang, *op.cit.* in note 3, p. 243.

9. Ren Xiao, ‘A Reform-minded Status Quo Power? China, the G20, and Reform of the International Financial System’, *Third World Quarterly*, vol. 36, no. 11, 2015.

choose approach, seeking to advance its own terminologies, concepts and references to China-centred projects (such as the Belt and Road initiative).

In many respects, China will still be in a process of seeking full integration on equal (major power) terms. This not only includes unresolved status questions, including international recognition as a full market economy in the WTO framework. China's full integration and recognition will still be constrained by Beijing's limited (albeit rapidly evolving) abilities to lead in terms of technical expertise and diplomatic capacity.

3. Beijing will strategically leverage China-centred platforms or intermediary 'clubs' (BRICS, the Belt and Road Initiative, G20) to promote its status and policy priorities.

Chinese leaders feel comfortable with clubs and platforms that blur the boundaries between bilateral and multilateral coordination and deliver soft governance or intermediary functions related to global governance. In addition to the ongoing BRICS experiment, China's full recognition of the G20 was probably one of the most important shifts in its stance *vis-à-vis* global governance in recent decades. As befits China's self-understanding as a mediator between the developing world and advanced economies, China's leaders have embraced the G20 as part of the institutional core and main platform for global economic governance. In coming years, following up on what Beijing considers a success at the Hangzhou summit in 2016, Beijing will seek to advance its position and rule-setting in the G20 and attempt to steer the G20 from a crisis-management tool to becoming a long-term governance mechanism.

Xi Jinping's flagship foreign policy project, the 'Belt and Road' initiative (BRI) helps China to showcase its strengths and strong gravitational pull. While framed as China's approach to the provision of global public goods – and indeed also encompassing more refined forms of cooperation (e.g. the AIIB) – the initiative is currently characterised in terms of networked bilateralism and summitry (or 'fake governance'). The further development of the BRI and the weight and attention Beijing reserves for this rather organically China-centred bilateral approach compared to more multilateral, institutionalised forms of cooperation will shed light on Beijing's evolving approach to tackling global governance challenges.

4. China will intensify its efforts to complement and circumvent the existing system with expansive regional multi-layered security and economic frameworks.

Often underestimated in the West, a full set of regional economic governance frameworks in Asia led or co-led by China is in the making. While certainly not yet fully matured, institutions such as the Chiang-Mai Initiative, the ASEAN+3 Macroeconomic Research Office (AMRO), the AIIB and the Regional Comprehen-

sive Economic Partnership (RCEP) – currently under negotiation – complement and mirror important functions of the IMF (on crisis liquidity and surveillance), World Bank (on development financing) and the WTO (on trade liberalisation) at the regional level. Beijing is likely to increase its support and invest in the regional autonomy of these institutions *and* their global linkages and embeddedness. While seeking to cross-fertilise their development, also for instance with regard to Beijing’s currency internationalisation project, China’s leaders are internally contemplating more advanced forms of China-led monetary cooperation as a long-term vision for the region but recognise the obvious constraints due to embedded regional power struggles, particularly with Japan. In the meantime, Beijing will, however, seek much closer integration regarding regional financial markets and less ambitious forms of technical central bank and RMB-focused currency coordination.

In the security realm, Beijing will continue to actively reshape regional institutional and informal security frameworks to promote an expansive multi-layered and China-centred regional security architecture. This network of security arrangements amplifies China’s bilateral defence diplomacy outreach and aims at regional restructuring to circumvent US influence, challenges alliance patterns and promotes what Chinese leaders call a more ‘synchronised progress’ in economic and security cooperation.¹⁰ As outlined in key strategy documents, such as the January 2017 White Paper on China’s security cooperation policies for the Asia-Pacific, Beijing will expand its influence through institutions such as the Conference on Interaction and Confidence-Building Measures in Asia (CICA), the Shanghai Cooperation Organisation (SCO), and new Chinese-led minilateral mechanisms. China uses these mini- and multilateral frameworks as additional channels for shaping critical bilateral security interactions and thereby reinforcing asymmetries and China’s agenda-setting power.

5. China will move forcefully to capture new issue areas and more technical fields of global governance to influence or dominate future rule-setting.

Some of Beijing’s most forceful and sometimes surprising moves will concern issue areas in which global rule-setting is underdeveloped or changing rapidly. President Xi Jinping claimed in September 2016 that ‘China has been engaged in the process of setting rules for new areas such as oceans, the polar regions, cyberspace, outer space, nuclear security, anti-corruption and climate change.’¹¹ In these fields, Beijing is starting from a comparatively competitive position and is relatively unconstrained by existing structures. It can therefore push ahead with its own governance initiatives or at least interact on eye level with other international powers. Beijing

10. State Council Information Office of the People’s Republic of China, ‘China’s policies on Asia-Pacific security cooperation’, White Paper, 11 January 2017. The full text of the official English translation is available at http://english.gov.cn/archive/white_paper/2017/01/11/content_281475539078636.htm.

11. ‘Xi calls for reforms on global governance’, *Xinhua*, 28 September 2016.

is particularly likely to promote international governance related to new markets and technologies in which it is moving into a leadership position. This will include technical initiatives in existing institutions such as the World Health Organisation (WHO), International Civil Aviation Organisation (ICAO), International Telecommunication Union (ITU) and International Organisation for Standardisation (ISO) but is likely to also involve more ambitious attempts to shape international rule-making regarding, for instance, electric vehicles, the use of drones, digital currencies, big data and e-commerce.

The fields of climate change and global cyber governance highlight the diverse impact that such Chinese initiatives will have. In the case of global climate governance, after decades of participation in the global debate on climate change combined with domestic research and innovation, Chinese policymakers are credibly pursuing international climate cooperation. In fact, China is about to become a critical supporter and potentially a driver of global governance in the UN Framework Convention on Climate Change (UNFCCC). While enjoying the related gain in international status, this is happening mainly because of the concrete convergence of domestic interests and international commitments. In contrast, Chinese efforts to promote a state-centred and information control-focused approach to cybersecurity in multilateral fora will continue to clash with European and wider Western efforts to promote an open and free internet. This will effectively prolong a deadlock on vital cybersecurity debates in multilateral organisations. China will continue to externalise and increasingly export security concepts and related practices both to major countries, like Russia, and to a growing number of developing countries.

Implications for Europe

In the coming years, Beijing's global governance activism and commitments will be characterised by more pronounced but highly differentiated efforts to shape existing and new frameworks in line with its own domestic and foreign policy priorities. In the words of a leading Chinese observer, China will 'safeguard its interests through active participation in global governance and to gain a greater say, thus making a greater contribution to the international community in the process of putting forward Chinese propositions.'¹² This will more often include Beijing taking the initiative and, indeed, also shouldering greater international responsibilities while instrumentally pursuing governance reform to improve China's standing and strategic positioning,

China's role will be relatively predictable in that it is very much interest-based, and at times conflicted in seeking to align international governance with its complex and shifting domestic development priorities. To a large extent, Beijing is and will

12. Da and Wang, *op.cit.* in note 3, p.239.

be acting inside the system. But it is important to recognise the full picture of China's regional and global positioning, as well as the interplay between Beijing's reformist, challenging and unyielding behaviour in different subfields of international governance.

China's impact on and approach to global governance, indeed, to a large extent reflects 'thinking inside the "box" of a global capitalist modernity.'¹³ Yet, Beijing seeks not only to shift the locus of power in this system by using a consciously multi-layered, adaptive, experimental and differentiated approach. In the coming years, observers will also witness a much clearer shift from symbolism to substance, from requesting adequate space to more China-specific policy proposals.

China's engagement will be geared towards seeking a stronger alignment of the international environment with the current (and rapidly changing) trajectory of its political economy. This increasingly includes promoting 'China's lessons learned', i.e. Chinese expert convictions on policy substance, within the global system. It also includes more robust and confident attempts to externalise its state-led approach to economic and social governance in international arrangements. Clearly, those trends in global governance that are helpful in leveraging the CCP's domestic agenda and governance priorities will receive much stronger support from Beijing.

Although China has a strong desire to contribute to global governance, Beijing does not have clear policy stances or even operable plans for most global governance issues. While China's leadership has realised that free-riding or avoidance will not be in China's interest, it is still learning how to lead. China's approach to the provision of global public goods and the substance of global governance is experimental, evolving and to some extent unique. European actors will still be confronted with a mainstream opinion prevalent among Chinese experts that successfully addressing China's own problems will already constitute a huge contribution to global governance. At the same time, an emerging debate among experts and policymakers provides new openings for exchanges. In fact, whether Chinese initiatives match and lend themselves to integration into global structures will to some extent simply depend on circumstantial developments such as the role of individuals (for instance, the current president of the AIIB, Jin Liqun) and the complex and non-transparent way that policy proposals make their way through the Chinese political system.

There will be no way around China as a partner and competitor in managing the transformation of global governance. Europe needs to fully come to terms with the reality that the degree and pathway of China's participation in global governance has important implications for addressing the most pressing global problems. At the same time, China will also be a driving force of the fragmentation,

13. Summers, *op. cit.* in note 1, p.23.

de-centralisation, re-alignment, and partly de-Westernisation of the international order – not only in terms of the overall balance of influence, but also in terms of policy substance. This means that China’s growing role will entail more elements of systemic competition with liberal approaches to global governance as an expression of diverging assumptions about legitimate and effective forms of domestic governance.

X. EU-CHINA RELATIONS: HORIZON 2025

Gudrun Wacker

Introduction: where we come from and where we are

For the last three decades, the pattern of interaction between the EU and China has been pretty stable: both entities have developed much closer relations in the field of trade and investment and over time these closer ties have been extended to areas and issues beyond the economy. Up until the global financial crisis in 2008-9, the relationship was mainly driven by the EU, which set the agenda and proposed the issues to be discussed in ‘sectoral dialogues’. Over this entire period, the EU, despite some setbacks along the way, was moving ahead with deeper integration and with enlarging its membership. China’s development, on the other hand, was characterised by rapid economic growth at an unprecedented rate and by its gradual integration into the Western-dominated international system that had been formed after World War II. All the while, the differences in the political systems of EU member states and China were not overlooked but did not turn into major obstacles for cooperation. Many in Europe even believed that its modernisation process would at some point lead China onto a trajectory of convergence with the West (through economic liberalisation, social pluralisation and a growing middle class demanding participation in the political process).

In the wake of the global financial crisis, the pattern described above has gradually and perhaps irreversibly changed. While the EU was hit hard by this seismic event and has yet to overcome the eurozone debt crisis, China, thanks to a gigantic stimulus programme, recovered very swiftly and was able, at least for some years, to sustain high growth rates in or near double digits. Since 2011, growth rates have declined to under 7%, but these have been considered the inevitable growing pains of transitioning to a consumption-driven development path (the ‘new normal’).

EU member states and countries in their neighbourhood have now become a major destination for Chinese investment. Yet, as a model for successful regional integration and potential political counterweight to the United States as the only surviving superpower of the Cold War, the EU has lost a lot of its appeal for China. The shock of the ‘Brexit’ vote in the UK, the growth and scope of euroscepticism in other EU member states and a whole range of crises in the European neighbourhood have even led to doubts about the European Union’s survival in its current form. And while it is also true that China is facing a multitude of serious domestic challenges in the years to come (as shown in the first section of this volume), its footprint in the world and in the international order is not likely to shrink. On the contrary, under

the leadership of Xi Jinping China has become more proactive at the global level – within established fora like the G20 but also in setting up new institutions like the Asian Infrastructure Investment Bank (AIIB).

The election of Donald Trump as the 45th president of the United States – at least as surprising as the outcome of the Brexit referendum – has added to the list of uncertainties the EU (and the rest of the world) is facing, raising questions about the future of the ‘Western’ rules-based order. Although it is too early to tell what the impact of the Trump presidency will be over the next few years, it seems safe to make some assumptions. The United States will no longer be a reliable partner in fighting climate change; the Transatlantic Trade and Investment Partnership (TTIP), the proposed free trade agreement between the EU and the United States, is unlikely to gain significant traction anytime soon; and human rights and democratic values will not feature as high-priority items on an agenda entitled ‘America First’.

Given the prospect of a protectionist and anti-globalisation US agenda, China’s leaders have signalled their willingness and readiness to step in and raise the country’s global profile, by taking on more international responsibility including in defending globalisation and a liberal trade order. However, domestically, China has been pursuing a rather protectionist agenda. Like other powers, China will choose the areas where it is willing to increase its input very carefully, based on its own national interests.

The period to 2025: how to deal with a more present and ambitious China

Whether and how the EU manages to overcome the manifold crises it has been facing will be crucial for its relationship with China in the coming decade. The process of the UK leaving the EU should be completed five years from now, while the remaining 27 members hopefully will either have deepened political integration across the board or at least among a core of members. For the purposes of this chapter, we have to assume that the EU will still have standing in the foreign and security policy arena in 2025. China’s highest priority will likely remain preserving the Party State, with its foreign policy and global positioning subordinated to this goal. As described in other chapters in this Report, the Party is faced with no shortage of pressing domestic challenges. Moreover, external developments could put the ‘peaceful environment’ China claims to be striving for at risk.

Over the next decade, the EU will have to deal with a China that will increase its footprint globally, including in Europe, by pursuing endeavours like the ‘Belt and Road’ initiative, by ramping up investments abroad, by boosting Chinese business interests in third countries, by consolidating international institutions of its own creation like the AIIB and by weighing in on how to regulate hitherto ungoverned or only partly governed environments like cyberspace. If the ‘Belt and Road’ initiative

goes forward as planned, Europe will also be more connected to China in terms of transport infrastructure than it is now. It will face a China that is much more economically present in European member states and, given its technological agenda for the period until 2025, more competitive.

In the coming years, China might also take additional interest in the proliferation of regional gatherings similar to the '16+1', a format which was initiated in 2012 and brings China and 16 Central and Eastern European countries together for annual summit meetings and discussions on investment and infrastructure projects. Since five of the 16 European states are not (yet) members of the EU, the grouping does not entirely fall under the EU's regulatory framework. There are similar constellations that China might try to engage with over the coming years. Possible avenues might be explored with Nordic countries, south-eastern European or Mediterranean countries within the broader framework of the 'Belt and Road' initiative. While China sees such groupings as complementary to EU-China relations and expects synergies, they pose an additional challenge to the cohesion and coherence of the EU.

Alternative scenarios: reform or stagnation

In view of China's own structural reforms that were originally announced when Xi Jinping took office, two different scenarios appear possible. So far, China's course under Xi Jinping has been marked by a fundamental contradiction: while Chinese leaders speak of a second wave of 'opening up' to the outside world – the declared objective of the 'Belt and Road' initiative and a recurring theme in Xi's keynote address at the 2017 World Economic Forum in Davos – the trend inside China points rather in the direction of the country closing itself off, as is manifest in restrictions on foreign investment, criticism of Western cultural influences, new security laws and shrinking space for civil society.

After the 19th National Congress of the Communist Party in autumn 2017, it is possible that Xi Jinping will have further consolidated his power and the Party will start to implement the reform agenda that was announced for the coming period. This would entail introducing more competition in the Chinese market and opening up to foreign investment, including in the services sector (banking, insurance, etc.), to which access has so far been quite restricted. By pursuing such a course, Xi Jinping would be following up on the speech he gave in Davos, where he presented China as the defender of globalisation and free trade.

Should this scenario play out in the coming few years, the bilateral investment agreement between the EU and China, which has been under negotiation for some time, though seen little progress, could be concluded. This would enhance the prospects for a more comprehensive free trade agreement by 2025. Whereas Chinese investments meet with few restrictions in EU countries, the Chinese market in many areas

remains closed to capital from Europe. For this reason China has had little incentive to offer concessions and greater access to foreign direct investment (FDI). Trump's election coupled with his 'America First' stance and initial economic threats to China might induce a change in China's position. But ultimately, the decision whether China's leaders go forward with giving the market a larger role in managing China's economy (or not) will be a domestic political one, based on the Chinese leadership's assessment of the concomitant risks to social and political stability.

Conversely, if the trends of more protectionism, strengthening of state-owned enterprises and restricting market access for foreign economic actors persist, the failure to accomplish structural reforms could result in sustained stagnation. Such a development would not make China an easier partner for the EU to deal with over the next decade. In this case, the negotiations on an investment treaty might further stall and the prospect of an EU-China free trade agreement recede into the distance – not least in light of popular concerns within EU member states about the collapse of industries and loss of jobs at home under the pricing pressure of subsidised Chinese competitors. Within EU member states not only euroscepticism but also a negative view of globalisation has been on the rise. Like no other country in the world, China has become associated with the upsides and downsides of globalisation. Leveraging the openness and interconnectedness of a global economy for record successes in the reduction of poverty, China has also demonstrated the potential of these factors to, at the same time, contribute to environmental degradation and rising social and economic inequality. European governments and the EU will have to take the limitations that domestic anti-globalisation and anti-China sentiment exercise over the extent and nature of cooperation with China into consideration.

Prospects for enhanced cooperation

If this second scenario of continued protectionism in China were to come true, there would still be opportunities for the EU to engage with China if it manages to position itself clearly and become more proactive. For example, the 'Belt and Road' initiative, China's vision of a twenty-first century Silk Road, has Europe as one of its major endpoints. The EU is not only interested in cooperating with China on this giant plan within Europe, but would also like to undertake joint projects in third countries and other regions like Central Asia. While the institutional framework for such cooperation has been put in place (the so-called Connectivity Platform), it remains to be seen whether China will go far enough beyond its current predominantly bilateral approach to create the envisaged economic corridors and whether it is willing to adhere to standards the EU considers as vital. If the 'Belt and Road' initiative really aims at harmonising standards and procedures (e.g. customs) and creating multinational infrastructure networks and economic corridors, the EU's

experience in negotiating frameworks for this kind of cooperation could be helpful and welcome.¹

The EU will also seek to cooperate more with China on global issues, especially those where the United States under its current president is likely to abandon a common agenda. The most obvious candidates for this will be climate change – namely implementing the Paris climate agreement – and preserving the global trading system under the World Trade Organization (WTO) and through (multilateral) free trade agreements. Another area where cooperation with China could be stepped up is peacekeeping operations. The EU could also intensify its efforts to coordinate more with China on development aid – undoubtedly not a priority for the Trump administration.

The climate accord reached in Paris in December 2015 was only possible because China and the United States (under President Obama) had agreed earlier to move forward, thus breaking the cycle of mutual blame. After a period of uncertainty, President Trump formally announced the withdrawal of the United States from the accord. While it will remain a challenge for China, which became the biggest emitter of greenhouse gases in 2006, to balance its environmental standards and emission goals with economic necessities, it is not likely to walk away from the Paris agreement. For the EU, this is a chance to deepen cooperation, which has been on the EU-China agenda since the first joint statement on climate change was signed in 2005.

Peacekeeping operations under the auspices of the United Nations are another area where cooperation between the EU and China has been ongoing, namely in Mali since 2013 and the anti-piracy operation in the Gulf of Aden since 2009. Furthermore Xi Jinping announced in his speech at the UN General Assembly in 2015 that China would step up its contributions to international peacekeeping in terms of financial support, training and troops.

One area where the EU has tried for several years to cooperate with China is development aid and bringing it closer to OECD standards. So far, there have been only modest results beyond making this a topic of discussion under the EU-China dialogue architecture. The major difference between both sides – setting conditions of good governance versus extending aid with no strings attached – presents a divergence in approaches that cannot be easily bridged. Joint projects under the 'Belt and Road' initiative might over the next decade offer a chance to negotiate a common approach, e.g. in Central Asian countries, that takes into consideration local conditions and needs as well as environmental and labour standards.

There are other global governance issues where it already is and may become even more difficult to find common ground with a more self-confident China striving for a bigger say in international institutions and regimes. One such area is cyberspace,

1. See Mathieu Duchâtel et al, 'Eurasian Integration and the EU', in *Absorb and Conquer: An EU Approach to Russian and Chinese Integration in Eurasia*, European Council on Foreign Relations (ECFR), London, 2016, pp.11-28.

where China has made efforts to rally international support for its concept of ‘cyber sovereignty’. While the West and European countries do not reject the idea of having some regulation of cyberspace, they have not supported a narrow state-centred interpretation of cyber sovereignty. Such differences notwithstanding, working with China on issues like cybercrime, cyber-enabled economic espionage and national cyber laws will remain a necessity, given the growing stake of networked information technology in facilitating and organising economic, political and social activity. With cybersecurity concerns as a crosscutting issue in most forms of interaction, the EU will have to be prepared to signal its seriousness about imposing and incurring costs to reach an understanding with China about responsible behaviour in cyberspace and assure long-term cooperation. On this and on other issues (e.g. the definition of terrorism), where China and the EU do not share the same understanding, it will be important for the EU to avoid ignoring these differences for the sake of (the illusion of) cooperation with China.

Innovation and technology are usually cited by China as fields where cooperation with the EU can be improved and deepened. To advance on such an agenda, the EU has to keep in mind China’s self-set goals for the period until 2025 (‘Made in China 2025’).

Conclusion

The EU should not give up its norms and values, which have in the past provided the guiding principles for its existence, when dealing with China. A rules-based international order is not a fixed and immutable system, and the EU has shown to China, e.g. by European member states joining the AIIB, that it is willing to accept and support China having a growing international role and a greater say in world affairs. The EU should maintain this openness to changes in the international system, as long as they do not go against its fundamental values and convictions.

The Trump administration has brought new uncertainties for the future of a rules-based order. Against the backdrop of a US shift towards a transactional approach to diplomacy, the EU bears all the more responsibility in safeguarding international norms, standards and treaty obligations. China has been a beneficiary of the existing international institutions and in general also of a rules-based order, even if it has been evading, criticising or rejecting individual aspects of this on occasion. In the coming years, the EU will have ample opportunity to deepen cooperation with China on global issues and within international organisations but it has to solve the fundamental challenge of how to do so without sacrificing the Union’s core convictions.

ANNEXES

ABBREVIATIONS

ADB	Asian Development Bank
AIIB	Asian Infrastructure Investment Bank
ASEAN	Association of Southeast Asian Nations
BRI	Belt and Road Initiative
BRICS	Brazil, Russia, India, China and South Africa
CCP	Chinese Communist Party
DPRK	Democratic People's Republic of Korea
ECS	East China Sea
EEZ	Exclusive Economic Zone
FDI	Foreign Direct Investment
FYP	Five Year Plan
GDP	Gross Domestic Product
ICT	Information and Communication Technology
IMF	International Monetary Fund
IT	Information Technology
Legco	Legislative Council
NDB	New Development Bank
NGO	Non-governmental organisation
OECD	Organisation for Economic Cooperation and Development
PLA	People's Liberation Army
PRC	People's Republic of China
RCEP	Regional Comprehensive Economic Partnership
RMB	Renminbi
ROK	Republic of Korea
SCO	Shanghai Cooperation Organisation
SCS	South China Sea
SMEs	Small and medium-sized enterprises
SOEs	State-owned enterprises
THAAD	Terminal High Altitude Area Defense
TPP	Trans-Pacific Partnership
TTIP	Transatlantic Trade and Investment Partnership
UFWD	United Front Work Department

UN	United Nations
UNCLOS	United Nations Convention on the Law of the Sea
UNFCCC	United Nations Framework Convention on Climate Change
UNSC	United Nations Security Council
USSR	Union of Soviet Socialist Republics
WHO	World Health Organisation
WTO	World Trade Organisation

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